

FEDERAL RESERVE BULLETIN

ISSUED BY THE
FEDERAL RESERVE BOARD
AT WASHINGTON



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ANNOUNCEMENT.

With this issue the Federal Reserve Board begins the publication of a Federal Reserve Bulletin. The Bulletin is intended to afford a general statement concerning business conditions and events in the Federal reserve system that will be of interest to all member banks. It will include consolidated statements of bank condition and such abstracts of correspondence of the Federal Reserve Board, statements and facts relating to the national banks and Treasury Department, and actions taken by Federal and State Governments as have a direct relationship to banking problems. Brief comparative reports concerning the operations of the Federal reserve system in the several districts will also be published from time to time.

In the law department of the Bulletin will be included opinions of the counsel of the Federal Reserve Board released for publication, such opinions of counsel of the several banks as may be deemed of general interest, and reports of legislation, National and State, affecting the member banks.

The Bulletin is intended as a means of communication between the Federal Reserve Board, the public, and the member banks. Its publication has been suggested from many quarters, and is expected to facilitate the work of the Federal reserve banks by keeping them in touch with common problems and methods so as to avoid needless duplication in their several districts. The Bulletin is not intended as a vehicle for the expression of opinion, but as a means of distributing information. The cooperation of all member banks, and particularly of Federal reserve banks, is requested in order that the publication may be made as complete as possible, and may contain as much information on subjects of general interest to members as is feasible.

The Bulletin will be distributed free to Federal reserve banks and to member banks. A subscription price for others will be determined later.

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FEDERAL RESERVE BULLETIN

VOL. 1

MAY 1, 1915

No. 1

WORK OF THE FEDERAL RESERVE BOARD.

It is planned to have each number of the Federal Reserve Bulletin contain a short review of the matters of general importance to the Federal reserve system calling for consideration or action since the last preceding issue. The first number, however, covers the period since the publication of the Annual Report to Congress on January 15, 1915.

Since presenting its report the Federal Reserve Board has been occupied with several matters of general importance to the Federal reserve system beside the usual routine of executive business. Among such matters of broad significance to which it has devoted its attention are (1) the revision of its list of circulars and regulations, the reissue of some, and the preparation of new ones; (2) the establishment and introduction of a plan for clearing of checks by Federal reserve banks; (3) the development of the functions of national banks as executor, trustee, etc., under the provisions of paragraph k of section 11 of the Federal reserve act; (4) the preparation of regulations governing the admission of State banks to the new system soon to be issued; (5) the interpretation of various doubtful points under the act; (6) the hearing and consideration of appeals from the decision of the Federal Reserve Bank Organization Committee.

In order to facilitate the understanding of and reference to existing rules and regulations, the Board determined to reissue all circulars and regulations, dropping those of preceding date which have been found to be obsolete or which have been altered, and assigning a new number to each circular and regulation so issued. In this number of the Federal Reserve Bulletin there are accordingly republished all of those circulars and regulations now in force that

have been issued during the year 1915. It will be remembered that all circulars issued during the year 1914 were reprinted in the Board's annual report issued under date of January 15, 1915. Those circulars and regulations thus reissued are printed in full, because they constitute the official record of the Board's work.

The question of developing a plan for the clearing of checks through Federal reserve banks has been the subject of consideration between the Board and the governors of the banks on the one hand, and the members of the Federal Advisory Council on the other. Various methods of proceeding with this work have been considered, but ultimately it was decided to leave to the executive officers of the banks the duty of developing a clearance plan which they felt would be effective and feasible in operation, and to afford them every facility for reaching the object which is contemplated by the act. The plan ultimately decided upon involves the issue of an independent circular by each Federal Reserve Bank. All these circulars, however, were formed upon the same general model, and it has, therefore, been deemed wise to present in this issue one only of these circulars as an example. The circular issued by the Federal Reserve Bank of Chicago has been selected for this purpose, and is herewith presented on page 6. The Board itself has done the tentative work necessary for the establishment of a national clearing plan with headquarters at Washington, and the general basis of this plan is outlined on page 9.

It had not been possible to proceed with the granting of permission to national banks to exercise the functions of executor, trustee, etc., until a general set of regulations relating to this subject could be developed. This was ultimately done, and the circular was ac-

cordingly issued as Circular No. 10, Series of 1915, and Regulation H. Under these regulations the process of extending the powers of executor and trustee to applying banks has proceeded as rapidly as was consistent with efficient work. In every State the Board has deemed it necessary to assure itself that it could properly grant the powers in question, and then to make certain that the applying bank was worthy of the bestowal of the functions desired. A list of banks to which executor and trustee powers have thus far been granted is given in the present issue of the Bulletin. Many other applications are in process of investigation, and will be acted upon as early as possible.

The work of interpreting and applying the various provisions of the Federal reserve act has proceeded under the direction of the Board, and opinions of its counsel on numerous important matters are presented in this number of the Bulletin, but the opinions herewith published are by no means all that have been rendered. Others have been reserved for subsequent numbers.

The Board has, with one exception, heard all but one of the appeals from the decision of the Reserve Bank Organization Committee with regard to the districting of the country, and has completed its survey of the evidence and arguments. It is in position to begin rendering its decisions in these cases early in May.

In this number are also published various rulings of an informal nature which have been prepared by the Board or its officers in connection with questions brought to its attention from time to time.

Shortly before its adjournment, Congress passed a modification of the Federal reserve act permitting State banks to accept bills and drafts running not more than six months, up to any amount not exceeding 100 per cent of capital and surplus. This act and a summary of the business in acceptances done by Federal reserve banks, are printed in this number. There is also published a general survey of the more important items of minor or routine action taken by the Board in its work since the 1st of January.

PLAN FOR CLEARING CHECKS.

The Federal Reserve Board announced on March 4, 1915, that it had determined to direct the introduction of a voluntary reciprocal plan for immediate clearance at all Federal reserve banks where a clearing plan was not already in operation. This clearing plan is to be put into effect with as little delay as possible. Letters were sent to Federal reserve agents directing that they take up this matter with their boards of directors at once.

The Board did not attempt to prescribe details, since it had been found that in districts where general clearing was in practice the best results were obtained by leaving the control with the bank officers. In general, the plan contemplates, however, as a beginning, a reciprocal arrangement by which banks assenting to the plan will be given the privilege of immediate clearance at par on all other banks similarly assenting.

Circulars have been issued by Federal reserve banks to their member banks outlining the clearing system. These are similar, and that issued by the Federal Reserve Bank of Chicago is given below as an illustration of the manner in which the work has been undertaken. Special conditions in the twelfth district (San Francisco) may necessitate some modifications intended to adapt the plan to the local situation. It is desired to put the plan into operation generally about May 15, 1915.

FEDERAL RESERVE BANK OF CHICAGO,
79 WEST MONROE STREET,
Chicago, April 7, 1915.

To the member banks of district No. 7:

The Federal Reserve Bank of Chicago, in accordance with the terms of the Federal reserve act and the rulings of the Federal Reserve Board, is prepared to inaugurate, for the benefit of its members, a system of intradistrict collection; that is, a system of collection of checks and drafts received from and drawn on member banks in district No. 7. Membership in the system will be voluntary and items will be received only from and upon those banks which join it. Such items will be immediately credited and debited to the accounts of the sending and paying banks, respectively, subject to final payment.

For the present the system will not embrace the interdistrict collection of checks and drafts; that is, the collection of checks and drafts drawn on banks outside of district No. 7. Such broader service can only be developed for the member banks of the various districts after experience shall have been gained in operating the intradistrict service now offered.

This system is not intended to supersede the exchange of checks through local clearing houses or otherwise in or between near-by cities or towns. And wherever, in the case of a section far distant from its reserve bank or overlapping two reserve districts, or for any other reason, the collection of checks is being made more quickly or economically by direct interchange between the banks of the section than would be possible under the proposed plan, such relations, for the present at least, will doubtless continue.

The collection system outlined herein is offered by the Federal Reserve Bank of Chicago as the first step in the improvement of present methods of collecting checks within its district. It is the result of much consideration on the part of the directors and officers of this bank and of many conferences of the governors of the various Federal reserve banks. This plan has been authorized by the Federal Reserve Board, and it is understood that substantially similar systems of intradistrict collection will be introduced by all other Federal reserve banks. The system will be subject to such modifications or extensions as experience may show from time to time to be necessary or advisable.

The directors of each member bank which joins the collection system will be required to adopt and file with the Federal Reserve Bank of Chicago resolutions agreeing to the rules and requirements of the system. The resolutions and the rules and requirements are attached hereto. There is also inclosed a copy of the resolutions, with the rules and requirements attached, to be executed and returned to this bank when the resolutions have been adopted by your board of directors. Action thereon by your board is requested before May 15, 1915.

A further circular will be issued containing a list of the banks which have joined the collection system, announcing the date upon which it will begin operations, and giving such further information as may be necessary.

The collection system herein proposed is based upon the experience of other countries where similar systems have been in operation for many years and have been developed to a high point of efficiency.

It is believed that the establishment of the collection system in the 12 Federal reserve banks will provide a safe and economical method for the collection of country checks and will go far toward correcting the recognized evils resulting from the indirect routing of such items.

We earnestly solicit your careful consideration of the plan, also your cooperation in its development, believing that it will result in substantial benefits to all concerned. With the system established, we will do all in our power to render our member banks the most efficient service in its operation.

Very respectfully,

JAMES B. McDOUGAL,

Governor.

Bulletin No. 29.

RULES AND REQUIREMENTS GOVERNING THE OPERATION OF THE COLLECTION SYSTEM OF FEDERAL RESERVE BANK OF CHICAGO.

1. Each member bank joining the system authorizes the Federal Reserve Bank of Chicago to charge immediately on receipt against its account, subject to payment by such member bank at its banking house, checks and drafts payable upon presentation drawn upon it, deposited by other member banks which have joined the collection system.

2. The member bank undertakes to provide sufficient funds to offset the items charged against its account under the collection system, without impairing the reserve required to be kept in the Federal Reserve Bank of Chicago, as shown by the books of the reserve bank, the amount of such funds to be determined by experience gained from actual operation.

3. Checks and drafts payable on presentation drawn on any member bank in district No. 7, which has joined the collection system, will be received for immediate credit, subject to final payment, but only from such member banks as have joined the collection system. Items marked "Payable if desired" at either a member bank or a nonmember bank, will not be received unless drawn on a member bank which has joined the collection system, in which case they will be charged to the member bank upon which they are drawn and not to the bank at which they are made "Payable if desired."

4. Items sent for credit should be divided in two classes:

(a) Items on member banks which are members of the Chicago Clearing House Association.

(b) Items on other member banks in this district.

The items under each of these divisions should be listed on a separate sheet stating the name or the American Bankers Association transit number of the bank on which each item is drawn, and the amount. Each sheet should be separately footed, and where more than one sheet is used in listing items under either of the divisions, the totals of such sheets should be listed and footed on a separate sheet.

5. All items received before 2 o'clock p. m. (except on Saturday, when the hour will be 12 o'clock noon) will be credited on the day of receipt. Items received after these hours will not be credited until the following business day. All items, except those payable through the Chicago Clearing House, will be mailed at the close of each day to the member banks on which they are drawn. Member banks shall advise the Federal Reserve Bank of Chicago on the day of receipt that such items have been received and credited. Unpaid items not subject to protest shall be returned on the day of receipt; protested items shall be returned not later than the day after receipt. Returned items will be credited to the account of banks on which they are drawn and charged to the account of and returned to the banks from which received. Unpaid items shall not be held for any purpose whatsoever except for immediate protest.

6. In receiving the checks and drafts herein referred to, the Federal Reserve Bank of Chicago will act only as the collecting agent of the sending bank, and will assume no responsibility other than due diligence until the funds are actually in its hands, and said reserve bank is authorized to send them for payment direct to the bank on which they are drawn, or for collection to another agent at its discretion. Banks receiving items from the Federal Reserve Bank of Chicago for collection shall be deemed the agent of the bank depositing such items with the Federal Reserve Bank of Chicago for credit.

7. Checks and drafts drawn on member banks which have joined the system may be stamped or printed across the face: "Collectible at par through the Federal Reserve Bank of Chicago," but such indorsement shall never be held to import that the Federal Reserve Bank of Chicago, in accepting such checks or drafts for collection, has become the owner thereof or is acting otherwise than as the agent of the sending bank.

8. Member banks which do not join the collection system at the time of its inauguration, may do so at any subsequent time. Member banks will be permitted, on 30 days' notice to the Federal Reserve Bank of Chicago, to with-

draw from the collection system. The Federal Reserve Bank of Chicago may, at its discretion, withdraw the privileges of the collection system from any member bank which fails to observe these rules and requirements, or for other good and sufficient reasons.

On the 1st and 15th days of each month, all changes, if any, which have occurred in the list of members of the collection system since the preceding notice, will be published, and immediately thereafter the additions or withdrawals listed therein shall become effective.

9. No exchange charge will be made nor will any exchange charge be paid by the Federal Reserve Bank of Chicago in operating this collection system, which is a reciprocal arrangement for the mutual benefit of all member banks which join it.

(NOTE.—The Federal reserve act provides that charges to be fixed by the Federal Reserve Board, may be imposed for the service of collection rendered by the Federal reserve banks. No charge will be made for the present, but if after experience in operating the collection system, a charge is found necessary, such charge will be imposed only after due notice and will not be retroactive.)

10. The Federal Reserve Bank of Chicago reserves the right to add to, alter, or amend these rules and requirements.

11. All items forwarded to the Federal Reserve Bank of Chicago shall be indorsed without restriction to the order of the Federal Reserve Bank of Chicago and show on each side of the indorsement the American Bankers Association transit number in prominent type.

RESOLUTIONS TO BE ADOPTED BY MEMBER BANKS.

Whereas the Federal Reserve Bank of Chicago has announced its readiness to undertake for its member banks the collection of checks and drafts drawn upon its member banks, and

Whereas the said Federal Reserve Bank of Chicago has promulgated certain rules and requirements governing its conduct and the conduct of member banks in the operation of the collection system, which rules and requirements are as shown by copy thereof hereto attached, and

Whereas this bank desires to avail itself of the privileges offered by the said Federal Reserve Bank of Chicago and to join the collection system so to be established,

Now, therefore, be it resolved, That this bank hereby joins the said collection system of the Federal Reserve Bank of Chicago under the plan submitted by that bank in its circular letter, dated April 7, 1915, and hereby agrees with the said Federal Reserve Bank of Chicago and with such other member banks of the Fed-

eral Reserve Bank of Chicago as have joined or may hereafter join the said collection system, to be bound according to the terms of the rules and requirements hereto attached, and by such other rules and requirements as may be hereafter promulgated.

And be it further resolved, That the cashier of this bank (or the secretary of its board of directors) is hereby directed to forward to the Federal Reserve Bank of Chicago a certified copy of these resolutions.

I, the undersigned, do hereby certify that the foregoing is a true and correct copy of resolutions of the _____ duly adopted at a regular meeting of the board of directors of the said bank at _____ on the _____ day of _____, 1915, and that the said resolutions have not been rescinded or modified.

In witness whereof, I have hereunto subscribed my name and affixed the corporate seal of the said bank, at _____ this _____ day of _____, 1915.

[SEAL]

Cashier or Secretary of
Board of Directors.

GOLD CLEARANCE FUND AT WASHINGTON.

Provision has been made by the Federal Reserve Board for the establishment of a gold clearance fund at Washington for the purpose of effecting with as little delay and cost as possible settlements between Federal reserve banks. This proposed plan of interbank settlement is intended to complete and be adjusted to the intradistrict clearance system already described, but its operations will be independent of the latter.

Gold coin and currency will be shipped to Washington or to a subtreasury and turned over to the Treasurer of the United States, who will issue gold order certificates payable to the Federal Reserve Board or to any Federal reserve bank. The books of the gold settlement fund will show exactly how much has been paid in at the outset by each Federal reserve bank, and each bank will be informed of the receipt of this amount. Gold order certificates so received will be placed in a safe and this safe in turn will be placed in the main vault of the Treasury Department. Access to the safe will be controlled by two persons, whose presence will be necessary in order to open it, and, of course, these persons will themselves be

subject to the control of those who have the combination of the vault itself. When the transfers are to be made from one bank to another as the result of change in ownership two signatures will be necessary on the order certificates. These order certificates will be prepared in such a way as to require the signature of the governor or acting governor of the Board and one additional person, who may be either the secretary, the fiscal agent, or the supervisor of clearings.

When transfers are made by the Federal Reserve Board, the balances that accrue to the respective reserve banks may be paid by indorsement and by return to the respective banks of a like amount of such gold certificates held by the Federal Reserve Board, or by the indorsement and delivery to the Treasurer of a like amount of such certificates for which he will give in exchange bearer gold certificates, which the Board may send by registered mail insured to the banks if they want funds other than gold certificates, or in lieu of such payment the Treasurer may by wire direct payment to be made by a subtreasury office, provided that funds are held in such office available for the purpose.

Opinion of Counsel to Federal Reserve Board.

An opinion rendered by counsel to the Federal Reserve Board fully describes the status of the gold settlement fund in its relation to the reserves of Federal reserve banks, making it plain that the shares of the several banks in this fund may be counted and reported as a part of their cash in vault. It is the intention of the Board to treat the deposits in the future in this way.

The opinion referred to follows:

APRIL 19, 1915.

SIR: In connection with the plan now under consideration under which the Federal Reserve Board contemplates assuming the functions of a clearing house for the several Federal reserve banks, this office has been requested to give an opinion on the following questions:

1. Whether gold kept in a clearing fund under the control of the Federal Reserve Board may be counted by Federal reserve banks

depositing such gold as part of their reserve against liabilities other than Federal reserve notes.

2. Whether any part of such clearing fund may be kept by the Federal Reserve Board in the Treasury or one of the subtreasuries of the United States.

In reference to the first question, Congress has not in terms defined by statute what constitutes reserve against demand liabilities, and in order to reach a conclusion as to what may or may not be counted as part of such reserve, it is necessary to review and interpret the principal acts of Congress dealing with this subject.

The act of June 3, 1864, being Revised Statute, section 5191, provided in part as follows:

Every national banking association in either of the following cities * * * shall at all times have on hand in lawful money of the United States, an amount equal to at least 25 per centum of the aggregate amount of (its notes in circulation and) its deposits; and every other association shall at all times have on hand in lawful money of the United States, an amount equal to at least 15 per centum of the aggregate amount (of its notes in circulation and) of its deposits.

The same act further provided (section 5192) that:

Three-fifths of the reserve of 15 per centum required by the preceding section to be kept, may consist of balances due to an association, available for the redemption of its circulating notes, from associations approved by the Comptroller of the Currency * * * and doing business in the cities of * * *. Clearing-house certificates, representing specie or lawful money specially deposited for the purpose, of any clearing-house association, shall also be deemed to be lawful money in the possession of any association belonging to such clearing-house, holding and owning such certificate, within the preceding section.

The act of June 20, 1874, provided as follows:

SEC. 2. That section 31 of "the national bank act" be so amended that the several associations therein provided for shall not hereafter be required to keep on hand any amount of money whatever, by reason of the amount of their respective circulations; but

the moneys required by said section to be kept at all times on hand shall be determined by the amount of deposits in all respects, as provided for in the said section.

SEC. 3. That every association organized, or to be organized, under the provisions of the said act, and of the several acts amendatory thereof, shall at all times keep and have on deposit in the Treasury of the United States, in lawful money of the United States, a sum equal to 5 per centum of its circulation, to be held and used for the redemption of such circulation; which sum shall be counted as a part of its lawful reserve, as provided in section 2 of this act.

It will be observed from the foregoing that prior to the act of June 20, 1874, no distinction was made between reserve required to be held against circulating notes and that required against deposits, and this amendment relates only to the amount and not to the character of reserve required.

Analyzing the provisions quoted above, it appears that reserve required by law before the passage of the Federal reserve act might consist of:

(a) Lawful money on hand.

(b) Balances due from approved reserve agents.

(c) Clearing-house certificates, representing balances due from clearing-house associations.

(d) Five per cent redemption fund, which consists of lawful money deposited with the Treasurer of the United States for redemption of circulating notes.

In other words, from such analysis, it seems that reserve may reasonably be defined as lawful money on hand or so deposited, in accordance with law, as to be available at all times for the discharge of liabilities against which it is held. For example, lawful money on hand is available to meet demands made at the bank. Balances due from approved reserve agents are available to meet those liabilities which can be discharged by checks or drafts drawn against such approved reserve agents, even more satisfactorily than by the actual shipment of lawful money, or such balances can be immediately converted into lawful money to meet demands made at the bank.

Clearing-house deposits are available to meet demands presented through the clearing house, and the 5 per cent redemption fund is available to redeem circulating notes presented to the Treasurer of the United States.

The Federal reserve act repeals that part of the act of June 20, 1874, which permits national banks to count the 5 per cent redemption fund as part of their legal reserve, but does not otherwise amend any provisions of law relating to the character of reserve to be held against deposits. It provides that a gold reserve shall be maintained against liabilities for Federal reserve notes and a reserve of gold or lawful money against deposits in Federal reserve banks.

It does not otherwise define in terms legal reserve.

Section 16 of the act reads in part as follows:

Every Federal reserve bank shall maintain reserves in gold or lawful money of not less than 35 per centum against its deposits and reserves in gold of not less than 40 per centum against its Federal reserve notes in actual circulation, etc.

The act does not provide, except by implication, where the reserve held against deposits shall be actually carried. The reserve against circulating Federal reserve notes, however, under the terms of the act is to be carried partly in the vaults of the bank and partly with the Treasurer of the United States in order that notes presented for redemption to the Treasurer may be redeemed out of the funds furnished by the Federal reserve banks.

Section 16 of the Federal reserve act provides in part that:

The Federal Reserve Board * * * may at its discretion exercise the functions of a clearing house for such Federal reserve banks.

One of the principal functions of a clearing house is to act as a depository of funds of its members, to be held for the discharge of liabilities of such members which are presented to the clearing house.

By analogy, therefore, if funds deposited with the Treasurer of the United States for the redemption of Federal reserve notes are to be counted as part of the legal reserve of Federal

reserve banks required to be maintained against such notes, it would seem entirely consistent to count funds deposited with the Federal Reserve Board for the discharge of its deposit liabilities as part of the legal reserve required to be held against such deposits.

Such a fund not only meets the general requirements of lawful reserve, as indicated by the acts referred to, but inasmuch as clearing-house certificates are specifically authorized by statute to be counted as part of the lawful reserve of national banks and the Board is authorized to act as a clearing house for Federal reserve banks, it would seem that its certificates would come within the spirit of the act. In other words, while section 5192 relates to the reserves of national banks, the Federal reserve act makes no distinction between the character of reserve of such banks and the character of reserve of Federal reserve banks.

In answer to the second question, while the act does not in terms provide for deposits by the Federal reserve banks, or by the Federal Reserve Board, with the Treasurer of the United States, the Attorney General has rendered an opinion on the status of the Federal Reserve Board, in which he holds that the Board is an independent establishment and the members are officers of the United States.

As such officers it is entirely consistent with the established practices of the Government that accounts should be opened with the Treasurer or Assistant Treasurer for the deposit of any funds held by the Federal Reserve Board. In other words, since that fund will be deposited with the Federal Reserve Board and since the Board at this time is without the necessary facilities for keeping such fund, the Treasury of the United States would seem to be the proper place for its deposit.

The bookkeeping incident to handling the clearings could, of course, be handled by the Board without reference to the physical location of the funds in question.

I am therefore of the opinion that both questions may be answered in the affirmative.

Respectfully,

M. C. ELLIOTT,
Counsel.

INFORMAL RULINGS OF THE BOARD.

Below are reproduced letters sent out from time to time over the signatures of the officers of the Federal Reserve Board, which contain information believed to be of general interest to Federal reserve banks and member banks of the system:

Reserve Requirements.

DECEMBER 12, 1914.

In reply to your inquiry contained in your letter of December 5, "What power, if any, has the reserve bank to refuse payment of the draft of the member bank when it has reason to believe or has positive knowledge that the member bank is violating its reserve balance?", you are advised that the Federal reserve act prescribes certain specific penalties for violation of reserve requirements; in substance these are as follows:

(1) That when reserves are below the amount required banks shall not take new loans.

(2) That the Federal Reserve Board may impose a graduated tax.

(3) That for continued violation after notice, the comptroller, in the case of national banks, may, with the approval of the Secretary, appoint a receiver, or, in the case of State banks as members, the Federal Reserve Board may require such bank to surrender its capital stock and cease to be a member.

Under these circumstances the Federal reserve bank would have no right to refuse payment of the draft of the member bank on the ground stated.

Lawful Money.

JANUARY 12, 1915.

The Federal Reserve Board has carefully considered your letter of December 22, addressed to the secretary. In reply you are advised that the primary meaning of the term "lawful money" would seem to be legal tender. Silver certificates and gold certificates, however, have been specifically made available for reserves of national banks. Inasmuch as these reserves have to consist, under the law, of lawful money, it would seem clear that the statutes authorizing such silver and gold certificates for use in reserves would bring them within the meaning of the term "lawful money of the United States." The Board, therefore, is of opinion that Federal reserve agents should receive silver certificates deposited to reduce its liability for outstanding Federal reserve notes by the Federal reserve bank.

Shipment of Notes.

JANUARY 12, 1915.

The question has arisen as to how Federal reserve banks shall ship National bank notes to the Treasurer of the United States at Washington, D. C., if, and when, they have occasion to ship them. It is proper to state we have been informed by the Secretary of the Treasury that, although there was formerly a contract with the United States Express Co. for the shipment of currency, this contract has now been terminated; but Wells Fargo & Co. has offered for the time being to carry shipments at the rates formerly named by the United States Express Co.

In order, however, to enjoy this rate, it is necessary for Federal reserve banks to ship currency to the Treasurer of the United States, charges collect—not prepaid. The transportation charges will be deducted at Washington and the net proceeds remitted to the Federal reserve banks.

These instructions, however, are not intended to preclude Federal reserve banks from making shipments of currency to the Treasurer by other express companies, or by mail, insured, if the Federal reserve banks secure equally favorable or more favorable terms.

Silver Certificates.

JANUARY 13, 1915.

At a meeting of the Federal Reserve Board on January 12 it was voted that, inasmuch as silver certificates are now to all intents and purposes lawful money, they may be received by Federal reserve agents when offered by Federal reserve banks for the purpose of reducing their liability for Federal reserve notes outstanding.

Checks for Silver Certificates.

JANUARY 29, 1915.

In answer to inquiries made by this office, Hon. William P. Malburn, Assistant Secretary of the Treasury, writes, under date of January 26, as follows:

"I have received your memorandum of January 23, stating that the governor of a Federal reserve bank wishes to know whether, if he ships silver certificates to Washington, he will be given a transfer check therefor.

"I have the honor to advise you that there is no authority for the Treasurer to issue a transfer check for silver certificates. Silver certificates are redeemable in silver, and when-

ever presented, the Treasurer is required to pay silver dollars for them, but I can see no reason why the Treasurer should issue a transfer check for them, except to relieve the Federal reserve bank of transportation charges on money, and this would merely mean shifting the charge to the Government. I do not think, in the present state of the Treasury Department's appropriations, it would be justified in so doing."

Silver for Retiring Circulation.

FEBRUARY 3, 1915.

Your letter of February 1, with further reference to the stock of silver dollars and silver certificates which you have in your vaults, is received.

I have taken the matter up with the Treasurer of the United States and am advised that silver dollars and silver certificates may be deposited with him for the purpose of retiring additional circulation issued under the provisions of May 30, 1908.

Taxes on Reserve Bank Stock.

MARCH 3, 1915.

You ask a construction of section 51 of the Federal reserve act as to whether your bank is liable to local taxation on stock held in the Federal reserve bank.

In reply you are informed that it is the judgment of counsel for the Board that the language of section 7 of the Federal reserve act, which says—

"Federal reserve banks, including the capital stock and surplus therein, and the income derived therefrom, shall be exempt from Federal, State, and local taxation, except taxes upon real estate."

was intended to exempt capital stock and dividends of Federal reserve banks from local taxation.

Reports by Federal Reserve Agents.

MARCH 18, 1915.

At a conference recently held by the Federal Reserve Board with the Federal reserve agents a systematic form of reports by the Federal reserve agents to the Board was discussed, and the following plan for such reports has been determined upon by the Board:

The Federal reserve agents are requested to address once each week, or more often if possible, a letter to the member of the Federal Reserve Board to whom their district has been assigned. These reports should be informal in nature, but should cover any points of interest connected with the operation of the bank,

especially the views of the officers and directors regarding discount rates, the business transacted by the bank, general business conditions throughout the district, the attitude of member banks, etc., but the report will deal mainly with the discount policy of the bank and the discount rates in particular.

The making of discount rates is a most important function, and in the opinion of the Federal Reserve Board should receive attention as often as once a week. The responsibility for establishing proper rates rests jointly upon the reserve banks and the Federal Reserve Board, and the Federal reserve agent has a double responsibility as the chairman of the board of his bank and as the official representative of the Federal Reserve Board.

The Federal reserve act in section 14, paragraph (d) requires that "rates of discount shall be fixed with a view of accommodating commerce and business." Many elements must necessarily enter into the determination of proper rates, and there may be times when local or superficial conditions can not govern absolutely when national or international factors must be given consideration.

The discount committee of the Board meets on Wednesday afternoons, and it is desirable that the committee should have in its hands recommendations of the Federal reserve agents as to rates, whether changes are desired or not. On Thursdays the Federal Reserve Board meets to hear a report of the discount committee on the recommendations of the Federal reserve agents, and on those days takes up for review and determination the rates of discount established by the several Federal reserve banks. The Board will telegraph to the reserve agents of the banks its decision as to rates, and will expect the bank to acknowledge promptly the receipt of such notification, and to make the public announcement forthwith. Upon receipt of acknowledgment from the Federal reserve bank, the Board will, at its discretion, publish the changes as approved, and will communicate this information to other Federal reserve banks. It is not intended, however, that this action should be construed by Federal reserve banks as a suggestion from the Federal Reserve Board as to their rates, as the Board desires merely to keep the banks informed as to its policy and of the rates established in the various districts. Suggestions on the subject of discount policy and rates, or a discussion of action taken by other districts may, however, be made to the Federal reserve agents by informal letters from a member of the Board or by formal communications from the Board.

Each Federal reserve agent will be expected to prepare a monthly report of his bank, to be forwarded as soon as possible after the end of each month. For the present, the form of these reports is left to the judgment of the several Federal reserve agents, but ultimately it is probable that a uniform style of report will be recommended.

The monthly report should be a digest, summary, or compilation of the weekly reports immediately preceding it, embodying clearly and concisely the salient features of the month's operations and the trend of business during the month. It should embody also the summarized results of the biweekly or monthly reports of member banks which under the Board's regulations are soon to be required. The Board expects in the near future to issue a monthly or quarterly bulletin, which will contain most of the information or statistical data submitted by the Federal reserve agents in these monthly reports.

As soon as practicable after November 1 of each year, each Federal reserve agent will make to the Federal Reserve Board an annual report covering the operations of his bank during the 12 months immediately preceding. This report should be in the hands of the Federal Reserve Board not later than December 1, in order that the information contained therein may be availed of in the annual report of the Federal Reserve Board for the 12-month period ending December 31.

The annual report of the Federal reserve agent will be entirely distinct from any statement or report that a Federal reserve bank may deem it desirable to issue for the information of its stockholders or member banks, and shall not take the place of such reports.

Capital Stock.

APRIL 2, 1915.

Your attention is called to the fact that the third installment of capital stock, payable by member banks, is due May 2, 1915.

The Board desires to follow the usual practice of having notice of this payment sent by Federal reserve banks to their member banks. Express charges should be paid by member banks.

Separation of Note Accounts.

MARCH 24, 1915.

When the first assessment of four-tenths of 1 per cent was made upon the 12 Federal reserve banks, there was included in the esti-

mate upon which it was based \$240,000 for the preparation of \$250,000,000 of Federal reserve notes. This assessment was, of course, based upon the capital stock of the Federal reserve banks. An analysis of the cost of Federal reserve notes for each bank, made possible by the fact that each note bears the number and letter showing the bank for which it was prepared, discloses that the assessment of the cost for these notes on the basis of capital is not equitable.

The Federal Reserve Board directed an investigation to be made of the matter, and as a result of that a recommendation has been made and adopted that the Bureau of Engraving and Printing keep an account of the cost of engraving, paper, and labor in preparing the notes for each bank, and that an account covering the cost of Federal reserve notes be opened with each of the 12 banks. The separate accounts above referred to were ordered established at a meeting held on Tuesday, March 23.

In order to determine the present status of such an account as is above outlined the amount assessed upon each bank on November 2 has been reapportioned on the basis of the \$240,000 assessed as the estimated cost of \$250,000,000 Federal reserve notes, so as to separate the amount of the assessment made for Federal reserve notes and the amount for the general expenses of the Federal Reserve Board. Four banks, of which yours is one, are found under this separation to have paid less than the amount due for Federal reserve notes prepared by the Bureau of Engraving and Printing up to January 31.

The amount of your assessment on November 2, 1914, was ——. Of this sum ——— was assessed for Federal reserve notes and ——— was assessed for general expenses of the Board. This leaves a balance due on your account for Federal reserve notes alone, up to January 31, of ———. Will you at your convenience kindly forward check for this amount payable to the Federal Reserve Board?

It is the purpose under the new arrangement to ask Federal reserve banks to keep only a small balance to the credit of the Federal reserve note fund, and to avoid loss of interest you will be called upon to pay into this account only as the notes are received from the Bureau of Engraving and Printing. As you probably know, an order has been placed for the preparation of a further printing of \$250,000,000 of Federal reserve notes. Your proportion of the first \$250,000,000 of notes was approximately — per cent, whereas for the second

\$250,000,000 the proportion will be approximately — per cent. The board is promised that these notes will be completed prior to July 1.

Attached is a table showing the manner in which the separation of the account was made.

Bank.	Amount assessed Nov. 2, 1914.	Amount for Federal reserve notes.	Amount for general expenses.	Due, or to be credited.
Boston.....	\$38,847.60	\$21,581.98	\$17,265.62	- \$4,215.53
New York.....	79,726.80	44,292.62	35,434.18	- 50,888.36
Philadelphia.....	50,037.60	27,798.64	22,238.96	+ 12,239.60
Cleveland.....	48,400.00	26,888.86	21,511.14	+ 16,317.25
Richmond.....	26,000.80	14,444.87	11,555.93	+ 2,878.69
Atlanta.....	18,769.60	10,427.55	8,342.05	- 1,138.63
Chicago.....	52,440.80	29,133.75	23,307.05	+ 3,764.10
St. Louis.....	22,159.20	12,310.65	9,848.55	- 3,815.10
Minneapolis.....	19,200.00	10,666.66	8,533.34	+ 25.64
Kansas City.....	22,228.80	12,349.32	9,879.48	+ 1,708.30
Dallas.....	22,868.80	12,704.88	10,163.92	+ 1,168.74
San Francisco.....	31,088.40	17,271.32	13,817.08	+ 6,729.75
	431,768.40	239,871.10	191,897.30	.....

NOTE.—The sign - indicates that additional payment must be made by banks to balance the note account. The sign + indicates a credit.

Digest of Federal Reserve Act.

Believing that member banks of the Federal reserve system would be interested to know that the Digest of the Federal Reserve Act, prepared by Hon. C. S. Hamlin, governor of the Board, could be purchased from the Superintendent of Documents, Government Printing Office, Washington, D. C., the Federal Reserve Board caused to be mailed an announcement of that fact, as follows:

The Federal Reserve Board has just had printed, by the Public Printer, an Index-Digest of the Federal Reserve Act and Amendments. The digest, which has been prepared by Hon. C. S. Hamlin, governor of the Board, contains 490 pages, including the text of the act, and shows, in concise form, the various uses of the principal words in the act, with reference to the section, line, and page of the text.

It may be procured of the Superintendent of Documents, Government Printing Office, Washington, D. C., at the price of 75 cents per volume.

Remittance should be made by postal money order or express order.

Some banks have objected to remitting by postal money order or by express order. A letter sent by the Board in reply to such objections is given below.

Your letter of recent date is received.

The Superintendent of Documents determines in what form he will accept remittances. This is a matter that the Federal Reserve Board has nothing to do with. We sent out the notice to member banks because it was thought well to let them know that such a digest had been prepared. There is no obligation resting upon them to purchase the digest; and on the other hand, there is nothing to prevent them from making remittance in any way they may see fit, if they can get the Superintendent of Documents to accept such remittance. Many banks do not like to draw drafts for so small an amount as 75 cents.

The price charged is figured as barely covering the cost of printing.

Conference of Governors.

The governors of the Federal reserve banks held their third conference in Washington, beginning on March 11, all being present except Gov. Wells, of St. Louis, and the acting governor of the Federal Reserve Bank of Dallas. Informal conferences with members of the Federal Reserve Board were held. The topics considered were:

- Intradistrict clearings.
- Plan for settlements between Federal reserve banks.
- Cipher and cable codes.
- Relation between the Federal reserve banks and the national bank examiners.
- Rediscounts between Federal reserve banks.
- Membership by Federal reserve banks in the American Bankers' Association and State bankers' associations.
- Foreign exchange.
- The printing and use of Federal reserve bank notes.
- Uniform statements to be exchanged between Federal reserve banks.
- The abrasion of gold coin.
- Member banks' certification of eligibility on commercial paper.
- Chattel mortgages.
- Intradistrict clearings and settlements were referred to a subcommittee consisting of Govs. McDougal, Aiken, Strong, Fancher, and Seay.
- The conference adjourned to meet at the call of the chairman, probably some time in the month of May, at one of the Federal reserve banks.

LAW DEPARTMENT.

In this department it is intended to publish each month certain of the opinions of the counsel for the Federal Reserve Board which have been released and which it is thought may be of interest to bankers.

Each opinion will be given a title and will be preceded by a short syllabus stating briefly the subject of the opinion and the result reached.

Decisions of the higher courts dealing with banking questions of general interest to member banks, and opinions of the Attorney General relating to such questions, will also from time to time be published or referred to in this department of the Bulletin.

Interpretation of Section 22 of the Federal Reserve Act.

Any violation of the provisions of section 22 of the Federal reserve act by officers, directors or employees of a member bank, constitutes a crime, punishable by fine or imprisonment. No ruling or interpretation by the Federal Reserve Board would afford any protection to a person subsequently indicted by a Federal grand jury for any such violation, it not being within the province of the Federal Reserve Board to make an official ruling on the provisions of this section. This opinion is, therefore, not published as a ruling or regulation of the Board.

It seems, however, that compensation may be paid to officers, directors, or employees, by member banks, for services rendered in an official capacity or for services rendered the bank in a transaction where a bona fide consideration moves to the bank and in which it is proper for such director, officer, or employees, to take part.

APRIL 9, 1915.

SIR: As requested by the Board, I have carefully examined and considered that part of section 22 of the Federal reserve act which relates to transactions between a member bank and the officers, directors, or employees of such bank. The language which has been made the basis of a number of inquiries, and which the Board is asked to interpret, is contained in that paragraph of the section which reads as follows:

Other than the usual salary or director's fee paid to any officer, director, or employee of a member bank and other than a reasonable fee paid by said bank to such officer, director, or employee for services rendered to such bank, no officer, director, employee, or attorney of a

member bank shall be a beneficiary of or receive directly or indirectly, any fee, commission, gift, or other consideration for or in connection with any transaction or business of the bank * * * Any person violating any provision of this section shall be punished by a fine of not exceeding \$5,000 or by imprisonment not exceeding one year, or both.

Under the terms of this provision any transaction engaged in between a member bank and its directors, officers, or employees, which is not excluded from its operation, will constitute a crime and no ruling or interpretation of the Federal Reserve Board which it might attempt to apply to any concrete case would afford any protection to a person subsequently indicted by a Federal grand jury for any violation of the provision in question. For this reason it does not seem advisable to attempt to express any opinion on the various hypothetical and concrete cases presented for consideration. Inasmuch, however, as there appears to be a wide diversity of opinion as to the proper interpretation and significance of this section, it may be advisable to analyze, for the benefit of those making inquiries, the provision above quoted in order that the elements necessary to constitute a crime, within the meaning of this section, may be made a little more clear.

The question for determination appears to be, What class and character of transactions did Congress intend to prohibit as between member banks and their officers, directors, and employees.

It will be observed that directors, officers, and employees are expressly prohibited from receiving any compensation on account of any transaction except (a) the usual salary or director's fee paid to any officer, director, or employee of a member bank, and (b) a reasonable fee paid to such officer, director, or employee for services rendered to such bank. Under this language it would seem that for services rendered by directors, officers, and employees in their respective capacities of directors, officers, and employees proper compensation may be paid, and that in addition where services are

rendered in some other capacity a reasonable fee may in certain cases be paid for such services. It is, therefore, necessary to interpret the language "for services rendered," in order to determine under what circumstances directors, officers, or employees may render services in any other than an official capacity and receive compensation therefor without violating the spirit and intent of the act.

The Standard Dictionary defines "services" as: "Any work done for the benefit of another; the act of helping another or promoting his interest in any way; hence also a benefit conferred; or use and advantage in general." In 35 Cyc., page 1434, "service" is defined as "an advantage conferred; that which promotes interest or happiness; benefit." Webster's Dictionary, quoted in *Dayton v. Ewart*, 28 Montana, 157.

In this connection it must be noted that the courts in construing penal statutes generally give the defendant the benefit of the doubt in cases of ambiguity, and in consequence, the language "for services rendered" would probably be given a liberal rather than a restricted meaning. The court, however, would necessarily consider all the circumstances in each case in order to determine whether the transaction involving such services was intended to be prohibited by the terms of the act. The rule is clearly stated in the case of the *United States v. Starn*, 17 Fed. Rep., 435, where the court says:

It is a fundamental rule in the administration of criminal law that penal statutes are to be construed strictly, and that cases within the like mischief are not to be drawn within a clause imposing a forfeiture or a penalty, unless the words clearly comprehend the case. In construing a statute we ought undoubtedly to look at the public mischiefs which are sought to be suppressed, as well as the obvious object and intent of the legislature in enacting it; and in doubtful cases these have great influence on the judgment in arriving at its meaning.

And again in *Bolles v. Outing Company*, 175 U. S., 262, where the court says:

The statute, then, being penal, must be construed with such strictness as to carefully safe-

guard the rights of the defendant and at the same time preserve the obvious intention of the legislature. If the language be plain, it will be construed as it reads, and the words of the statute given their full meaning; if ambiguous, the court will lean more strongly in favor of the defendant than it would if the statute were remedial. In both cases it will endeavor to effect substantial justice.

See to same effect *U. S. v. Wiltberger*, 5 Wheat., 76; *U. S. v. Morris*, 14 Peters, 464; *U. S. v. Buchanan*, 9 Fed. Rep., 689.

Following the rule laid down in these and other cases, it is proper to construe liberally that part of the act which excepts certain transactions from its operation, but the true test in each case would seem to be whether or not compensation has been received in a transaction which may be said to come within what the court describes as "the public mischiefs which are sought to be suppressed."

Giving a liberal interpretation to the language "for services rendered," it would seem that a director of a member bank may receive, in addition to the usual salary or fee for services rendered as a director, reasonable compensation in those transactions where a bona fide consideration moves from such director to the bank, provided the transaction is one in which it is proper for him to render such services or to furnish such consideration. Congress clearly intended to prohibit the receipt of any compensation, commission, or benefit, either from the bank or from a third party, where the director furnishes no consideration to the bank.

A consideration of the law prior to the passage of this act, and of the "public mischiefs sought to be suppressed," clearly indicates, however, that the sufficiency of the consideration is not the only element involved; and that Congress intended to prohibit not only the payment of fees when no consideration is furnished, but also another class of transactions, namely, those in which the director, by reason of his control of the assets, undertakes to use such assets for his own purposes. In such case the director may furnish a consideration; but inasmuch as he occupies at least a quasi-fiduciary relation as custodian of the funds of others,

it may be inferred that Congress deemed it against public policy to permit him to use such funds directly or indirectly for his benefit.

It is unquestionably true that in conservatively managed banks transactions engaged in as between the bank and the directors acting as individuals have resulted in great benefit to the bank. A director connected with other successfully managed corporations may very frequently be the agency through which the bank makes profitable investments, and directors having large interests in their banks have in many cases materially added to the earnings of such banks through the agency of other firms or corporations in which they were likewise interested. Consequently, transactions between a national bank and its directors were, prior to the passage of this act, not made criminal by statute, and, as a matter of fact, were not restricted. On the other hand, to incur a criminal penalty it has heretofore been necessary for the transaction to be of such a fraudulent nature as to constitute misapplication of funds or embezzlement. It is true that under the provisions of the national bank act, a director may be punished by fine or imprisonment for making a false entry or a false report with intent to deceive the office of the comptroller or the public, but in such cases the penalty is based not upon the ground that a prohibited transaction has been engaged in but rather upon the ground that the true status of the bank has been concealed by such false entry or false report.

Under the national-bank act the only penalties prescribed for the use of funds of the bank by directors, where such use does not amount to misapplication or embezzlement, are of a civil nature. For example, the directors may be held liable, civilly, where excess loans or loans upon real estate are made and loss results thereby, or for the violation of any of the provisions of the act the comptroller may institute a suit for the forfeiture of the charter of the bank.

While "directors" have been specifically referred to in the foregoing discussion, analogous principles apply with equal force to transactions involving officers or employees.

It may be assumed, therefore, that Congress intended to restrict transactions between member banks and the officers, directors, and employees of such banks, since experience has demonstrated the fact that although the bank may be the beneficiary in many or most instances of such unrestricted transactions, this lack of restriction has afforded a wide field for dishonesty and fraud not punishable by statute or under the common law.

To summarize transactions permitted under the views herein expressed, a director, officer, or employee of a member bank may receive compensation from such bank where services are rendered in his official capacity, or where bona fide services are rendered, or an adequate consideration is furnished to the bank by such director, officer, or employee acting in his individual capacity, provided the transaction engaged in is not one in which the use of his official position could in any way be instrumental in causing the payment of the fee, commission, gift, or other consideration received.

In no case should compensation be received by such director, officer, or employee from a third party for services rendered in his official capacity when such compensation results from a transaction between such third party and a member bank.

As above suggested, it is not within the province of the Federal Reserve Board to make an official ruling on the subject under consideration, and the foregoing analysis is intended merely as an expression of individual opinion as to what transactions Congress intended to prohibit by that part of section 22 which is under consideration.

Respectfully,

M. C. ELLIOTT,
Counsel.

To Hon. F. A. DELANO,
Vice Governor Federal Reserve Board.

Right of National Banks to Advertise Savings Accounts.

Section 49 of the bank act of the State of California provides that no banking association shall advertise savings or in any way solicit or receive deposits in the manner of a savings bank unless it is chartered as a savings bank under the California law.

The superintendent of banks of California, by virtue of this act, has raised the question whether a national bank can, under the provisions of this State law, advertise savings accounts.

The Federal law relating to the establishment and operation of national banks is superior to and controlling over a State law which might otherwise apply to or govern the operations of national banks. Congress having conferred on national banks the power to pay interest on time deposits, it is evident that the right to advertise and solicit such savings accounts is a necessary incident to the exercise of that power, and that no State law can interfere with its exercise.

FEBRUARY 24, 1915.

SIR: The action of Mr. W. R. Williams, superintendent of banks of the State of California, in serving notice on certain national banks that he will seek to have imposed the penalties imposed by the California law for soliciting savings accounts has been referred to this office for attention.

It appears that section 49 of the bank act of the State of California provides as follows:

It shall not be lawful for any commercial bank, individual, trust company, association, firm, stock company, copartnership, or corporation to advertise or put forth a sign as a savings bank, either directly or indirectly or in any way to solicit or receive deposits or to transact business in the way or manner of a savings bank, or advertise that he or it is receiving or accepting savings, or in any way which might lead the public to believe that such deposits are received or invested under the same conditions or in the same manner as deposits in savings banks, except in the case of savings banks or banks having savings departments, subject to the provisions of this act. Any commercial bank, individual, trust company, association, firm, stock company, copartnership, or corporation violating any provision of this section shall forfeit to this State \$100 a day for every day during which such violation continues.

The question arises whether or not the provisions of this act can be made to apply to national banks doing business within the State of California.

It does not appear that Mr. Williams contends that Congress is without power to authorize national banks to pay interest on deposits. It is conceded by him that this can

be and has been done. The right is expressly given in section 24 of the Federal reserve act, which, in terms referring to national banks, provides that—

such banks may continue hereafter as heretofore to receive time deposits and to pay interest on the same.

Section 19 provides in part that—

Demand deposits within the meaning of this act shall comprise all deposits payable within 30 days, and time deposits shall comprise all deposits payable after 30 days and all savings accounts and certificates of deposits which are subject to not less than 30 days' notice before payment.

Inasmuch as Congress has the right to authorize the payment of interest on deposits as an incident to the business of banking, and has exercised this right, the question arises whether or not a State law prohibiting banking associations not organized as savings banks under the laws of that State from advertising that it will receive savings accounts, can be held to prevent national banks from publishing such advertisement and from soliciting such accounts.

It is a well-accepted principle of constitutional law that the authority of the Federal Government is supreme in the exercise of those powers vested in Congress, and that a State can not interfere with the administration of laws enacted by Congress to aid in the execution of a governmental function. The Supreme Court of the United States in the case of *Farmers & Mechanics National Bank v. Dearing*, reported in 91 U. S., 29, 33, states:

The national banks organized under the act are instruments designed to be used to aid the Government in the administration of an important branch of the public service. They are means appropriate to that end. Of the degree of the necessity which existed for creating them Congress is the sole judge.

Being such means, brought into existence for this purpose, and intended to be so employed, the States can exercise no control over them, nor in any wise affect their operation, except in so far as Congress may see proper to permit. Anything beyond this is "an abuse, because it is the usurpation of power which a single State

can not give." Against the national will "the States have no power, by taxation or otherwise, to retard, impede, burthen, or in any manner control the operation of the constitutional laws enacted by Congress to carry into execution the powers vested in the General Government." *Bank of the United States v. McCulloch*, supra; *Weston and Others v. Charleston*, 2 Pet., 466; *Brown v. Maryland*, 12 Wheat, 419; *Dubbins v. Erie County*, id., 419.

The power to create carries with it the power to preserve. The latter is a corollary from the former.

The principle announced in the authorities cited is indispensable to the efficiency, the independence, and, indeed, to the beneficial existence of the General Government; otherwise it would be liable, in the discharge of its most important trusts, to be annoyed and thwarted by the will or caprice of every State in the Union. Infinite confusion would follow. The Government would be reduced to a pitiable condition of weakness. The form might remain but the vital essence would have departed.

It is true, as stated by Mr. Williams, that in the original House bill provision was made for the creation of separate savings departments and that this provision was eliminated by the Senate and agreed to by the conferees. In its stead the provisions above quoted, authorizing banks to pay interest on deposits and including savings accounts in the interest-bearing deposits, were incorporated. The question, therefore, of whether or not the State of California has the right to prohibit national banks from soliciting savings accounts would seem to depend upon whether such prohibition can be said to be an exercise of police power by the State and whether it is necessary for the protection of property within its limits.

The limitation of State legislation passed in the exercise of police power is fully discussed in the case of *Railroad Co. v. Husen*, 95 U. S., 465, 470, where the court says—

We are thus brought to the question whether the Missouri statute is a lawful exercise of the police power of the State. We admit that the deposit in Congress of the power to regulate foreign commerce among the States was not a surrender of that which may properly be denominated police power. What that power is, it is difficult to define with sharp precision. It

is generally said to extend to making regulations promotive of domestic order, morals, health, and safety. As was said in *Thorp v. The Rutland & Burlington Railroad Co.*, 27 Vt., 149, "it extends to the protection of the lives, limbs, health, comfort, and quiet of all persons, and the protection of all property within the State. * * *."

But whatever may be the nature and reach of the police power of a State, it can not be exercised over a subject confided exclusively to Congress by the Federal Constitution. It can not invade the domain of the National Government.

In the later case of *Reid v. Colorado*, 187 U. S., 137, 146, the question is also considered in detail. The court in that case, in discussing the right of the State of Colorado to enforce certain laws which were passed in the exercise of the police power of the State, says:

It is quite true, as urged on behalf of the defendant, that the transportation of live stock from State to State is a branch of interstate commerce and that any specified rule or regulation in respect of such transportation, which Congress may lawfully prescribe or authorize and which may properly be deemed a regulation of such commerce, is paramount throughout the Union. So that when the entire subject of the transportation of live stock from one State to another is taken under direct national supervision and a system devised by which diseased stock may be excluded from interstate commerce, all local or State regulations in respect of such matters and covering the same ground will cease to have any force, whether formally abrogated or not; and such rules and regulations as Congress may lawfully prescribe or authorize will alone control. *Gibbons v. Ogden*, 9 Wheat., 1, 210; *Morgan v. Louisiana*, 118 U. S., 455, 464; *Hennington v. Georgia*, 163 U. S., 299, 317; *N. Y., N. H. & H. R. R. Co. v. New York*, 165 U. S., 628, 631; *Missouri, Kansas & Texas Railway Co. v. Haber*, 169 U. S., 613, 626; *Rasmussen v. Idaho*, 181 U. S., 198, 200. The power which the States might thus exercise may in this way be suspended until national control is abandoned, and the subject be thereby left under the police power of the States.

Inasmuch, therefore, as Congress has the right to authorize national banks to charge interest on accounts and to include in such

accounts what are generally known as "savings accounts," and since it has exercised this right, it would seem that the California statute referred to can not properly be so construed as to defeat this right.

I can not agree with Mr. Williams that depositors would necessarily be led to assume that savings accounts received by national banks would be subject to investment according to State laws; and while national banks should not be permitted to advertise themselves as "savings banks," since they are not so designated in the act, power is specifically granted to member banks to receive interest-bearing accounts, including "savings accounts," and since they possess this power the right to advertise for such accounts would seem to be a necessary incident to its exercise.

It is not believed, therefore, that the penalties prescribed by section 49 of the bank act of the State of California could be legally enforced against a national bank which advertises that it will receive and pay interest on savings accounts.

Respectfully,

M. C. ELLIOTT, *Counsel.*

To Hon. C. S. HAMLIN,
Governor, Federal Reserve Board.

Conditions Attached to and Affecting Negotiability of Bills of Exchange and Acceptances.

A bill of exchange, in order to be negotiable, must be an unconditional order to pay, on demand or at a fixed or determinable future time, a certain sum of money to order or to bearer. If payment is dependent upon the happening of a certain contingency the bill is conditional and nonnegotiable. If payment is confined to the proceeds of a particular fund and is not chargeable to the general credit of the drawer the bill is conditional and nonnegotiable.

A general acceptance of a conditional bill or a conditional acceptance of an unconditional bill makes the acceptance a conditional one and destroys its negotiability.

There is some doubt in the courts whether the mere reference to a particular consignment of goods makes the bill conditional, some courts stating that it is merely an indication of the fund out of which the drawee is to reimburse himself; other courts holding that it makes the bill conditional because limiting payment to the proceeds of the particular shipment referred to. There is no doubt, however, that a reference, in general terms, on the face of

an accepted bill to the fact that it is based on the exportation or importation of goods, would not make it conditional and nonnegotiable, and it would not, therefore, be ineligible for discount under the provisions of section 13 of the Federal reserve act.

FEBRUARY 2, 1915.

SIR: I have the honor to acknowledge receipt of your request for an opinion on the subject of conditions attached to bills of exchange and acceptances which affect their negotiability.

It is somewhat difficult to define in specific terms what conditions may or may not be prescribed in a bill of exchange without affecting the negotiability of such bill, since the negotiable instruments laws of all the States are not identical and the decisions of the various courts on this subject are by no means uniform.

As I understand it, the Board has under consideration the question of prescribing a method by which bills of exchange or acceptances dealt in by member banks or Federal reserve banks may show that such bills or acceptances grow out of transactions involving the exportation or importation of goods without affecting their negotiability, and it is primarily upon this question that you desire an opinion.

In dealing with this subject it is important to keep in mind the distinctive difference between a bill of exchange and an acceptance and also the difference in status between an acceptor and a drawer of a bill.

Section 126 of the negotiable instruments law adopted by 41 States and the District of Columbia, defines a bill of exchange as an "unconditional order in writing addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay on demand or at a fixed or determinable future time a sum certain in money to order or to bearer."

Section 127 states that—

A bill of itself does not operate as an assignment of the funds in the hands of the drawee available for the payment thereof, and the drawee is not liable on the bill unless and until he accepts the same.

Until the bill is accepted therefore the drawer is primarily liable and the bank discounting such bill can have recourse only against the drawer or a prior endorser in the event that the drawee declines to accept such bill when presented.

The acceptance of a bill is defined by section 132 of the negotiable instruments law as—

The signification by the drawee of his assent to the order of the drawer. The acceptance must be in writing and signed by the drawee. It must not express that the drawee will perform his promise by any other means than the payment of money.

When a bill has been accepted, the acceptor becomes primarily liable and the contract of the drawer is substantially changed to that of endorser.

It will be observed from the foregoing that a bill of exchange in order to be negotiable must not only be payable to order or bearer, so that title may be transferred by the holder, but it must also be an unconditional order to pay in money.

A conditional acceptance is defined in 4 Am. & Eng. Encl. of Law, 224, as an undertaking by a drawee to pay, dependent, however, upon the performance or happening of a stipulated condition or contingency. But, as shown later, a general acceptance of a conditional bill is also in effect a conditional acceptance. The terms therefore both of the order to pay, as indicated by the bill of exchange when drawn and the acceptance as indicated by the language used by the acceptor, must be free from qualifications or conditions if the bill or acceptance is to retain in all respects its negotiability and to be free from equities existing between the drawer and the drawee or the acceptor. This being true, the question arises as to what form may be used to show the transaction on which the acceptance is based without destroying its negotiability.

The Federal reserve act provides that acceptances to be eligible for discount by Federal reserve banks must grow out of transactions involving the exportation or importa-

tion of goods. It is to be assumed, therefore, that ultimately the proceeds of the sale of the goods imported or exported are to be used to extinguish the debt evidenced by the acceptance. To avoid any question of negotiability, however, neither the bill as drawn nor the acceptance made must be in terms to indicate that the payment is to be confined to such proceeds. As stated by Norton, on Bills and Notes, Third Edition, page 138—

The true test is whether the drawee is confined to the particular fund, or whether, though a particular fund is mentioned, the drawee may charge the bill up to the general account of the drawer if the designated fund turn out to be insufficient. It must appear that the bill of exchange is drawn on the general credit of the drawer. It must carry with it the personal credit of the drawer, not confined to any fund.

This being true of a bill of exchange, the question arises whether or not the contract of acceptance is wholly independent of the terms contained in the bill. The cases and authorities all agree that a general acceptance of a bill of exchange is an undertaking on the part of the drawee to pay the bill absolutely according to its tenor. (4 Am. & Eng. Encl. of Law 207; English Bills of Exch. Act, sec. 17; *Cox v. National Bank*, 100 U. S. 704, 712; *Bailey on Bills*, 2d Am. Ed.) 154.

Consequently if the bill orders payment out of a particular fund, a general acceptance thereof is an undertaking to pay out of that fund and no more, and it is, therefore, a conditional acceptance, though general in form. (*Hoagland v. Erck*, 11 Nebr. 580; *Newhall v. Clark*, 3 Cush. (Mass.) 376; *Smith v. Wood*, 1 N. J. Eq. 74; *Cook v. Wolfendale*, 105 Mass. 401.)

It is to be remembered, of course, that an acceptance may be conditional and therefore nonnegotiable, even though the bill itself was unconditional, if the terms in the contract of acceptance specify that payment is to be made out of a particular fund or is dependent upon the happening of a certain contingency. As

Justice Clifford stated in *Cox v. National Bank*, supra, "An acceptance is an engagement to pay the bill according to the tenor of the acceptance and * * * a general acceptance is an engagement to pay according to the tenor of the bill."

The difficult question, however, is to construe the words used, to apply the test given in Norton, to determine whether in fact the acceptance is conditional; or, more specifically, to determine whether the drawee is confined to a particular fund merely by a reference on the bill or in the acceptance to that fund. It is a question for the court to determine in each individual case, because, the facts being proved or admitted, the question whether an undertaking is a conditional acceptance is a question of law for the court to decide. *Sproat v. Matthews*, 1 Term. R., 182.

It was held in *Corbett v. Clark*, 45 Wis., 403, that an order to "pay C. A. Corbett \$183 and take the same out of our share of the grain" was an unconditional bill and a general acceptance thereof also unconditional. The court held that this was a mere direction as to the fund out of which the drawee was to reimburse himself. In *Redman v. Adams*, 51 Maine, 433, where the words of the bill were "charge the same against whatever amount may be due me for my share of fish caught on board schooner *Morning Star*," and the acceptance was general, the court held that this was a mere reference to the fund to call the attention of the drawee to his means of reimbursement.

The great majority of cases incline to the view that the presumption is in favor of an unconditional order and unless the direction on the bill or acceptance clearly and expressly directs payment to be made out of a certain fund, the court will consider it merely as a reference to the mode of reimbursement rather than an absolute restriction to the particular fund mentioned.

In a case decided in May, 1911, by the United States Circuit Court for the Southern District of

New York (*Hannay et al. v. The Guaranty Trust Company of New York*, 187 Fed., 686) it was held that "Value received and charge the same to the account of 100/RSMI bales of cotton" written on a draft made it conditional because it limited payment to the proceeds of this particular cotton. The draft having been held to be conditional a general acceptance thereof was also held to be conditional. It is true that this decision was reversed in the United States Circuit Court of Appeals in 210 Fed., 810, but on the ground that the English instead of the American law applied to this particular transaction and without any attempt on the part of the court to decide whether the lower court was right or wrong under the American law. Thus it is seen how difficult it is to determine how a court will rule on any specific case. The rule or test is always the same, but whether the facts are within or without the rule is merely a matter of opinion. Extreme cases are easy to decide, but as the cases verge toward the center the line of demarcation becomes hazy and difficult of determination.

It would seem, therefore, that Federal reserve banks and member banks should consider carefully the risk involved in discounting bills of exchange or acceptances which in terms indicate any particular fund or any particular property out of which payment of the draft is to be made, because of the doubt as to the construction that might be put upon such a bill or acceptance. It would be far more prudent to require that the directions be to pay money and to charge to the account of the drawer, without any qualification as to any particular fund. There is no doubt, however, that a reference, in general terms, on the face of a bill to the fact that it is based on the importation or exportation of goods would not make it conditional and nonnegotiable.

Respectfully,

M. C. ELLIOTT, *Counsel.*

To Hon. C. S. HAMLIN,

Governor Federal Reserve Board.

Federal Reserve Bank Discount Rates.

Congress not only has the power to prescribe rates of discount for Federal reserve banks, which rates may exceed the statutory rates fixed by the States in which such Federal reserve banks are located, but it may also delegate this power to the Federal Reserve Board, or to the Federal reserve banks, subject to the approval of such Board.

NOVEMBER 19, 1914.

SIR: As requested, I have given consideration to the matter of discount rates to be charged by Federal reserve banks and particularly to the question of the application of State laws to such rates.

The question arises in interpreting section 14 of the Federal reserve act.

Section 14, subsection (*d*), in defining one of the powers of the Federal reserve banks, provided as follows:

To establish from time to time, subject to review and determination of the Federal Reserve Board, rates of discount to be charged by the Federal reserve bank for each class of paper, which shall be fixed with a view of accommodating commerce and business.

In interpreting this section, it is necessary to consider whether Federal reserve banks are limited in the amount of interest which may be charged and particularly whether such banks are subject to the usury laws of any State in the absence of any fixed maximum rates of interest prescribed by Congress. This involves a consideration of the questions—

First. Has Congress the constitutional right to prescribe a rate of interest to be charged by a corporation organized under an act of Congress, which rate exceeds the statutory rate fixed by any State for persons, firms, or corporations doing business within the limits of such State?

Second. If Congress has this right, may it delegate to any executive branch of the Government the right to fix such rates?

Third. If Congress fails to prescribe by statute a maximum rate of interest to be charged, will the executive branch of the Government be controlled by such State laws in fixing the interest rate to be charged?

Considering these questions in the order named:

First. The right to establish interest rates is necessarily incident to the right to create a banking corporation, since the exercise of this power may be said to be fundamentally a part of the exercise of banking powers.

The right of Congress to create a bank and to vest such corporation with the necessary powers to perform its functions is fully considered and determined in the case of *McCulloch v. Maryland*, 4 Wheaton, 316. In that case Chief Justice Marshall, who delivered the opinion of the court, affirmed the right of Congress to create the Bank of the United States, the right of the Bank of the United States to establish a branch in Maryland as an incidental power not specifically granted by its charter, and decided definitely that the State of Maryland could not tax the branch so established on the ground that such a tax would retard, impede, burden, or control the operations of the laws enacted by Congress. That is, the court, having decided that the Bank of the United States was constitutional, held that the branch which was created by the bank, "being conducive to the complete accomplishment of the object," was equally constitutional. This concedes the right of the bank to exercise powers which are properly incident to the duties of the bank. (See 4 Wheaton, pp. 424-425.) A fortiori, the right to establish interest rates equally free from State interference is incident to the duties of the Federal reserve banks.

Without reviewing in detail the opinion rendered in this case, the following language is quoted as bearing on the subject under consideration:

This great principle is that the Constitution and the laws made in pursuance thereof are supreme; that they control the constitution and laws of the respective States and can not be controlled by them. From this, which may be almost termed an axiom, other propositions are deduced as corollaries, on the truth or error of which and on their application to this case the cause has been supposed to

depend. These are (1) that a power to create implies a power to preserve; (2) that a power to destroy, if wielded by a different hand, is hostile to and incompatible with these powers to create and to preserve; (3) that where this repugnancy exists that authority which is supreme must control, not yield to that over which it is supreme. * * * The power of Congress to create and, of course, to continue the bank was the subject of the preceding part of this opinion and is now no longer to be considered as questionable. * * * It is of the very essence of supremacy to remove all obstacles to its action within its own sphere and so to modify every power vested in subordinate governments as to exempt its own operations from their own influence. This effect need not be stated in terms. It is so involved in the declaration of supremacy, so necessarily implied in it, that the expression of it could not make it more certain. We must, therefore, keep it in view while construing the Constitution.

The same question was considered in the case of the *Farmers & Mechanics National Bank v. Dearing*, reported in 91 U. S., 29, 33, where the constitutional right of Congress to create national banks was discussed. The court in that case says:

The constitutionality of the act of 1864 is not questioned. It rests on the same principle as the act creating the Second Bank of the United States. The reasoning of Secretary Hamilton and of this court in *McCulloch v. Maryland* (4 Wheat., 316) and in *Osborne v. The Bank of the United States* (9 id., 708) therefore applies. The national banks organized under the act are instruments designed to be used to aid the Government in the administration of an important branch of the public service. They are means appropriate to that end. Of the degree of the necessity which existed for creating them Congress is the sole judge.

Being such means, brought into existence for this purpose, and intended to be so employed, the States can exercise no control over them, nor in any wise affect their operation, except in so far as Congress may see proper to permit. Anything beyond this is "an abuse, because it is the usurpation of power which a single State can not give." Against the national will "the States have no power, by taxation or otherwise, to retard, impede, burthen, or in any manner control, the operation of the constitutional laws enacted by Congress to carry into

execution the powers vested in the General Government." (*Bank of the United States v. McCulloch*, supra; *Weston and Others v. Charleston*, 2 Pet., 466; *Brown v. Maryland*, 12 Wheat., 419; *Dubbins v. Erie County*, id., 419.)

The power to create carries with it the power to preserve. The latter is a corollary from the former.

The principle announced in the authorities cited is indispensable to the efficiency, the independence, and indeed to the beneficial existence, of the General Government; otherwise it would be liable, in the discharge of its most important trusts, to be annoyed and thwarted by the will or caprice of every State in the Union. Infinite confusion would follow. The Government would be reduced to a pitiable condition of weakness. The form might remain but the vital essence would have departed.

While this decision relates to national banks, the reasoning will apply with even greater force to Federal reserve banks as agents of the United States Government. This decision has been followed in the case of *Haseltine v. Central Bank of Springfield*, 183 U. S., 132, 134, and *Schuyler National Bank v. Gadsden*, 191 U. S., 451, 456, and in other cases.

It seems to be clear, therefore, that Congress has the right to establish banks with the power to fix interest rates, and that these rates are controlled by the act creating the corporation, and not by the State law. In *Haseltine v. Central Bank of Springfield* the court says:

We understand it to be conceded that as the note in question was given to a national bank, the definition of usury and the penalties affixed thereto must be determined by the national-bank act, and not by the law of the State. *Farmers and Mechanics National Bank v. Dearing*, 91 U. S., 29.

Again, in the case of *Schuyler National Bank v. Gadsden* the court says:

This results from the prior adjudications of this court, holding that where usurious interest has been paid to a national bank the remedy afforded by section 5198 of the Revised Statutes is exclusive and is confined to an independent action to recover such usurious payments.

From these decisions it appears that the interest rates established by State laws apply to

loans made by national banks only by reason of the fact that section 5198 of the Revised Statutes makes such rates applicable, and without the agency of this enactment of Congress the State laws would have no application.

It might be argued that though Congress admittedly has the power to create and provide for the management and operation of the Federal reserve banks, nevertheless, the State, by virtue of its so-called police power, can restrict such banks in the rates of discount to be charged by them. This contention, however, is disposed of, not only by the cases previously cited, but more specifically by the case of *Railroad Company v. Husen*, 95 U. S., 465, 470, where the court says, relative to the exercise of the police powers of the State:

We are thus brought to the question whether the Missouri statute is a lawful exercise of the police power of the State. We admit that the deposit in Congress of the power to regulate foreign commerce among the States was not a surrender of that which may properly be denominated police power. What that power is it is difficult to define with sharp precision. It is generally said to extend to making regulations promotive of domestic order, morals, health, and safety. As was said in *Thorp v. The Rutland & Burlington Railroad Co.*, 27 Vt., 149, "it extends to the protection of the lives, limbs, health, comfort, and quiet of all persons, and the protection of all property within the State. * * * "

But whatever may be the nature and reach of the police power of a State, it can not be exercised over a subject confided exclusively to Congress by the Federal Constitution. It can not invade the domain of the National Government.

Second. The question of whether or not Congress may delegate to the Federal Reserve Board or to the Federal reserve banks the right to fix interest rates seems to be clearly established by a number of decisions relating to the right of Congress to delegate to the executive department the right to exercise those powers which are necessary to carry out the purpose of the original act. For example, in the case of *Field v. Clark*, 143 U. S., 649, 693, the court says:

Legislative power was exercised when Congress declared that the suspension should take effect upon a named contingency. What the President was required to do was simply in execution of the act of Congress. It was not the making of the law.

Again, in the case of *Reagan v. Farmers Loan and Trust Co.*, 154 U. S., 362, 393, the court says:

Passing from the question of jurisdiction to the act itself, there can be no doubt of the general power of a State to regulate the fares and freights which may be charged and received by railroad or other carriers, and that this regulation can be carried on by means of a commission. Such a commission is merely an administrative board created by the State for carrying into effect the will of the State as expressed by its legislation. *Railroad Commission Cases*, 116 U. S., 307.

In *Buttfield v. Stranahan*, 192 U. S., 470, 496, the court says:

Congress legislated on the subject as far as was reasonably practicable, and from the necessities of the case was compelled to leave to executive officials the duty of bringing about the result pointed out by the statute. To deny the power of Congress to delegate such a duty would, in effect, amount but to declaring that the plenary power vested in Congress to regulate foreign commerce could not be efficaciously exerted.

In a still later case, the *Union Bridge Co. v. United States*, 204 U. S., 364, 387, the court says:

Indeed, it is not too much to say that a denial to Congress of the right, under the Constitution, to delegate the power to determine some fact or the state of things upon which the enforcement of its enactment depends would be "to stop the wheels of Government" and bring about confusion, if not paralysis, in the conduct of the public business.

In view of these decisions there seems to be no question of the right of Congress to delegate the power to fix interest rates with the view of accommodating commerce and business.

Third. In view of the decisions above recited, it seems clear that the failure of Congress to prescribe in the act itself a maximum rate of

interest to be charged will not make the usury laws of the States applicable.

(a) Because, as shown in the cases of the *Farmers and Mechanics National Bank v. Dearing*, *Haseltine v. Central Bank of Springfield*, and *Schuyler v. Gadsden*, supra, the State laws have no application in such cases unless the act of Congress provides that such laws shall be applied.

(b) Because Congress delegated to the Federal reserve banks, subject to review and determination of the Federal Reserve Board, the right to fix rates of discount to be charged by the Federal reserve banks for each class of paper, such rates to be fixed with the view of accommodating commerce and business.

Respectfully,

M. C. ELLIOTT, *Counsel*.

To HON. CHARLES S. HAMLIN,
Governor Federal Reserve Board.

**Interpretation of Section 8 of the Clayton Antitrust Act,
Approved October 15, 1914.**

All three paragraphs of section 8 of the Clayton Antitrust Act, relating to interlocking directorates, become effective from and after two years from the date of the approval of that act—that is, October 15, 1916.

This statute, being a Federal statute, can not relate to the qualifications of directors of State banks or trust companies, but merely provides that persons who are private bankers, or directors, officers, or employees of such banks or trust companies, shall, under certain conditions, be ineligible to serve as directors, officers, or employees of banks organized under the laws of the United States.

NOVEMBER 21, 1914.

SIR: A number of letters have been received from bankers and others asking for an interpretation of section 8 of the act approved October 15, 1914, and generally referred to as the Clayton Act. Section 8 reads as follows:

That from and after two years from the date of the approval of this act no person shall at the same time be a director or other officer or employee of more than one bank, banking association, or trust company, organized or operating under the laws of the United States, either of which has deposits, capital, surplus, and undivided profits aggregating more than \$5,000,000, and no private banker or person who is a director in any bank or trust company, organized and operating under the laws of a State, having

deposits, capital, surplus, and undivided profits aggregating more than \$5,000,000, shall be eligible to be a director in any bank or banking association organized or operating under the laws of the United States. The eligibility of a director, officer, or employee under the foregoing provisions shall be determined by the average amount of deposits, capital, surplus, and undivided profits as shown in the official statements of such bank, banking association, or trust company filed as provided by law during the fiscal year next preceding the date set for the annual election of directors, and when a director, officer, or employee has been elected or selected in accordance with the provisions of this act it shall be lawful for him to continue as such for one year thereafter under said election or employment.

No bank, banking association, or trust company organized or operating under the laws of the United States, in any city or incorporated town or village of more than two hundred thousand inhabitants, as shown by the last preceding decennial census of the United States, shall have as a director or other officer or employee any private banker or any director or other officer or employee of any other bank, banking association, or trust company located in the same place: *Provided*, That nothing in this section shall apply to mutual savings banks not having a capital stock represented by shares: *Provided further*, That a director or other officer or employee of such bank, banking association, or trust company may be a director or other officer or employee of not more than one other bank or trust company organized under the laws of the United States or any State where the entire capital stock of one is owned by stockholders in the other: *And provided further*, That nothing contained in this section shall forbid a director of class A of a Federal reserve bank, as defined in the Federal reserve act, from being an officer or director or both an officer and director in one member bank.

That from and after two years from the date of the approval of this act no person at the same time shall be a director in any two or more corporations, any one of which has capital, surplus, and undivided profits aggregating more than \$1,000,000, engaged in whole or in part in commerce, other than banks, banking associations, trust companies, and common carriers subject to the act to regulate commerce, approved February 4, 1887, if such corporations are or shall have been theretofore, by virtue of their business and location of operation, competitors, so that the elimination of competition by agreement between them would constitute a violation of any of the provisions of any of the antitrust laws. The eligibility of a director under the foregoing provision shall be determined by the aggregate amount of the capital, surplus, and undivided profits, exclusive of dividends declared but not paid to stockholders, at the end of the fiscal year of said corporation next preceding the election of directors, and when a director has been elected in accordance with the provisions of this act, it shall be lawful for him to continue as such for one year thereafter.

When any person elected or chosen as a director or officer or selected as an employee of any bank or other corporation subject to the provisions of this act is eligible at the time of his election or selection to act for such bank or other corporation in such capacity his eligibility to act in such capacity shall not be affected and he shall not become or be deemed amenable to any of the provisions hereof by reason of any change in the affairs of such bank or other corporation from whatsoever cause, whether specifically excepted by any of the provisions hereof or not, until the expiration of one year from the date of his election or employment.

It will be observed that paragraph 1 and paragraph 3 each begins "That from and after two years from the date of the approval of this act," while paragraph 2 contains no such provision. The question has accordingly been raised whether or not paragraph 2 becomes immediately effective or after the expiration of two years from the approval of the act. An analysis of this section will show that paragraph 1 and paragraph 2 both deal with the question of qualification of directors serving on the boards of banks organized under the laws of the United States, while paragraph 3 has reference to corporations engaged in whole or in part in commerce and to common carriers.

Paragraph 1 and paragraph 3 each begins with the word "That," which introduces the grammatical object of the enacting phrase, and as the second paragraph has no such introductory word and deals with the same general subject matter as paragraph 1, it seems entirely clear that paragraphs 1 and 2 constitute one enactment and that the provisions of paragraph 2 become effective at the same time as the provisions of paragraph 1, namely, two years after the passage of the act. This view is borne out by an analysis of paragraphs 1 and 2.

Paragraph 1 provides in effect that no person shall at the same time be a director, officer, or employee of more than one bank organized or operating under the laws of the United States, if such person is a director, officer, or employee of a bank having aggregate resources of more than \$5,000,000. If such person is a director, officer, or employee of a State bank

having aggregate resources of more than \$5,000,000, he shall not be eligible to serve as a director, officer, or employee of any bank organized or operating under the laws of the United States.

Paragraph 2 provides in effect that no person shall be a director in a bank organized under the laws of the United States and located in a city of more than 200,000 inhabitants if such person is a director of any other bank, banking association, or trust company located in the same place. There are certain exceptions to this provision, namely:

(a) Mutual savings companies having no capital stock are excluded.

(b) Class "A" directors of Federal reserve banks may serve as directors of other banking institutions in the same place.

(c) A director, officer, or employee of one banking association in such city may be a director, officer, or employee of not more than one other bank or trust company organized under the laws of the United States where the entire capital of one is owned by stockholders in the other.

It will, therefore, be observed that these two paragraphs relate to the question of what persons are eligible to serve on the board of directors of a bank organized under the laws of the United States, or to serve in the capacity of officer or employee of such bank.

This being a Federal statute it can not, of course, relate to the qualifications of State bank directors, but merely provides that persons who are directors of State banks under certain conditions shall be ineligible to serve as directors of banks organized under Federal law, and since both paragraphs relate to this one subject, there would seem to be no justification for treating them separately, as there is nothing to indicate that they constitute two separate enactments.

Respectfully,

M. C. ELLIOTT, *Counsel.*

To Hon. CHARLES S. HAMLIN,

Governor.

Right of National Banks to Have Their Deposits Guaranteed by Surety Companies.

On April 8, 1915, Secretary McAdoo made public an opinion of the Attorney General relating to the right of a national bank to enter into a contract with a guaranty company under which such company insures and guarantees each depositor in the bank the full payment of his deposit therein. This opinion, which will be published by the Department of Justice with the opinions of the Attorney General, is referred to here because of its probable interest to all national banks which are members of the Federal reserve system.

The opinion holds that it is within the power of a national bank to enter into such a contract on the ground that it is a reasonable and proper method of fulfilling the imperative duty which the law imposes upon every bank, not only to repay deposits but also to keep them secure. The means by which depositors are to be protected and secured are not expressly limited by statute. A large discretion is left to the bank, and such a contract as this is a reasonable and suitable exercise of that discretion and fully within the law.

DISCOUNT RATES.

Discount rate of each Federal reserve bank in effect on April 26, 1915.

Federal reserve bank.	Date of last change of rate.	Maturities of 30 days and less.	Maturities of over 30 days to 60 days, inclusive.	Maturities of over 60 days to 90 days, inclusive.	Agricultural and live-stock paper over 90 days.
Boston.....	Feb. 3	4	4	4½	5
New York.....	Feb. 18	4	4	4	5
Philadelphia.....	Jan. 28	4	4	4½	5
Cleveland.....	Feb. 6	4	4	4	5
Richmond.....	Feb. 19	4½	4½	4½	5
Atlanta.....	Mar. 18	4½	4½	5	5
Chicago.....	Jan. 23	4	4	4½	5
St. Louis.....	Apr. 22	4	4	4½	5
Minneapolis.....	Mar. 2	4	4½	5	5
Kansas City.....	Jan. 28	4	4	4½	5½
Dallas.....	Feb. 4	4	4	4½	5
San Francisco.....	Jan. 22	4	4	4	6

Authorized rate for acceptances 2 to 4 per cent. Accepted by Boston and New York on February 18; by Philadelphia, Chicago, and Minneapolis on February 19; by Cleveland on February 23; by San Francisco on March 4; and by St. Louis.

On March 10 the Federal Reserve Board fixed the following rates for rediscounts between Federal reserve banks: 3½ per cent for maturities of 30 days and less. 4 per cent for maturities of over 30 days to 90 days, inclusive.

Members of the System.

There are now 7,605 national banks and 17 trust companies and State banks in the Federal reserve system. This is a total of 7,622.

Below is a list of State banks and trust companies members of Federal reserve system.

- Continental Trust Co., Washington, D. C.
- The Savings Bank of Richmond, Richmond, Va.
- Bank of Woodruff, Woodruff, S. C.
- Sullivan Bank & Trust Co., Montgomery, Ala.
- Central Trust Co., Chicago, Ill.
- Bank of Wisconsin, Madison, Wis.
- Mercantile Trust Co., St. Louis, Mo.
- First State Bank, Dallas, Tex.
- First State Bank, Bonham, Tex.
- The Citizens State Bank, Memphis, Tex.
- First Guaranty State Bank, Pittsburg, Tex.
- Farmers & Merchants State Bank, Edgewood, Tex.
- Bank of Eufaula, Eufaula, Ala.
- First State Bank, Savoy, Tex.
- First State Bank, Hamlin, Tex.
- First State Bank, Wolfe City, Tex.
- First State Bank, Bremond, Tex.

Emergency Currency Outstanding.

The following is a statement of the emergency currency outstanding on April 20, 1915. The States which have no currency outstanding either took out none or have retired it:

Alabama.....	\$719,750.00
Arizona.....	None.
Arkansas.....	None.
California.....	733,965.00
Colorado.....	None.
Connecticut.....	139,000.00
Delaware.....	None.
Florida.....	334,900.00
Georgia.....	13,250.00
Idaho.....	None.
Illinois.....	None.
Indiana.....	24,000.00
Iowa.....	490,650.00
Kansas.....	None.
Kentucky.....	240,400.00
Louisiana.....	482,500.00

Maine.....	None.
Maryland.....	\$64,000.00
Massachusetts.....	None.
Michigan.....	None.
Minnesota.....	None.
Mississippi.....	89,000.00
Missouri.....	33,000.00
Montana.....	None.
Nebraska.....	None.
Nevada.....	None.
New Hampshire.....	None.
New Jersey.....	55,000.00
New Mexico.....	90,950.00
New York.....	43,000.00
North Carolina.....	644,000.00
North Dakota.....	None.
Ohio.....	None.
Oklahoma.....	274,010.00
Oregon.....	175,000.00
Pennsylvania.....	476,050.00
Rhode Island.....	None.
South Carolina.....	553,667.80
South Dakota.....	None.
Tennessee.....	221,000.00
Texas.....	2,760,600.60
Utah.....	None.
Vermont.....	None.
Virginia.....	131,100.00
Washington.....	None.
West Virginia.....	None.
Wisconsin.....	45,000.00
Wyoming.....	None.
Total.....	8,830,793.40

Appeals.

No decision has been reached by the Federal Reserve Board in the matter of appeals from the action of the reserve bank organization committee in determining the various Federal reserve districts. Hearings in all but one of these appeals have been held by the Board and the matters are now under consideration.

The Federal Reserve Board has made these appeals a special order for consideration during the week of May 3.

An extension of time to May 1 has been granted by the Board for the filing of the brief of the Federal Reserve Bank of Minneapolis in reply to the petition of member banks in eastern Wisconsin, asking that the territory in which they are located be transferred from the Federal reserve district of Minneapolis to

the Federal reserve district of Chicago. A hearing on this appeal will be held on May 20.

Staff of the Federal Reserve Board.

There were employed by the Federal Reserve Board during the month of April a force of 51 people in addition to the 7 members of the Board. The total annual pay roll, including members of the Board, on this basis, would be \$157,100. This does not include the division of issue, operated as a part of the office of the Comptroller of the Currency. The salaries for April in this division were \$1,293.36. The cost of the main staff is divided as follows:

The Board and its personal staff.....	\$88,000
Secretary's office.....	16,100
Office of counsel.....	13,900
Divisions:	
Mails and files.....	3,720
Correspondence.....	7,700
Statistical.....	7,000
Audit and examination.....	15,100
One telephone operator.....	600
Seven messengers.....	4,260
Three charwomen.....	720

The average salary to employees, excluding the 7 members of the Board, based on the March pay roll, is \$1,766.66 per annum. The average salary of all employees, exclusive of the Board and its personal staff, based upon the March pay roll, is \$1,727.50 per annum. The average salary of strictly clerical employees, based on the March pay roll, is \$1,415.75.

Clerical positions under the Federal Reserve Board are filled by certification of five names from the eligible list established through an examination of applicants, held for the Federal Reserve Board by the Civil Service Commission in December, 1914. This eligible list includes stenographers and typewriters, bookkeepers, clerks, and messengers. No examination is contemplated for several months, as the list is more than sufficient for all of the additional employees of this character which will be required by the Board for the present. The entrance salaries for these positions are \$900 per annum, except the position of messenger, which is \$600 per annum.

APPLICATIONS FOR TRUSTEE POWERS APPROVED.

DISTRICT No. 1.

CONNECTICUT.

City.	Bank.	Powers.
Middletown..	Middle town National.	Trustee, executor, administrator, registrar of stocks and bonds.
New Haven..	Second National.	Do.
Norwalk.....	National Bank of	Do.
Wallingford..	First National.	Trustee, executor, administrator.
Waterbury...	Manufacturers' National.	Trustee, executor, administrator, registrar of stocks and bonds.

MAINE.

Portland.....	First National..	Trustee, executor, registrar of stocks and bonds.
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MASSACHUSETTS.

Boston.....	Second National	Trustee, administrator, executor, registrar of stocks and bonds.
Do.....	Peoples National	Do.
Do.....	National Shawmut.	Do.
Do.....	First National..	Do.
Do.....	Merchants National.	Do.
Great Barrington.	National Mahaiwe.	Do.
Haverhill....	Essex National.	Registrar of stocks.
Do.....	First National .	Trustee, executor, administrator, registrar of stocks and bonds.
Holyoke.....	City National ..	Do.
Do.....	Home National	Do.
Norwood.....	Norwood National.	Do.
Salem.....	Merchants National.	Do.
Springfield...	Chicopee National.	Do.
Turner Falls.	Croker National Bank.	Do.
Watertown...	Union Market National.	Do.
Webster.....	First National..	Do.
Worcester....	Merchants National.	Do.
Do.....	Worcester National.	Do.

DISTRICT No. 1—Continued.

NEW HAMPSHIRE.

City.	Bank.	Powers.
Claremont... .	Claremont National.	Trustee, executor, administrator, registrar of stocks and bonds.
Concord.....	First National..	Do.
Dover.....	Merchants National.	Trustee, executor, administrator.
Do.....	Strafford National.	Trustee, executor, administrator, registrar of stocks and bonds.
Keene.....	Keene National	Do.

RHODE ISLAND.

Newport.....	Aquidneck National.	Trustee, executor, administrator, registrar of stocks and bonds.
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DISTRICT No. 2.

NEW YORK.

Albany.....	National Commercial.	Registrar of stocks and bonds.
Auburn.....	National Bank of.	Do.
Clayton.....	National Exchange.	Do.
Cooperstown..	Second National.	Do.
Edwards.....	Edwards National.	Do.
Far Rockaway	National Bank of.	Do.
Geneva.....	First National..	Do.
Do.....	Geneva National.	Do.
Granville	Farmers National.	Do.
Do.....	Washington Co. National.	Do.
Hempstead...	First National..	Do.
Herkimer....	Herkimer National.	Do.
Lockport....	National Exchange.	Do.
Mineola.....	First National..	Do.
Morristown...	Frontier National.	Do.
New York....	Bronx National.	Do.
Do.....	Gotham National.	Do.
Do.....	Liberty National.	Do.
Do.....	Lincoln National.	Do.
Do.....	National Bank of Commerce.	Do.
Do.....	National City...	Do.
Do.....	Seaboard National.	Do.

DISTRICT No. 7—Continued.		
INDIANA.		
City.	Bank.	Powers.
Rushville....	Rush County National.	Trustee, executor, administrator, registrar of stocks and bonds.
Marion.....	Marion National	Do.
Richmond...	Second National	Do.
Brazil.....	Riddell National.	Do.
Richmond...	First National..	Do.
Russiaville ..	.....do.....	Trustee, executor, administrator.
IOWA.		
Cedar Rapids.	Merchants National.	Trustee, executor, administrator, registrar of stocks and bonds.
Sibley.....	First National..	Trustee, executor, administrator.
MICHIGAN.		
Bay City.....	First National..	Trustee, executor, administrator, registrar of stocks and bonds.
Battle Creek.	Old National...	Do.
Grand Rapids	.....do.....	Trustee, registrar of stocks and bonds.
Saginaw.....	Second National	Trustee, executor, administrator, registrar of stocks and bonds.
WISCONSIN.		
Beaver Dam.	Old National...	Trustee, executor, administrator, registrar of stocks and bonds.
Janesville ...	First National .	Do.
Monroe.....	.....do.....	Do.
Waukesha ...	National Exchange.	Do.
DISTRICT No. 8.		
ILLINOIS.		
Anna.....	First National..	Trustee, executor, administrator, registrar of stocks and bonds.
Jacksonville..	Ayers National.	Do.
Pittsfield....	First National..	Do.
INDIANA.		
Evansville...	City National..	Trustee, executor, administrator, registrar of stocks and bonds.
Do.....	Old State National.	Do.

DISTRICT No. 8—Continued.		
KENTUCKY.		
City.	Bank.	Powers.
Elizabethtown.	First-Hardin National.	Trustee, executor, administrator, registrar of stocks and bonds.
Hopkinsville.	First National.	Do.
Lebanon.....	Marion National	Do.
MISSOURI.		
Sedalia.....	Citizens National.	Trustee, executor, administrator, registrar of stocks and bonds.
DISTRICT No. 10.		
COLORADO.		
Denver.....	United States National.	Trustee, executor, administrator, registrar of stocks and bonds.
Do.....	Denver National.	Do.
Greeley.....	First National.	Do.
DISTRICT No. 11.		
TEXAS.		
Colorado.....	City National..	Trustee, executor, registrar of stocks and bonds.
Dallas.....	National Bank of Commerce.	Do.
Fort Worth..	Stockyards National.	Do.
Greenville...	Greenville National Exchange.	Do.
McKinney...	First National.	Do.
San Angelo...	First National..	Do.
Stanton.....	First National..	Trustee, executor.

Granting Trustee Powers.

The following letter has been sent by the Board to Federal reserve agents:

In order that the powers of national and State banks and trust companies as members of the Federal reserve system may be equalized as far as possible, the Board desires to grant to national banks applying therefor, when not in contravention of State or local laws, permission to act as trustee, executor, administrator, and registrar of stocks and bonds. In acting on applications, however, for such per-

mits, it is necessary that the Board should take into consideration—

First. Whether or not the exercise of these powers, or any of these powers, will be in contravention of State or local law.

Second. Whether the applying bank is in proper condition and is equipped to handle this class of business, and whether a permit will, under the circumstances, prove of benefit to such bank.

In order to pass upon the question of whether or not action under the permit will contravene State or local laws, the Board has requested counsel for the various Federal reserve banks to analyze the laws of the States in the several districts and file his opinion with the Board. In view of the lack of uniformity in the laws of the several States it is difficult, if not impossible, to prescribe any fixed rules by which this question may be determined. Inasmuch as national banks are incorporated under Federal law, the statutes of the various States necessarily have a very limited application, but in this instance Congress has expressly provided that State laws shall not be contravened, just as it did in the case of usury laws of the several States.

There are probably no States whose statutes in terms prohibit national banks from exercising these powers, and few which expressly authorize their exercise. The question under consideration, therefore, can not be determined by ascertaining merely whether a State law specifically prohibits or specifically authorizes national banks to act as provided by section 11 (k). Nor is it within the province of the Federal Reserve Board to pass upon the constitutionality of this section. In general, the Board will grant permits in accordance with this section where the exercise of the powers granted does not contravene the general policy of the State laws as indicated by the statutes dealing with banking institutions and other corporations, and will refuse permits in those cases where such exercise would be clearly in contravention of the general policy of such State laws.

In determining the second question, that is, whether or not in a given case the granting of the permit will prove to the best interest of the applying bank, the Board must necessarily take into consideration the particular circumstances in each instance. Banks having small capital and surplus should, therefore, be requested to indicate the nature and extent of the business it contemplates undertaking. Its equipment and the efficiency of its organization must of necessity be taken into consideration in determining the general character of the estates to be administered.

While the Board does not desire to promulgate at this time any fixed rules as to the proportion that the capital and surplus of the applying bank should bear to the size of the estates to be handled, it is at once manifest that small institutions should not undertake to administer estates which will require a larger and more efficient trust department than such banks will be justified in establishing. Before making any recommendation, therefore, to the Federal Reserve Board that application should be approved or disapproved, Federal reserve banks should give consideration to the circumstances, as indicated above.

It is the desire of the Board to cooperate with the member banks through the Federal reserve banks in a gradual and conservative development of this class of business. To this end, applications received by the Federal reserve bank should be handled in the following manner:

First. They should be submitted to counsel for the Federal reserve bank, who will certify thereon whether or not, in his opinion, there is reasonable ground for believing that the exercise of the powers applied for will not be in contravention of the laws of the State in which the applying bank is located. The application should then be referred to the board of directors of the Federal reserve bank.

Second. The board of directors, after due consideration should forward the application to the Federal Reserve Board with its recommendation. If, for any reason, the board of

directors is of the opinion that the permission applied for should not be granted, the application should be accompanied by its reasons in writing.

Third. The Federal Reserve Board, under the terms of the act, can authorize national banks to exercise only those powers which are not in contravention of State or local laws, and if, after a permit is granted, the right to act under it should be questioned by the State authorities, member banks should promptly notify the Federal reserve bank and the Federal Reserve Board, so that arrangements may be made for an adjustment or for a proper adjudication by a court of competent jurisdiction.

APRIL 5, 1915.

Pan American Conference.

Congress at its last session granted authority to the President to invite the Governments of Central and South America to send their ministers of finance and leading bankers to "a conference with the Secretary of the Treasury in the city of Washington at such date as shall be determined by the President, with a view of establishing closer and more satisfactory financial relations between their countries and the United States of America, and authority is given to the Secretary of the Treasury to invite, in his discretion, representative bankers of the United States to participate in the said conference."

Washington was deemed the most appropriate and convenient place for the conference, and it will be opened on May 24. The representatives of the foreign Governments will, while here, be the guests of the Nation. An appropriation of \$50,000 has been made by Congress for their entertainment.

Eighteen nations of Central and South America have accepted this Government's invitation

to the conference. The delegates already appointed include ministers of finance and Latin-American authorities on finance and trade.

Congress has given the Secretary of the Treasury authority to invite, in his discretion, representative American bankers to participate in the conference. Secretary McAdoo has announced that this discretion will be exercised so as to secure the attendance of as large a number as practicable of representative financiers, that a thorough and comprehensive discussion may be had of existing financial conditions throughout the Western Hemisphere.

Advisory Council.

The Advisory Council of the Federal Reserve System held its third meeting in Washington on Wednesday, April 21. This was preceded by a meeting of the executive committee of the council held on the previous day. Both the executive committee and the advisory council itself held conferences with the Federal Reserve Board at which there was an interchange of views on general banking subjects. Among the matters discussed were, whether Federal reserve banks should be limited in their purchases of bankers' acceptances made by non-member banks without the indorsement of a member bank; whether acceptances based on the movement of goods between two foreign countries should be eligible for discount; whether the Federal reserve banks should undertake other foreign exchange operations or open market transactions; the conditions under which State banks shall be admitted to the Federal reserve system; the question of penalizing member banks which have allowed their reserve deposits to fall below the required figure.

CIRCULARS AND REGULATIONS.

On January 2 the Federal Reserve Board issued the first of its circulars and regulations, series of 1915. Some of the circulars are reissues of those circulated in 1914. They are as follows:

CIRCULAR NO. 1, SERIES OF 1915.

WASHINGTON, January 2, 1915.

ISSUANCE OF CIRCULARS AND REGULATIONS.

For the convenience of all concerned the Federal Reserve Board has determined to revise certain of its circulars and regulations, and to reissue such of those as it desires to retain in force; the new series to be known as the "Series of 1915." It proposes hereafter to issue circulars and regulations each year in a new series, and there is appended hereto a list of the previously issued circulars and regulations and the disposition made of them.

In this way circulars and regulations of only passing interest will be dropped and only those of permanent importance reissued.

CIRCULARS.

No.	Subject.	Date.	Disposition.
		1914.	
	Gold fund circular of Sept. 21, 1914. Circulars and regulations prior to this issued by the organization committee.	.....	No longer applicable.
No. 6.....	Suggested by-laws.....	Oct. 5	Do.
No. 6 a.....	.....do. (as amended).....	Oct. 21	Do.
No. 7.....	Proposed system of accounting for Federal reserve banks.	Oct. 14	Effective so far as applicable, but to be reissued.
No. 8.....	Outline of plan of organization for Federal reserve banks.	Oct. 17	Do.
No. 9 a.....	Procedure for meeting of reserve bank officers and directors of Oct. 20-21.	.....	No longer applicable.
No. 10.....	In regard to the deposit of reserves due Nov. 2, 1914.	Oct. 23	Do.
No. 11.....	Reports of committees of officers and directors of Federal reserve banks at Washington meeting of Oct. 20-21, 1914.	No date.	Do.
No. 12.....	Payment of first installment of stock subscriptions of member banks to the Federal reserve banks.	Nov. 6	Do.
No. 13.....	Regarding commercial paper eligible for rediscount by Federal reserve banks.	Nov. 10	Will be reissued in somewhat modified form.

REGULATIONS.

No. 1.....	Procedure in appeals from decision of reserve bank organization committee.	Aug. 23	Effective and will be reissued.
Nos. 2, 3, 4, 5, and 6.	Dealing with eligibility of commercial paper, accompanying Circular No. 13.	Nov. 10	Effective and will be reissued in modified form.
No. 7.....	Definitions of "demand" and "time" deposits and of "savings accounts."	Nov. 11	Will be reissued in somewhat modified form.
No. 8.....	Covering bonds of Federal reserve agents.	Nov. 23	Effective and will be reissued.
No. 9.....	Loans on farm lands.....	Dec. 31	Do.

CIRCULAR NO. 2, SERIES OF 1915.

WASHINGTON, January 12, 1915.

ACCEPTANCE OF STATEMENTS IN LIEU OF CERTIFICATES AS TO CHARACTER OF COMMERCIAL PAPER.

The necessity of giving more time before regulation No. 3, of November 10, 1914, shall become effective is recognized by the Federal Reserve Board. The accompanying regulation is therefore issued as appended.

Regulation No. 4, of 1914, which was to go into effect January 15, is hereby revoked and canceled and will be replaced by a new regulation soon to be issued.

REGULATION A, SERIES OF 1915.

(Superseding regulation No. 3, of 1914.)

WASHINGTON, January 12, 1915.

ACCEPTANCE OF STATEMENTS IN LIEU OF CERTIFICATES AS TO CHARACTER OF COMMERCIAL PAPER.

Whenever a member bank shall offer for rediscount any note, draft, or bill of exchange bearing the indorsement of such member bank, with waiver of demand notice and protest, the directors or executive committee of the Federal reserve bank may, until July 15, 1915, accept as evidence that the proceeds of such note, draft, or bill of exchange were or are to be used for agricultural, industrial, or commercial purposes (and such notes, drafts, or bills of exchange in other respects comply with the regulations of the board) a written statement from the officer of the applying bank that of his own knowledge and belief the original loan was made for one of the purposes mentioned, and that the provisions of the act and regulations issued by the board have been complied with.

CIRCULAR NO. 3, SERIES OF 1915.

(Superseding Circular No. 13 of 1914.)

WASHINGTON, January 25, 1915.

COMMERCIAL PAPER.

When Circular No. 13, bearing date of November 10, 1914, and the accompanying regulations were issued it was hoped that a period of two months would suffice to enable member banks to familiarize their customers with the requirements of Regulation No. 4 of 1914. It appears, however, that in many districts the needed readjustments of banking and business practice can not be effected in so short a period. An extension of time was therefore asked by both member banks and their customers, for the purpose of adjusting their methods to the new requirements, and was granted by the Board. (See Regulation A, accompanying Circular No. 2, series of 1915.)

In order to facilitate operations, particularly during the initial period, the requirements as to borrowers' statements have been modified. But while Circular No. 13, of November 10, 1914, is now superseded, the Board has not modified its views upon the general principles therein expressed as being of fundamental importance in the best development of the new system.

The Board has formulated in Regulation B, hereto annexed (Paragraph III), a new method for certifying the eligibility of bills for rediscount. While banks will not be required to comply with the provisions of Paragraph III until after July 15, the new method prescribed is made a part of this regulation in order that advance notice may be given to all banks, so that those which are equipped to do so may begin to operate under its provisions as soon as possible. The Board suggests, furthermore, that Federal reserve banks insist that the accompanying regulation be applied as promptly as possible to all so-called "purchased paper"—that is, paper bought through brokers or others with whom the purchasing bank has no direct business relations. Where such direct connections do not exist, the requirement that statements, both as to business conditions and methods of borrowing, be furnished appears to be a matter of prudence and should not be postponed. In such cases as these—where borrowers' statements in the required form are not available until after the close of the business, year—statements for the previous year may be accepted, pending receipt of new statements in required form, even though such statements may not contain all the desired data.

While it has been thought best not to insist upon a written statement in the case of limited borrowings by depositors, when officers of member banks from their own personal knowledge certify to the eligibility of the paper for discount, it is urged, nevertheless, that member banks do their utmost to accustom their borrowers to furnishing such statements.

REGULATION B, SERIES OF 1915.

(Superseding Regulations 2 and 4 of 1914.)

WASHINGTON, *January 25, 1915.*

COMMERCIAL PAPER.

The word "bill," when used in this regulation, shall be construed to include notes, drafts, or bills of exchange, and the word "goods" shall be construed to include goods, wares, merchandise, or staple agricultural products, including live stock.

I. *Statutory requirements.*

The Federal reserve act provides that a bill, other than an acceptance (see Circular No. 5 and Regulation D, to be published shortly), to be eligible for rediscount by a member bank with a Federal reserve bank, must comply with the following statutory requirements:

(a) It must be indorsed by a member bank, accompanied by a waiver of demand, notice, and protest.

(b) It must have a maturity at the time of discount of not more than 90 days, except as provided by Regulation C, accompanying Circular No. 4, series of 1915.

(c) It must have arisen out of actual commercial transactions; that is, be a bill which has been issued or drawn for agricultural, industrial, or commercial purposes, or the proceeds of which have been or are to be used for such purposes.

(d) It must not have been issued for carrying or trading in stocks, bonds, or other investment securities except bonds and notes of the Government of the United States; but the pledge of goods as security for a bill is not prohibited.

II. *Character of paper eligible.*

The Federal Reserve Board, exercising its statutory right to define the character of a bill eligible for rediscount at a Federal reserve bank, has determined:

(a) That it must be a bill the proceeds of which have been used or are to be used in producing, purchasing, carrying, or marketing goods in one or more of the steps of the process of production, manufacture, and distribution;

(b) That no bill is "eligible" the proceeds of which have been used or are to be used:

(1) For permanent or fixed investments of any kind, such as land, buildings, machinery (including therein additions, alterations, or other permanent improvements, except such as are properly to be regarded as costs of operation). It may be considered as sufficient evidence of compliance with this requirement if the borrower shows, by statement or otherwise, that he has a reasonable excess of quick assets over his current liabilities on open accounts, short-term notes, or otherwise;

(2) For investments of a merely speculative character, whether made in goods or otherwise.

III. *Method of certifying eligibility.*

Any member bank applying for rediscount of a bill after July 15, 1915, must certify in its letter of application, over the signature of a duly authorized officer, that to the best of its knowledge and belief the bill was issued for one of the purposes mentioned in the above paragraphs and conforms to section 13 of the Federal reserve act and to this regulation.

It is recommended that every member bank maintain a file, which shall contain original signed statements of the financial condition of borrowers, or true copies thereof, certified by a member bank or by a notary public, designating where the original statement is on file. Statements should contain all the information essential to a clear and correct knowledge of the borrower's credit and of his method of borrowing. A schedule specifying certain information, which it is desirable that such statements should include, is hereto appended.

Member banks shall certify in their letters of application for rediscount whether the paper offered for rediscount is depositor's or purchased paper or paper rediscounted for other member banks and whether statements are on file.

When it does not appear that such statements are on file, except as hereinafter provided under (1), (2), and (3), below, the Federal reserve bank shall satisfy itself as to the eligibility of the paper offered for rediscount, and member banks will be expected to use such statement forms, identifying stamps, etc., as may be prescribed by the respective Federal reserve banks.

Any member bank rediscounting with a Federal reserve bank paper acquired from another member bank, with the indorsement of such member bank, may accept such member's certification regarding the character of the paper and the existence of the necessary statements.

Statements of the borrower's financial condition may be waived where bills offered for rediscount have been discounted by member banks for any of their depositors in the following cases:

(1) If the bill bears the signatures of the purchaser and the seller of the goods and presents prima facie evidence that it was issued for goods actually purchased or sold; or

(2) If the aggregate amount of obligations of such depositor actually rediscounted and offered for rediscount does not exceed \$5,000, but in no event a sum in excess of 10 per centum of the paid-in capital of the member bank; or

(3) If the bill be specifically secured by approved warehouse receipts covering readily marketable staples:

Provided, however, That the bank shall certify to these conditions on the application blank in a manner to be designated by the respective Federal reserve banks.

APPENDIX.

INFORMATION DESIRED IN CREDIT FILES OF MEMBER BANKS.

The credit files of member banks, referred to in the above regulation, should include information concerning the following matters:

(a) The nature of the business or occupation of the borrower;

(b) If an individual, information as to his indebtedness and his financial responsibility;

(c) If a firm or corporation, a balance sheet showing quick assets, slow assets, permanent or fixed assets, current liabilities and accounts, short-term loans, long-term loans, capital and surplus;

(d) All contingent liabilities, such as indorsements, guaranties, etc.;

(e) Particulars respecting any mortgage debt and whether there is any lien on current assets;

(f) Such other information as may be necessary to determine whether the borrower is entitled to credit in the form of short-term loans.

CIRCULAR NO. 4, SERIES OF 1915.

WASHINGTON, January 15, 1915.

SIX MONTHS' AGRICULTURAL PAPER.

The appended regulation is issued to supersede Regulation No. 5, of November 10, 1914, which is hereby revoked and canceled.

REGULATION C, SERIES OF 1915.

(Superseding Regulation No. 5, of Nov. 10, 1914.)

WASHINGTON, January 15, 1915.

SIX MONTHS' AGRICULTURAL PAPER.

The word "bill" when used in this regulation shall be construed to include notes, drafts, or bills of exchange.

Each Federal reserve bank may receive for discount bills which have a maturity of more than three but less than six months, in an aggregate amount equal to a percentage of its capital stock to be fixed from time to time for each Federal reserve bank by the Federal Reserve Board.

Provided, however, That such bills are drawn or issued for agricultural purposes, or are based on live stock; that is, that their proceeds have been used or are to be used for agricultural purposes, including the breeding, raising, fattening, or marketing of live stock; and

Provided further, That such bills comply in all other respects with each and every provision of Regulation B series of 1915.

CIRCULAR NO. 5, SERIES OF 1915.

(Superseded by Circular No. 11. See p. 44.)

CIRCULAR NO. 6, SERIES OF 1915.

(Superseding Regulation No. 7 of 1914.

WASHINGTON, January 15, 1915.

TIME DEPOSITS AND SAVINGS ACCOUNTS.

The Federal Reserve Board deems it advisable to amplify its regulation relating to time deposits and savings accounts issued November 11, 1914, and to define under the following headings those deposits against which the Federal reserve act requires a reserve of only 5 per cent to be maintained.

1. Time deposits, open accounts.
2. Savings accounts.
3. Certificates of deposit.

It was clearly not the intention of the act to permit a reduction of reserve to 5 per cent upon deposits which may ordinarily be checked upon, but in respect to which a bank, by a blanket provision in its by-laws, may at any time require a withdrawal notice of not less than 30 days to be given. The reduction of the reserve to be carried against time deposits is intended to apply only to deposits under written agreement not to be withdrawn within 30 days from the date as of which the reserve calculation is made. Therefore, on the date of calculating reserve, under the definitions contained in the accompanying regulation, no deposit may be deemed a time deposit, whether on open account or on certificate—

(a) If it is payable within 30 days because of the approaching end of the specified period for which it was deposited or because of receipt of notice of the date on which withdrawal will be made;

(b) If it may be withdrawn by check within 30 days, although the bank may have the right, by written contract or otherwise, to require a withdrawal notice of not less than 30 days.

Nor may any certificate of deposit be considered a time certificate if any part of the amount represented by it is subject to check or may be withdrawn without the presentation of the certificate for proper indorsement.

While savings accounts may at any time, by the action of the bank, be converted into time deposits, they are, nevertheless, ordinarily withdrawable on demand. In the absence of any statutory limitation upon the sum which may be received by a bank from any one individual as a savings account the Board has no authority, for the purpose of calculating reserves, to impose any such limitation, but it feels strongly that in the interest of both the member banks and the Federal reserve system the broad provisions of the act in respect to time deposits, savings accounts, and certificates of deposit should not be made the means of any large general reduction of reserves by a transfer to those forms of deposits which are in substance demand deposits; and it is the purpose of the Board to countenance or permit a reduction of reserves to 5 per cent only on deposits which are, in fact as well as in form, entitled to such reduction within the spirit of the act.

Banks carrying savings accounts must record them in separate ledgers which do not contain ordinary checking accounts or other items. Open time accounts and time certificates of deposit should also be carried in separate ledgers, but if carried in the same ledger with current checking accounts they must be grouped together so as to be readily distinguished from the latter.

The Board desires to make it clear that the act requires the full reserve, at the rate prescribed for demand deposits, to be carried against all savings accounts and all time deposits whether on open account or certificate, which are subject to check or which the bank has been notified are to be withdrawn within 30 days.

REGULATION E, SERIES OF 1915.

(Superseding Regulation No. 7 of 1914.)

WASHINGTON, *January 15, 1915.*

TIME DEPOSITS AND SAVINGS ACCOUNTS.

Section 19 of the Federal reserve act provides, in part, as follows:

"Demand deposits, within the meaning of this act, shall comprise all deposits payable within 30 days, and time deposits shall comprise all deposits payable after 30 days and all savings accounts and certificates of deposit which are subject to not less than 30 days' notice before payment."

TIME DEPOSITS, OPEN ACCOUNTS.

The term "time deposits, open accounts" shall be held to include all accounts not evidenced by certificates of deposit or savings pass books, in respect to which a written contract is entered into with the depositor at the time the deposit is made that neither the whole nor any part of such deposit may be withdrawn by check or otherwise

except on a given date or on written notice given by the depositor a certain specified number of days in advance, in no case less than 30 days.

SAVINGS ACCOUNTS.

The term "savings accounts" shall be held to include those accounts of the bank in respect to which, by its printed regulations, *accepted by the depositor at the time the account is opened*—

(a) The pass book, certificate, or other similar form of receipt must be presented to the bank whenever a deposit or withdrawal is made, and

(b) The depositor may at any time be required by the bank to give notice of an intended withdrawal not less than 30 days before a withdrawal is made.

TIME CERTIFICATES OF DEPOSIT.

A "time certificate of deposit" is defined as an instrument evidencing the deposit with a bank, either with or without interest, of a certain sum specified on the face of the certificate, payable in whole or in part to the depositor or on his order—

(a) On a certain date, specified on the certificate, not less than 30 days after the date of the deposit, or

(b) After the lapse of a certain specified time subsequent to the date of the certificate, in no case less than 30 days, or

(c) Upon written notice given a certain specified number of days, not less than 30 days before the date of repayment, and

(d) In all cases only upon presentation of the certificate at each withdrawal for proper indorsement or surrender.

CIRCULAR NO. 7, SERIES OF 1915.

WASHINGTON, *January 26, 1915.*

PURCHASE OF WARRANTS.

In drawing Regulation F (attached), the Federal Reserve Board has been guided by the consideration that it is the primary purpose of the Federal reserve act to provide a banking organization which shall be responsive to the ebb and flow of commerce and trade.

Inasmuch as the funds of Federal reserve banks should be employed primarily in discount operations, purchases of warrants by such banks should be ordinarily limited to a relatively small proportion of their aggregate resources. This practice should be departed from only when general banking policy renders it advisable. In any and all cases the interest of the Federal reserve banks rather than that of the municipalities desiring to sell their obligations should be the primary consideration in making such investments.

In order to keep the assets of the Federal reserve banks in a liquid condition, investments in warrants, when made, should be made by preference in such as can be readily

marketed, so that Federal reserve banks may be able to realize on them whenever it becomes desirable to enlarge their discounts of commercial paper.

In restricting Federal reserve banks to the purchase of such warrants as carry the definite assurance that the taxes and revenues will be actually in hand before maturity, the Board endeavors to follow the policy of the act in restricting Federal reserve banks as far as possible to investments which are of short maturity and self-liquidating.

REGULATION F, SERIES OF 1915.

WASHINGTON, *January 26, 1915.*

PURCHASE OF WARRANTS.

STATUTORY REQUIREMENTS.

Section 14 of the Federal reserve act reads in part as follows:

Every Federal reserve bank shall have power—

(b) To buy and sell, at home or abroad, bonds and notes of the United States, and bills, notes, revenue bonds, and warrants with a maturity from date of purchase of not exceeding six months, issued in anticipation of the collection of taxes or in anticipation of the receipt of assured revenues by any State, county, district, political subdivision, or municipality in the continental United States, including irrigation, drainage, and reclamation districts, such purchases to be made in accordance with rules and regulations prescribed by the Federal Reserve Board.

For brevity's sake, the term "warrant" when used in this regulation shall be construed to mean "bills, notes, revenue bonds, and warrants with a maturity from date of purchase of not exceeding six months," and the term "municipality" shall be construed to mean "State, county, district, political subdivision, or municipality in the continental United States, including irrigation, drainage, and reclamation districts."

REGULATION.

The Federal Reserve Board has determined:

I. A Federal reserve bank may purchase such warrants as are issued by a municipality—

(a) In anticipation of the collection of taxes or in anticipation of the receipt of assured revenues. The taxes or assured revenues against which such warrants have been issued must be due and payable on or before the date of maturity of such warrants. For the purposes of this regulation taxes shall be considered as due and payable on the last day on which they may be paid without penalty;

(b) As the general obligations of the entire municipality, it being intended to exclude as ineligible for purchase all such obligations as are payable from "local benefit" and "special assessment" taxes when the municipality at large is not directly or ultimately liable;

(c) 1. Which has been in existence for a period of 10 years; 2, which for a period of 10 years previous to the purchase has not defaulted, for longer than 15 days, in the payment of any part of either principal or interest of any funded debt authorized to be contracted by it; and 3,

whose net funded indebtedness does not exceed 10 per cent of the valuation of its taxable property, to be ascertained by the last preceding valuation of property for the assessment of taxes.

As a definition of the term "net funded indebtedness" as used in I (c) 3, above, and in further explanation of I (c) 1 and 2, relative to the term of existence of and nondefault by the municipality, the Federal Reserve Board has adopted in substance the definitions and regulations of the board of trustees of the Postal Savings System, which, as printed hereunder as an appendix hereto, are made a part of these regulations.

II. Except with the approval of the Federal Reserve Board, no Federal reserve bank shall purchase and hold an amount in excess of 25 per centum of the total amount of warrants outstanding at any time and issued in conformity with provisions of section 14 (b) above quoted and actually sold by a municipality.

III. Except with the approval of the Federal Reserve Board, the aggregate amount invested by any Federal reserve bank in warrants of all kinds shall not exceed at the time of purchase a sum equal to 10 per centum of the deposits kept by its member banks with such Federal reserve bank.

IV. Except with the approval of the Federal Reserve Board, the maximum amount which may be invested at the time of purchase by any Federal reserve bank in warrants of any single municipality shall be limited to the following percentages of the deposits kept in such Federal reserve bank by its member banks:

Five per centum of such deposits in warrants of a municipality of 50,000 population or over;

Three per centum of such deposits in warrants of a municipality of over 30,000 population but less than 50,000;

One per centum of such deposits in warrants of a municipality of over 10,000 population but less than 30,000.

V. Warrants of a municipality of 10,000 population or less shall be purchased only with the special approval of the Board.

The population of a municipality shall be determined by the last Federal or State census. Where it can not be exactly determined the Board will make special rulings.

VI. Opinion of recognized counsel on municipal issues or of the regularly appointed counsel of the municipality as to the legality of the issue shall be secured and approved in each case by counsel for the Federal reserve bank.

VII. Any Federal reserve bank may purchase from any of its member banks warrants of any municipality, indorsed by such member bank, with waiver of demand, notice, and protest, up to an amount not to exceed 10 per centum of the aggregate capital and surplus of such member bank: *Provided, however,* That such warrants comply with provisions I and III of these regulations, except that where a period of 10 years is mentioned in I (c) hereof a period of five years shall be substituted for the purposes of this clause.

DEFINITION OF "NET FUNDED INDEBTEDNESS."

The term "net funded indebtedness" is hereby defined to mean the legal gross indebtedness of the municipality (including the amount of any school district or other bonds which depend for their redemption upon taxes levied upon property within the municipality) less the aggregate of the following items:

(1) The amount of outstanding bonds or other debt obligations made payable from current revenues;

(2) The amount of outstanding bonds issued for the purpose of providing the inhabitants of a municipality with public utilities, such as waterworks, docks, electric plants, transportation facilities, etc.: *Provided*, That evidence is submitted showing that the income from such utilities is sufficient for maintenance, for payment of interest on such bonds, and for the accumulation of a sinking fund for their redemption;

(3) The amount of outstanding improvement bonds, issued under laws which provide for the levying of special assessments against abutting property in amounts sufficient to insure the payment of interest on the bonds and the redemption thereof: *Provided*, That such bonds are direct obligations of the municipality and included in the gross indebtedness of the municipality;

(4) The total of all sinking funds accumulated for the redemption of the gross indebtedness of the municipality, except sinking funds applicable to bonds just described in (1), (2), and (3) above.

DEFINITION OF "EXISTENCE" AND "NONDEFAULT."

Warrants will be construed to comply with that part of paragraph (c) of this regulation relative to term of existence and nondefault, under the following conditions:

(1) Warrants issued by or in behalf of any municipality which was, subsequent to the issuance of such warrants, consolidated with, or merged into, an existing political division which meets the requirements of these regulations, will be deemed to be the warrants of such political division: *Provided*, That such warrants were assumed by such political division under statutes and appropriate proceedings the effect of which is to make such warrants general obligations of such assuming political division, and payable, either directly or ultimately, without limitation to a special fund, from the proceeds of taxes levied upon all the taxable real and personal property within its territorial limits.

(2) Warrants issued by or in behalf of any municipality which was, subsequent to the issuance of such warrants, wholly succeeded by a newly organized political division whose term of existence, added to that of such original political division, or of any other political division so succeeded, is equal to a period of 10 years, will be deemed to be warrants of such succeeding political division: *Provided*, That during such period none of such political divisions shall have defaulted, for a period exceeding 15 days, in the payment of any part of either principal or

interest of any funded debt authorized to be contracted by it: *And provided further*, That such warrants were assumed by such new political division under statutes and appropriate proceedings the effect of which is to make such warrants general obligations of such assuming political division, and payable, either directly or ultimately, without limitation to a special fund, from the proceeds of taxes levied upon all the taxable real and personal property within its territorial limits.

(3) Warrants issued by or in behalf of any municipality which, prior to such issuance, became the successor of one or more, or was formed by the consolidation or merger of two or more, preexisting political divisions, the term of existence of one or more of which, added to that of such succeeding or consolidated political division, is equal to a period of 10 years, will be deemed to be warrants of a political division which has been in existence for a period of 10 years: *Provided*, That during such period, none of such original, succeeding, or consolidated political divisions shall have defaulted, for a period exceeding 15 days, in the payment of any part of either principal or interest of any funded debt authorized to be contracted by it.

CIRCULAR NO. 8, SERIES 1915.

WASHINGTON, January 27, 1915.

WAIVER OF DEMAND, NOTICE, AND PROTEST.

Section 13 of the Federal reserve act provides in part:

Upon the indorsement of any of its member banks, with a waiver of demand, notice, and protest by such bank, any Federal reserve bank may discount notes, drafts, and bills of exchange arising out of actual commercial transactions.

Attention is called to the fact that the waiver of demand, notice, and protest by the bank procuring the discount does not release the holder of the note or bill discounted from the duty to protest such note or bill in order that those indorsers who have not executed such a waiver may be held liable.

If the holder should fail to protest an indorsed note or bill at maturity, the Federal reserve bank might, in such circumstances, hold the member bank liable on account of the waiver executed, but other indorsers would be legally released.

Federal reserve banks are, therefore, cautioned to take all necessary steps to insure the protest of all maturing notes and bills which are in their possession or have been sent for collection through any correspondent bank wherever such notes or bills contain any indorsements not accompanied by a waiver of demand, notice, and protest. To insure this the bank or agent presenting any note or bill, held by the Federal reserve bank, at the place of payment at maturity should be instructed, if the same is dishonored, to immediately protest such note or bill and to have all necessary notices sent to the indorsers.

CIRCULAR NO. 9, SERIES OF 1915.WASHINGTON, *January 28, 1915.***INCREASE AND DECREASE OF CAPITAL STOCK OF FEDERAL RESERVE BANKS.**

Section 5 of the Federal reserve act provides that—

The capital stock of each Federal reserve bank shall be divided into shares of \$100 each. The outstanding capital stock shall be increased from time to time as member banks increase their capital stock and surplus or as additional banks become members, and may be decreased as member banks reduce their capital stock or surplus or cease to be members. * * * When the capital stock of any Federal reserve bank shall have been increased either on account of the increase of capital stock of member banks or on account of the increase in the number of member banks, the board of directors shall cause to be executed a certificate to the Comptroller of the Currency showing the increase in capital stock, the amount paid in, and by whom paid. When a member bank reduces its capital stock it shall surrender a proportionate amount of its holdings in the capital of said Federal reserve bank, and when a member bank voluntarily liquidates it shall surrender all of its holdings of the capital stock of said Federal reserve bank and be released from its stock subscription not previously called. In either case the shares surrendered shall be canceled and the member bank shall receive in payment therefor, under regulations to be prescribed by the Federal Reserve Board, a sum equal to its cash-paid subscriptions on the shares surrendered and one-half of one per centum a month from the period of the last dividend, not to exceed the book value thereof, less any liability of such member bank to the Federal reserve bank.

Section 6 provides:

If any member bank shall be declared insolvent and a receiver appointed therefor, the stock held by it in said Federal reserve bank shall be canceled, without impairment of its liability, and all cash-paid subscriptions on said stock, with one-half of one per centum per month from the period of last dividend, not to exceed the book value thereof, shall be first applied to all debts of the insolvent member bank to the Federal reserve bank, and the balance, if any, shall be paid to the receiver of the insolvent bank. Whenever the capital stock of a Federal reserve bank is reduced, either on account of a reduction in capital stock of any member bank or of the liquidation or insolvency of such bank, the board of directors shall cause to be executed a certificate to the Comptroller of the Currency showing such reduction of capital stock and the amount repaid to such bank.

Pursuant to these provisions of the statute the accompanying regulations have been adopted by the Federal Reserve Board.

REGULATION G, SERIES OF 1915.WASHINGTON, *January 28, 1915.***INCREASE OF CAPITAL STOCK OF FEDERAL RESERVE BANKS.**

Whenever the capital stock of any Federal reserve bank shall be increased by new banks becoming members, or by the increase of capital or surplus of any member bank and the allotment of additional capital stock to such bank, the board of directors of such Federal reserve bank shall certify such increase to the Comptroller of the Currency on Form 58, attached to and made a part of this regulation.

DECREASE OF CAPITAL STOCK OF FEDERAL RESERVE BANKS.

I. Whenever a member bank reduced its capital stock or surplus, and, in the case of reduction of its capital, such reduction has been approved by the Federal Reserve Board in accordance with the provisions of section 2 of the Federal reserve act, it shall file with the Federal reserve bank of which it is a member an application on Form 60, attached to and made a part of this regulation. When this application has been approved, the Federal reserve bank shall take up and cancel the receipt issued to such bank for cash payments made on its subscription and shall issue in lieu thereof a new receipt after refunding to the member bank the proportionate amount due such bank on account of the subscription canceled. The receipt so issued shall show the date of original issue, so that dividends may be calculated thereon.

II. Whenever a member bank shall be declared insolvent and a receiver appointed by the proper authorities, the Federal reserve bank, upon being satisfied by copy of the commission issued by the Comptroller of the Currency or order of court appointing such receiver, of his right to act as such, shall adjust accounts between such receiver and such Federal reserve bank by applying to the indebtedness due by the failed bank any cash payments made by it on its stock subscription or accrued dividends thereon, and by paying to such receiver any balance that may be due after making such deductions, taking up and canceling the receipts for such cash payments.

III. In case of voluntary liquidation of a member bank, the Federal reserve bank shall require copies of all necessary resolutions of the board of directors and stockholders and such other papers as may be necessary to establish the right of the liquidating agent to receive and receipt for balances due the liquidating bank, and shall adjust with such liquidating bank the accounts between it and the Federal reserve bank by applying the cash-paid subscriptions and accrued dividends to any indebtedness due to said Federal reserve bank, and shall take up and cancel any receipts issued for such payments, paying to the liquidating agent all balance due such bank.

IV. Whenever the stock of a Federal reserve bank shall be reduced in the manner provided in Paragraphs I, II, or III of this regulation the board of directors of such Federal reserve bank shall, in accordance with the provisions of section 6, file with the Comptroller of the Currency a certificate of such reduction on Form 59, hereto attached and made a part of this regulation.

CIRCULAR NO. 10, SERIES OF 1915.WASHINGTON, *February 15, 1915.***NATIONAL BANKS AS EXECUTORS AND TRUSTEES.**

The Federal Reserve Board is empowered by paragraph k of section 11 of the Federal reserve act to grant by special permit to national banks the right to act as trustee, executor, administrator, or registrar of stocks and bonds where the exercise of such powers is not in contravention of

State laws. In the exercise of such power, the Board issues herewith Regulation H covering such special permits.

The Board will from time to time modify and supplement its regulations on this subject as experience may dictate.

REGULATION H, SERIES OF 1915.

WASHINGTON, *February 15, 1915.*

NATIONAL BANKS AS EXECUTORS AND TRUSTEES.

I. *Statutory provisions.*

The Federal reserve act provides:

SEC. 11. The Federal Reserve Board shall be authorized and empowered—

(*k*) To grant by special permit to national banks applying therefor, when not in contravention of State or local law, the right to act as trustee, executor, administrator, or registrar of stocks and bonds, under such rules and regulations as the said Board may prescribe.

II. *Applications.*

1. A national bank desiring to exercise any or all of the privileges authorized by section 11, subsection (*k*), of the Federal reserve act, shall make application to the Federal Reserve Board on a form approved by said Board (Form No. 61). Such application shall be forwarded by the applying bank to the chairman of the board of directors of the Federal reserve bank of its district, and shall thereupon be transmitted to the Federal Reserve Board with his recommendations.

2. There shall be attached to each application a statement of the character and extent of the privileges which the applying bank desires to exercise under the following headings:

- (a) Trustee of personal trusts.
- (b) Trustee of corporate trusts.
- (c) Administrator of personal estates.
- (d) Executor of wills.
- (e) Registrar of stocks.
- (f) Registrar of bonds.

3. Each applicant shall, upon request, furnish copies of the laws of the State in which it is located bearing upon the exercise of such powers in force at the time application is made.

III. *Separate departments.*

Every national bank permitted to act under this section shall establish a separate trust department, and shall place such department under the management of an officer or officers, whose duties shall be prescribed by the board of directors of the bank.

IV. *Provision for keeping trust funds.*

The funds, securities, and investments held in each trust shall be held separate and distinct from the general funds and securities of the bank, and separate and distinct one from another. The ledgers and other books kept for the trust department shall be entirely separate and apart from the other books and records of the bank.

V. *Examinations.*—Examiners appointed by the Comptroller of the Currency or designated by the Federal Reserve Board will hereafter be instructed to make thorough and complete audits of the cash, securities, accounts, and investments of the trust department of every bank at the same time that examination is made of the banking department.

VI. *Conformity with State laws.*—Nothing in these regulations shall be construed to give to a national bank doing business as trustee, executor, administrator, or registrar of stocks and bonds under section 11 (*k*) of the Federal reserve act any rights or privileges in contravention of the laws of the State in which the bank is located.

VII. *Revocation of permits.*—The Federal Reserve Board reserves the right to revoke permits granted under these regulations in any case where in the opinion of the Board a bank has willfully violated the provisions of these regulations or the laws of any State relating to the operations of such bank when acting as trustee, executor, administrator, or registrar of stocks and bonds.

VIII. *Changes in rules.*—These regulations are subject to change by the Federal Reserve Board; provided, however, that no such change shall prejudice obligations undertaken in good faith under regulations in effect at the time the obligation was assumed.

REGULATION I, SERIES OF 1915.

(Superseding Regulation No. 9 of Dec. 31, 1914.)

WASHINGTON, *February 10, 1915.*

LOANS ON FARM LANDS.

Section 24 of the Federal reserve act provides that—

Any national banking association not situated in a central reserve city may make loans secured by improved and unencumbered farm land, situated within its Federal reserve district, but no such loan shall be made for a longer time than five years, nor for an amount exceeding 50 per cent of the actual value of the property offered as security. Any such bank may make such loans in an aggregate sum equal to 25 per cent of its capital and surplus or to one-third of its time deposits, and such banks may continue hereafter as heretofore to receive time deposits and to pay interest on the same.

National banks not located in central reserve cities may, therefore, now legally make loans secured by mortgages on real estate within the following limitations:

1. The real estate security must be farm land.
2. It must be improved.
3. There must be no prior lien; in other words, the lending bank must hold an absolute first mortgage or deed of trust.
4. The property must be located in the same Federal reserve district as the bank making the loan.
5. The amount of the loan must not exceed 50 per cent of the actual value of the property upon which it is secured.
6. The loan must be for a period not longer than five years.

7. The maximum amount of loans which a national bank may make on real estate under the terms of the act shall be limited to an amount not in excess of one-third of its time deposits at the time of the making of the loan and not in excess of one-third of its average time deposits during the preceding calendar year; provided, however, that if one-third of such time deposits as of the date of making the loan, or one-third of the average time deposits for the preceding calendar year, shall have amounted to less than one-fourth of the capital and surplus of the bank as of the date indicated, in such event the bank shall have authority to make loans upon real estate under the terms of the act to the extent of one-fourth of the bank's capital and surplus as of the date of making the loan.

In order that real estate loans held by a bank may be readily classified, a statement signed by the officers making a loan and having knowledge of the facts upon which it is based must be attached to each note secured by a first mortgage on improved farm land, certifying in detail as of the date of the loan that all the requirements of law been duly observed.

The Board calls attention to the closing paragraph of section 24 of the act which provides that—

The Federal Reserve Board shall have power from time to time to add to the list of cities in which national banks shall not be permitted to make loans secured upon real estate in the manner described in this section—

and gives notice that the foregoing regulations are subject to the authority of the Board to revise the list of cities in which national banks shall not be permitted to make real estate loans in the manner above provided.

CIRCULAR NO. 11, SERIES OF 1915.

(Supersedes Circular No. 5 of 1915.)

WASHINGTON, April 2, 1915.

BANKERS' ACCEPTANCES.

An amendment of the Federal reserve act, approved March 3, 1915, made an alteration in paragraphs 3 and 5 of section 13, which are quoted at length in Circular No. 12.

This amendment granting the right to Federal reserve banks to discount acceptances of member banks based upon importation or exportation of goods beyond 50 per cent up to 100 per cent of their unimpaired capital stock and surplus, with the authority of the Federal Reserve Board, has made it necessary to issue a new regulation on the subject of Bankers' Acceptances. The Federal Reserve Board, therefore, issues this circular which is a reprint of and is to supersede Circular No. 5, series of 1915. A new regulation is hereto appended which is to supersede Regulation D, series of 1915, and which contains some alterations that experience has proved desirable.

"Acceptances" are dealt with in the Federal reserve act in two different sections—sections 13 and 14. Section 13 deals with the "acceptance" as one of the forms of paper in the discount of which Federal reserve banks

may engage, restricting the discount of acceptances to such as bear the indorsement of a member bank. Section 14 invests the Federal reserve banks, under regulations to be prepared by the Federal Reserve Board, with power to engage in open-market operations, of which the "banker's acceptance" is one of the most important.

Careful study has led the Federal Reserve Board to the conclusion that, at any rate in the first stages, so far as practicable, priority should be given to operations under section 13. The acceptance is still in its infancy in the field of American banking. How rapid its development will be can not be foretold; but the development itself is certain. Opportunity is given by the Federal reserve act to assist the movement in this new direction; the present regulations are to be regarded as a first step and will be extended as circumstances and a reasonable regard for the other uses and needs of the credit facilities of the Federal reserve system may warrant.

It is believed that it would unduly restrict the development of the acceptance business to keep it altogether confined within the provisions of section 13, which require that acceptances, in order to be eligible for rediscount at a Federal reserve bank, must bear the indorsement of a member bank. Having found it necessary to extend the scope of dealings in acceptances beyond these limits, the board has exercised the authority conferred upon it by section 14, and has formulated regulations covering the purchase of acceptances without invariably requiring the indorsement of a member bank.

The acceptance is the standard form of paper in the world discount market and both on this account and because of its acknowledged liquidity universally commands a preferential rate. By reason of its being readily marketable it is widely regarded as a most desirable paper in the secondary reserves of banks and will help to provide an effective substitute for the "call loan." Its growth, however, will depend upon the ability of the American market to adjust its rates effectively to those prevailing in other markets for paper of this class.

Recognizing these facts, the Federal Reserve Board has determined to allow the Federal reserve banks latitude in fixing rates for acceptances: Federal reserve banks may, from time to time, submit for the approval of the board maximum and minimum rates within which they desire to be authorized to deal in acceptances; within such limits and subject to such modifications as may be imposed by the board, Federal reserve banks will be allowed to establish the rates at which they deal in acceptances.

The board believes it to be in accordance with the spirit of the act to accord preferential treatment to acceptances bearing the indorsement of member banks, offered for rediscount under section 13—even to the point of allowing lower rates for such acceptances, inasmuch as, under the terms of this section, such acceptances are available as collateral against the issue of Federal reserve notes, and the board will sanction a slight preferential in favor of acceptances bearing the indorsement of member banks.

When acceptances bearing the indorsement of member banks are not obtainable in adequate amount or upon satisfactory terms, Federal reserve banks desiring to purchase acceptances should restrict themselves, as far as possible, to such acceptances as bear some other responsible signature (other than that of the drawer and the acceptor), and preferably that of a bank or banker.

REGULATION J, SERIES OF 1915.

(Superseding Regulation D of 1915.)

WASHINGTON, April 2, 1915.

BANKERS' ACCEPTANCES.

I. Definition.

In this regulation the term "acceptance" is defined as a draft or bill of exchange drawn to order, having a definite maturity, and payable in dollars, in the United States, the obligation to pay which has been accepted by an acknowledgment written or stamped and signed across the face of the instrument by the party on whom it is drawn; such agreement to be to the effect that the acceptor will pay at maturity according to the tenor of such draft or bill without qualifying conditions.

II. Statutory requirements under sections 13 and 14.

Section 13 of the Federal reserve act as amended provides that—

(a) Any Federal reserve bank may discount acceptances—

(1) Which are based on the importation or exportation of goods;

(2) Which have a maturity at time of discount of not more than three months; and

(3) Which are indorsed by at least one member bank.

(b) The amount of acceptances so discounted shall at no time exceed one-half the paid-up capital stock and surplus of the bank for which the rediscounts are made, except by authority of the Federal Reserve Board and of such general regulations as said board may prescribe, but not to exceed the capital stock and surplus of such bank.

(c) The aggregate of notes and bills bearing the signature or indorsement of any one person, company, firm, or corporation rediscounted for any one bank shall at no time exceed 10 per centum of the unimpaired capital and surplus of said bank; but this restriction shall not apply to the discount of bills of exchange drawn in good faith against actually existing values.

Section 14 of the Federal reserve act permits Federal reserve banks, under regulations to be prescribed by the Federal Reserve Board, to purchase and sell in the open market bankers' acceptances, with or without the indorsement of a member bank.

III. Ruling.

The Federal Reserve Board, exercising its power of regulation with reference to Paragraph II (b) hereof, rules as follows:

Any Federal reserve bank shall be permitted to discount for any member bank "bankers' acceptances" as herein-after defined up to an amount not to exceed the capital stock and surplus of the bank for which the rediscounts are made.

IV. Eligibility.

The Federal Reserve Board has determined that, until further order, to be eligible for discount under section 13, by Federal reserve banks, at the rates to be established for bankers' acceptances:

(a) Acceptances must comply with the provisions of Paragraph II (a), (b), (c) hereof;

(b) Acceptances must have been made by a member bank, nonmember bank, trust company, or by some private banking firm, person, company, or corporation engaged in the business of accepting or discounting. Such acceptances will hereafter be referred to as "bankers'" acceptances;¹

(c) A banker's acceptance must be drawn by a commercial, industrial, or agricultural concern (that is, some person, firm, company, or corporation) directly connected with the importation or exportation of the goods involved in the transaction in which the acceptance originated, or by a "banker." In the latter case the goods, the importation or exportation of which is to be financed by the acceptance, must be clearly specified in the agreement with or the letter of advice to the acceptor. The bill must not be drawn or renewed after the goods have been surrendered to the purchaser or consignee.

(d) A banker's acceptance must bear on its face or be accompanied by evidence in form satisfactory to a Federal reserve bank that it originated in an actual bona fide sale or consignment involving the importation or exportation of goods. Such evidence may consist of a certificate or accompanying the acceptance to the following effect:

"This acceptance is based upon a transaction involving the importation or exportation of goods. Reference No. _____ Name of acceptor _____."

(e) Banker's acceptances, other than those of member banks, shall be eligible only after the acceptors shall have agreed in writing to furnish to the Federal reserve banks of their respective districts, upon request, information concerning the nature of the transactions against which acceptances (certified or bearing evidence under IV (d) hereof) have been made.

(f) A bill of exchange accepted by a "banker" may be considered as drawn in good faith against "actually existing values," under II (c) hereof, when the acceptor is secured by a lien on or by transfer of title to the goods to be transported; or, in case of release of the goods before payment of the acceptance, by the substitution of other adequate security;

(g) Except in so far as they may be secured by a lien on or by transfer of the title to the goods to be transported, as

¹ Drafts and bills of exchange eligible for rediscount under sec. 13, other than "bankers'" acceptances, have been dealt with by Regulation B, series of 1915.

under (f), the bills of any person, firm, company, or corporation, drawn on and accepted by any private banking firm, person, company, or corporation (other than a bank or trust company) engaged in the business of discounting and accepting, and discounted by a Federal reserve bank, shall at no time exceed in the aggregate a sum equal to 5 per centum of the paid-in capital of such Federal reserve bank;

(h) The aggregate of acceptances of any private banking firm, person, company, or corporation (other than a bank or trust company) engaged in the business of discounting or accepting, discounted or purchased by a Federal reserve bank, shall at no time exceed a sum equal to 25 per centum of the paid-in capital of such Federal reserve bank.

To be eligible for purchase by Federal reserve banks under section 14, bankers' acceptances must comply with all requirements and be subject to all limitations hereinbefore stated, except that they need not be indorsed by a member bank: *Provided, however,* That no Federal reserve bank shall purchase the acceptance of a "banker" other than a member bank which does not bear the indorsement of a member bank, unless a Federal reserve bank has first secured a satisfactory statement of the financial condition of the acceptor in form to be approved by the Federal Reserve Board.

V. Policy as to purchases.

While it would appear impracticable to fix a maximum sum or percentage up to which Federal reserve banks may invest in bankers' acceptances, both under section 13 and section 14, it will be necessary to watch carefully the aggregate amount to be held from time to time. In framing their policy with respect to transactions in acceptances, Federal reserve banks will have to consider not only the local demands to be expected from their own members, but also requirements to be met in other districts. The plan to be followed must in each case adapt itself to the constantly varying needs of the country.

CIRCULAR No. 12, SERIES OF 1915.

WASHINGTON, April 2, 1915.

ACCEPTANCE BY MEMBER BANKS.

By act of Congress approved March 3, 1915, section 13 (pars. 3, 4, and 5 of the Federal reserve act) was amended and reenacted so as to read as follows:

Any Federal reserve bank may discount acceptances which are based on the importation or exportation of goods and which have a maturity at time of discount of not more than three months and indorsed by at least one member bank. The amount of acceptances so discounted shall at no time exceed one-half the paid-up and unimpaired capi-

tal stock and surplus of the bank for which the rediscounts are made, except by authority of the Federal Reserve Board, under such general regulations as said board may prescribe, but not to exceed the capital stock and surplus of such bank.

The aggregate of such notes and bills bearing the signature or indorsement of any one person, company, firm, or corporation rediscounted for any one bank shall at no time exceed ten per centum of the unimpaired capital and surplus of said bank; but this restriction shall not apply to the discount of bills of exchange drawn in good faith against actually existing values.

Any member bank may accept drafts or bills of exchange drawn upon it and growing out of transactions involving the importation or exportation of goods having not more than six months' sight to run; but no bank shall accept such bills to an amount equal at any time in the aggregate to more than one-half of its paid-up and unimpaired capital stock and surplus, except by authority of the Federal Reserve Board, under such general regulations as said board may prescribe, but not to exceed the capital stock and surplus of such bank, and such regulations shall apply to all banks alike, regardless of the amount of capital stock and surplus.

In order to give effect to the above amendment of the law, the Federal Reserve Board issues the appended Regulation K, series of 1915, stating the conditions under which member banks may accept, up to 100 per cent of their capital and surplus, drafts or bills of exchange growing out of transactions involving the importation or exportation of goods and having not more than six months' sight to run.

REGULATION K, SERIES OF 1915.

WASHINGTON, April 2, 1915.

ACCEPTANCE BY MEMBER BANKS.

Any member bank may accept drafts or bills of exchange drawn upon it having not more than six months sight to run and growing out of transactions involving the importation or exportation of goods up to an amount not exceeding the capital and surplus of such bank, provided that—

(1) Every such bank shall possess an unimpaired surplus of not less than 20 per cent of its paid-in capital.

(2) Every such bank shall file formal application with the Federal reserve bank of its district, which shall report to the Federal Reserve Board upon the standing of such applicant, stating also whether the business and banking conditions prevailing in the district warrant the granting of such applications in said district.

(3) Every such application shall first have been approved by the Federal Reserve Board.

Approval of any such application may be rescinded and modifications of this regulation may be made by the Federal Reserve Board upon notice of 90 days to the bank or banks thereby affected.

PRESS STATEMENTS.

It is the practice of the Federal Reserve Board to issue prepared statements to the press when the matters it has to give out are of sufficient importance to warrant such action. Those issued in 1915 are here reproduced.

Mr. W. P. G. Harding, who is the Southern member of the Federal Reserve Board, will make a trip to each of the Southern Federal reserve banks in a short time. This action was authorized by the Federal Reserve Board at its meeting to-day and Mr. Harding will discuss with the officers and directors of the banks at special meetings which he will attend, the question of discount rates and the character of paper eligible for rediscount.

He will also take up questions of policy both general and those peculiar to each district.

A meeting of the central committee of the cotton loan fund was held this afternoon at which it was decided that it was not necessary to consider the extension of the time for receiving applications for loans under the plan. The time for subscriptions to the loan will, therefore on February 1. Applications which are made after that date will not be considered. Those bearing the mailing stamp of February 1 will, however, be received.

Since Mr. Harding is the chairman of the cotton loan committee, he will, while in the South, discuss it and settle details arising in connection with the operation of the plan. Mr. Harding will investigate particularly the cotton market and the probable acreage for the next year's crop, reporting on this matter to the Federal Reserve Board upon his return.

JANUARY 15, 1915.

The Federal Reserve Board at its meeting yesterday authorized lower discount rates in the southern districts. The Aldrich-Vreeland Act as amended expires by limitation on June 30 next, by which date all currency issued under the provisions of that act must be retired. There are still about \$50,000,000 of this additional currency outstanding in the southern

districts, and the Board deems it wise that lower discount rates be established in the South so as to enable the banks of that section, by availing themselves of the rediscount privileges offered by their Federal reserve banks, to retire their additional currency without inconvenience to themselves and without disturbing credit conditions.

There is now a plethora of money in many of the Federal reserve districts, and it seems an inopportune time for most of the Federal reserve banks to try to force their funds into use through discount operations in their own districts. Under the Federal Reserve System it is possible by means of rediscount operations between Federal reserve banks for reserve money to flow from districts where it can not be employed into those where it can be used to advantage. It is therefore practicable for the southern Federal reserve banks to discount for their members as liberally as may be consistent with prudence, as large idle reserves carried in other districts can be employed in rediscounting.

Should conditions arise which would make it undesirable for Federal reserve banks in some districts to avail themselves of the opportunity of investing funds in rediscounts in other districts, or should it be advisable for them to discontinue such operations after engaging in them, the Federal reserve banks in the borrowing districts can still be kept in a comfortable position, as the Secretary of the Treasury has indicated his willingness to cooperate in that case by making deposits.

JANUARY 21, 1915.

The meeting between the governors of the respective Federal reserve banks and the Federal Reserve Board adjourned to-day, after an interesting discussion of many questions involving the operation of the Federal reserve banks, including, among others, settlements between Federal reserve banks, bonding of employees, time deposits, eligible paper, revenue warrants, acceptances, reports of member banks, and clearing of checks.

No decision was reached as to any of these subjects, as the meeting was merely for the purpose of exchanging views upon the questions discussed.

The discussions were very interesting and profitable and much valuable information has been obtained by the Federal Reserve Board, which will be of great assistance in the final determination of these important questions.

JANUARY 21, 1915.

It was announced to-day at the offices of the Federal Reserve Board that the Board had determined to direct the introduction of a voluntary reciprocal plan of immediate clearance at all those Federal reserve banks where a clearing plan is not already in operation, the same to take effect with as little delay as possible. Letters are being sent to all Federal reserve agents and the latter are directed to take the matter up at once with their boards of directors.

The Federal Reserve Board does not prescribe details, inasmuch as it has found in those districts where general clearing is already being practiced that the best results were obtained by leaving the control of such details in the hands of the local authorities. It, however, states that it will approve as a beginning a reciprocal arrangement whereby banks assenting to the plan will be given the privileges of immediate clearance at par upon all other banks similarly assenting.

It is the belief of the Board that within a short time a general clearing arrangement will be in operation in all districts and that this will be gradually extended so as to embrace the bulk of the banks in the system.

The plan does not provide for the settlement of the balances between Federal reserve banks or for the interdistrict clearing of checks. It is an intradistrict clearing plan pure and simple, the interdistrict phases of the problem being reserved for future treatment.

MARCH 4, 1915.

The Federal Reserve Board has adopted the following resolution, which is to be transmitted to all Federal reserve agents:

Whereas the framers of the Federal reserve act had in contemplation the establishment of a coordinated system of banking in the United States under effective governmental supervision; and

Whereas it is the opinion of the Federal Reserve Board that the interests of the Government, the banks and the public will be best served, and the success of the system best assured by a membership which will include as many as possible of the banks made eligible under the terms of the act; and

Whereas in order to equalize the powers of the State and national banks as members of the system, the provisions of the act extend to State banks and trust companies the privilege of membership, when not in contravention of State laws, and empower the Federal Reserve Board to extend the powers of national banks by granting such banks permission to act as trustee, executor, administrator, and registrar of stocks and bonds, when not in contravention of State laws; and

Whereas it appears from an examination and analysis of the laws of the several States that banks created and organized under the laws of certain States can not become members, and the right to exercise the powers of trustee, executor, administrator, etc., can not be extended to national banks in certain States by reason of the laws of such States;

Now, therefore, be it resolved, That the Federal Reserve Board is in entire sympathy and accord with the efforts of those who are advocating legislation designed to remove such restrictions and to make possible the perfection of a system of banking which will uniformly serve the interests of the public in all of the Federal reserve districts.

MARCH 22, 1915.

The Federal Reserve Board has, upon petition of banks in that vicinity, designated the city of Nashville, Tenn., as a reserve city.

The population of Nashville, according to the census of 1910, was 110,364.

The action taken was recommended by the Federal reserve agent at Atlanta, Ga.

The combined deposits of the six national banks in Nashville is stated in the petition as \$20,077,907.

The Board has adopted the following requirements as necessary before consideration will hereafter be given to the designation of any city as a reserve city:

A population of at least 50,000; combined capital and surplus of national banks in the applying city of not less than \$3,000,000, with deposits of not less than \$10,000,000; indorsement of the application by at least 50 national banks located outside of the applying city who will state that they are carrying or intend to carry upon such designation, accounts with a national bank in the applying city. Applications will be referred for report and recommendation to the Federal reserve bank of the district in which the applying city is located, whose chairman shall certify the names of the national banks indorsing the application.

NOTE.—Chattanooga, Tenn., was designated by the Federal Reserve Board as a reserve city on February 26, 1915.

MARCH 22, 1915.

Gov. Charles S. Hamlin, of the Federal Reserve Board, started to-night for California. He will meet Mr. A. C. Miller, member of the Board, in San Francisco. Mr. Hamlin and Mr. Miller will together inspect the Federal reserve bank of San Francisco and on their return trip will visit various other Federal reserve banks. During the absence of Gov. Hamlin, Vice Gov. Delano will be the presiding officer of the Board. A quorum (that is, four members of the Board) will be regularly present. The next meeting of the Board will be held on Monday, March 29.

MARCH 26, 1915.

The Federal Reserve Board to-day issued a comprehensive and absolute denial of current assertions that it had in any way participated or been represented in discussions before any State legislature relative to pending bills authorizing the exercise of the functions of executor, trustee, etc., by national banks. The Board has consistently declined to share in any of the discussions that are in progress on that subject, and it has never been represented by an attorney or other person, directly or indirectly, either at Albany or anywhere else. Sometime ago the Board passed a general reso-

lution intended to express to the public in a general way its attitude on the whole subject, and this resolution has been transmitted to all inquirers and given to the press. There has been no other or further participation on the part of the Board in the discussion of this subject.

APRIL 7, 1915.

The Federal Reserve Board to-day considered the outline of a plan for effecting settlement between Federal reserve banks. Details of the plan have been under discussion with the representatives of the governors of the Federal reserve banks, and general agreement on the main outline has been arrived at. The plan is based upon the idea of a general gold fund at Washington to be created by the Federal reserve banks, title in which shall be transferred by one reserve bank to another, according as it is necessary to settle for transfers of funds between Federal reserve districts. The plan is expected to become effective about the middle of May. Full details will be made known at a later date.

APRIL 7, 1915.

From recent articles and statements it appears that the impression has been received in many quarters that where a national bank is permitted by the Federal Reserve Board to act as trustee, executor, or administrator, the exercise of these powers will result in serious conflict of jurisdiction as between the State courts and authorities and the Federal Government.

It is somewhat difficult to understand upon what theory this assumption is based.

It is assumed both as a matter of law and as a matter of policy that national banks exercising the powers referred to will be subject to the State laws relating to the administration of trust estates just as any other corporation which is permitted by State authority to exercise these powers.

When such estates are administered under the jurisdiction of courts the national bank appointed by the court or named in the instru-

ment creating the trust will, of course, be subject to the orders and rules of such courts and there should not be any conflict of jurisdiction in so far as the administration of such estate is concerned.

It is unfortunate that a mistaken impression of the purpose and effect of this provision of the Federal reserve act should result in creating a seeming issue for which no real basis exists.

APRIL 9, 1915.

At to-day's meeting it was voted as the sense of the Federal Reserve Board that the Board should not postpone action granting to properly qualified banks the power to exercise the functions of executor, trustee, etc., because of any suits that may be filed or in prospect, their results necessarily being uncertain. Action on trustee and executor applications is required by the Federal reserve act, which the Board is charged to carry out.

APRIL 12, 1915.

The Federal Reserve Board has to-day been informed that R. L. Van Zandt, of Dallas, Tex., has been elected governor of the Federal Reserve Bank of Dallas, J. W. Hoopes, vice governor, and Lynn P. Talley, cashier.

Mr. Van Zandt was formerly vice governor and Mr. Hoopes was formerly cashier of the Federal Reserve Bank of Dallas. Mr. Talley is at present cashier of the Lumberman's National Bank of Houston, Tex.

APRIL 12, 1915.

Below are press statements of special interest to banks issued by the Secretary of the Treasury and the Comptroller of the Currency in 1915.

The Secretary of the Treasury announced to-day that in view of the fact that exchange between the United States and the United Kingdom has become practically normal, it is no longer necessary for the two governments

to exercise their good offices in connection therewith, and that any further consideration of the question should be left to the banks and bankers of the respective countries.

JANUARY 7, 1915.

Acting Secretary of the Treasury Newton, and Mr. Hamlin, governor of the Federal Reserve Board, to-day gave out the following interview:

Our attention has been called to the statement contained in a morning paper that the chancellor of the exchequer sent two representatives to Washington to plead for the immediate release of as much gold as could be spared. This statement is not true in fact, nor was it ever authorized or made by any officer or member of the Treasury Department or of the Federal Reserve Board. The purpose of the visit of the representatives above referred to was stated in a public announcement by the Secretary of the Treasury on October 10, as follows:

It is true that Sir George Paish and Mr. Basil Blackett, representing the British Treasury, are coming to America for the purpose of discussing the international exchange and cotton problems. Their visit is the result of informal suggestions made by me through diplomatic channels to the chancellor of the exchequer in London, because it is believed that a discussion of certain phases of these problems on the ground here may be productive of beneficial results. This is simply another one of those instances where the Government is using its good offices in every possible way to help the business situation.

JANUARY 8, 1915.

Secretary McAdoo said:

"In view of the fact that the Aldrich-Vreeland law, as amended by the Federal reserve act, expires on June 30 next, and that 90 per cent of the emergency currency issued under that act has now been redeemed, and that after the 30th of June next further issues of emergency currency under the Aldrich-Vree-

land Act can not be made, the Federal Reserve Board has requested the Secretary of the Treasury to continue the printing of new Federal reserve notes in order that an adequate supply of these notes may be on hand June 30 next, when the Aldrich-Vreeland Act expires, so that they may be at all times available for prompt issue to meet the needs of business throughout the country.

"It will be recalled that for many years the Treasury Department has kept on hand a printed supply of emergency currency, aggregating in amount \$500,000,000."

Secretary McAdoo said it was the "purpose to print and keep on hand approximately \$500,000,000 of Federal reserve notes in lieu of the \$500,000,000 of emergency currency which is to be retired."

FEBRUARY 25, 1915.

It was announced to-day at the office of the Comptroller of the Currency, and confirmed by the Federal Reserve Board, that recently published statements to the effect that the Board has under consideration a plan for guaranteeing bank deposits, or that it has considered the subject, were without foundation. The question of guaranteeing deposits has never been raised before the Board in any way whatever, and the Board has had no official information to the effect that the matter was under consideration by any officer of the Government. There is no plan, so far as can be learned, for bringing the subject before the Board for consideration. The Board learned to-day that some time ago the Attorney General was asked by the Secretary of the Treasury whether a national bank could legally make a contract with a guaranty company whereby such company would insure the full payment of deposits in such bank. This inquiry was not made at the instance of the Board, and there is no reason for expecting any action by the Board as the result of the Attorney General's reply, whatever that may be.

The Comptroller of the Currency added that the newspaper story to the effect that he had

devised a plan for the guaranteeing of bank deposits is without foundation; that, as is well known, some national banks in certain sections for several years past have had their deposits guaranteed by surety companies. Questions having been raised as to the legality of the method now in use, the Comptroller of the Currency presented the matter to the Secretary of the Treasury, with the request that the Attorney General be asked for an opinion, and this opinion of the Attorney General has just been received by the Secretary of the Treasury and in turn delivered to the Comptroller of the Currency in response to his original request.

APRIL 6, 1915.

Branch Banks.

Several cities have considered the advisability of making application for branches of Federal reserve banks and such an application has been received from the city of New Orleans. The city of Cincinnati has given consideration to a similar request.

Applications for the establishment of branches in Rio de Janeiro, Buenos Aires, and Habana, made by the National City Bank of New York, have received approval by the Federal Reserve Board. The application of the Commercial National Bank of Washington, D. C., for permission to establish branches at Panama City and Cristobal have also received favorable action by the Board. On April 17 permission was granted to the National City Bank of New York to establish, at Montevideo, Uruguay, a subagency of the branch already authorized at Buenos Aires. There are no applications for foreign branches now pending.

Arrangements for the Bulletin.

APRIL 19, 1915.

DEAR SIR: I have before me your letter of April 13, stating that the Federal Reserve Board contemplates issuing a bulletin.

In reply thereto, you are advised that in order to insure delivery on the last day of each

month, the following schedule will have to be observed:

Copy should be sent to the Government Printing Office on or before 8 o'clock a. m. on the 23d of the month; galley proof to your office on 24th; galley proof returned to Government Printing Office by 8 a. m. on 26th; page proof to your office on 27th; page proof returned to Government Printing Office by 8 a. m. on 29th; to press room on 30th.

The matter of mailing these documents can be handled in the office of the Superintendent of Documents. It will take about eight hours to prepare and mail the publications after complete delivery is made, provided the envelopes are furnished with list of names in time to have them ready when the publications are delivered to the Superintendent of Documents.

Respectfully,

CORNELIUS FORD,
Public Printer.

TO MR. H. PARKER WILLIS,
*Secretary Federal Reserve Board,
Washington, D. C.*

ACCEPTANCES.

An Act Proposing an amendment to the Federal reserve Act relative to acceptances, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section thirteen, paragraphs three, four, and five, of the Act approved December twenty-third, nineteen hundred and thirteen, known as the Federal reserve Act, be amended and reenacted so as to read as follows:

"Any Federal reserve bank may discount acceptances which are based on the importation or exportation of goods and which have a maturity at time of discount of not more than three months and indorsed by at least one member bank. The amount of acceptances so discounted shall at no time exceed one-half the paid up and unimpaired capital stock and surplus of the bank for which the rediscounts are made, except by authority of the Federal Reserve Board, under such general regulations as said board may prescribe, but not to exceed the capital stock and surplus of such bank.

"The aggregate of such notes and bills bearing the signature or indorsement of any one person, company, firm, or corporation rediscounted for any one bank shall at no time ex-

ceed ten per centum of the unimpaired capital and surplus of said bank; but this restriction shall not apply to the discount of bills of exchange drawn in good faith against actually existing values.

"Any member bank may accept drafts or bills of exchange drawn upon it and growing out of transactions involving the importation or exportation of goods having not more than six months' sight to run; but no bank shall accept such bills to an amount equal at any time in the aggregate to more than one-half of its paid-up and unimpaired capital stock and surplus, except by authority of the Federal Reserve Board, under such general regulations as said board may prescribe, but not to exceed the capital stock and surplus of such bank, and such regulations shall apply to all banks alike regardless of the amount of capital stock and surplus."

Approved, March 3, 1915.

DEVELOPMENT OF THE ACCEPTANCE BUSINESS.

Between the first of August and the middle of November, 1914, some of the State institutions in the New York district, under authority of the recently revised banking law of that State, had begun through acceptances to finance a substantial volume of exports from which the usual European credit facilities had been withdrawn. Since November 16, 1914, several of the national banks in New York and other cities have also accepted bills arising out of exportation and importation, many of which have found their way into the open market, where they have been purchased by various banking institutions, including the Federal Reserve Bank of New York.

In March, at the time of the last available statements, the banking institutions of New York City showed a liability on account of acceptances of about \$77,500,000. The Federal Reserve Bank of New York has been buying acceptances since February 12, when the regulation of the Federal Reserve Board permitting their purchase was promulgated, and on April 26 has in its portfolio \$5,638,000

of accepted bills. The rate at which prime acceptances maturing within 90 days have sold in New York during this period has been from 2 to 2½ per cent, varying in accordance with maturity, supply, and demand. During the latter part of April, the rate has been about 2½ per cent for the longer maturities.

The importance of the development of this banking instrument is now beginning to be generally understood, and inquiries which have been made indicate that additional banks are preparing to offer accepting facilities to their customers. From the point of view of the development of a stable market in New York City for dollar acceptances, this is of importance, for such a market depends primarily upon a large, steady volume and low, steady rates. Several banks and firms dealing in bills have also, largely within the present month, begun to quote forward rates on bills drawn in dollars, so that exporters in distant countries may be able to calculate the comparative negotiable value of sterling and dollar drafts. This is also of fundamental importance in the development of the acceptance business. When the movement of our exports and imports has been sufficiently standardized through bankers' acceptances, so that it may be facilitated as easily in the New York as in the London market, even though the volume in the New York market may be much smaller, we should be enabled readily in future, when we wish to protect our reserves or when they are needed for domestic expansion or seasonal movements of commodities, to deflect the financing of our foreign trade from New York to London by raising New York rates above London rates and making it cheaper for the shipper to draw on London than on New York. Conversely, when we are ready to finance it again we should be able, in normal times, to recover the business from London by reducing our rates below those of London. At other times, of course, London may take the initiative in readjusting the rates for one or another of these purposes, just as

its rates have been raised substantially during the past 30 days as a protection to its reserves.

Acceptances, by classes, held by the Federal reserve banks each week.

[In thousands of dollars.]

Date.	Member banks' acceptances.	Nonmember banks' acceptances.		Private bankers.	Total.
		Trust companies.	State banks.		
1915.					
Mar. 31.....	\$3,075	\$7,734	\$10	\$87	\$10,906
Apr. 5.....	3,653	7,820	10	110	11,593
Apr. 12.....	4,304	8,960	10	110	13,284
Apr. 19.....	4,382	9,299	10	110	13,801
Apr. 26.....	4,593	8,848	10	110	13,561

NOTE.—Of the totals shown April 26, acceptances amounting to \$571,980 bore the endorsement of member banks. Of the total just stated \$522,766 is represented by member banks' acceptances, and \$49,214 by trust companies' acceptances.

Acceptances held by Federal reserve banks on Apr. 19 and Apr. 26, 1915.

[In thousands of dollars.]

	Apr. 19.	Apr. 26.
(A) MEMBER BANKS' ACCEPTANCES.		
American Exchange National Bank, New York City.....	\$415	\$415
Bank of New York, National Banking Association, New York City.....	574	625
Continental & Commercial National Bank, Chicago, Ill.....		3
First National Bank of Boston, Boston, Mass.....	1,476	1,595
First National Bank of Chicago, Ill.....		4
Irving National Bank, New York City.....	5	5
Market & Fulton National Bank, New York City.....	3	3
Merchants National Bank, New York City.....	50	50
National Bank of Commerce, New York City.....	13	13
National City Bank of New York, New York City.....	1,358	1,381
Philadelphia National Bank, Philadelphia, Pa.....	488	499
Total amount of member banks' acceptances.....	4,382	4,593
(B) NONMEMBER BANKS' ACCEPTANCES.		
(1) Trust companies.		
Bankers Trust Co., New York City.....	2,002	1,385
Guaranty Trust Co., New York City.....	7,247	7,413
Old Colony Trust Co., Boston, Mass.....	50	50
	9,299	8,848
(2) State banks.		
Bank of America, New York City.....	10	10
(C) PRIVATE BANKS.		
Goldman, Sachs & Co., New York City.....	110	110
Grand total.....	13,801	13,561

Distribution of acceptances held by Federal Reserve Banks on Apr. 19, 1915, by classes of acceptors and sizes.

Class of acceptors.	To \$5,000.		Over \$5,000 to \$10,000.		Over \$10,000 to \$25,000.		Over \$25,000 to \$50,000.		Over \$50,000 to \$100,000.		Over \$100,000.		Total.		Per cent of total.
	Number of pieces.	Amount.	Number of pieces.	Amount.	Number of pieces.	Amount.	Number of pieces.	Amount.	Number of pieces.	Amount.	Number of pieces.	Amount.	Number of pieces.	Amount.	
Member banks	32	\$127,152	49	\$367,505	114	\$1,901,535	30	\$1,020,573	8	\$693,088	2	\$272,000	235	\$4,381,853	31.75
Trust companies	63	223,410	111	777,489	153	2,802,399	89	3,374,393	20	1,424,629	4	697,065	440	9,299,385	67.38
State banks					1	10,046							1	10,046	.07
Private banks			2	20,000	6	89,896							8	109,896	.80
Grand total	95	350,562	162	1,164,994	274	4,803,876	119	4,394,966	28	2,117,717	6	969,065	684	13,801,180	100.00
Per cent of total		2.54		8.44		34.80		31.85		15.35		7.02			100.00

Amounts of acceptances held by the several Federal reserve banks at close of business on Fridays in April, 1915, distributed by maturities.

[In thousands of dollars.]

	Boston.	New York.	Phila- delphia.	Cleve- land.	Rich- mond.	Atlanta.	Chicago.	St. Louis.	Minne- apolis.	Kansas City.	Dallas.	San Fran- cisco.	Total.
Acceptances maturing within 30 days:													
Apr. 2	\$85	\$535	\$151	\$74			\$168	\$67	\$43	\$41		\$61	\$1,225
Apr. 9	163	1,136	345	632			281	41	84	41		61	2,784
Apr. 16	280	2,112	581	837			593	41	184	41		213	4,882
Apr. 23	409	3,071	754	968			879		264				
Acceptances maturing after 30 days but within 60 days:													
Apr. 2	541	3,351	771	981			968		265			152	7,029
Apr. 9	493	3,057	798	455			865	25	238	23		443	6,397
Apr. 16	725	2,922	617	304			700	25	167	57		492	6,009
Apr. 23	563	1,868	357	149			470	25	77	57			
Acceptances maturing after 60 days but within 90 days:													
Apr. 2	792	1,288	330	122			379	40	29	41		211	3,232
Apr. 9	974	1,310	135	115			394	40	56	60		684	3,768
Apr. 16	806	845	125	116			347	100	77	76		533	3,025
Apr. 23	887	759	174	116			256	100	87	259			
Total:													
Apr. 2	1,418	5,174	1,252	1,177			1,515	107	337	82		424	11,486
Apr. 9	1,630	5,503	1,278	1,202			1,540	106	378	124		1,188	12,949
Apr. 16	1,811	5,879	1,323	1,257			1,640	166	428	174		1,238	13,916
Apr. 23	1,859	5,698	1,285	1,233			1,605	125	428	316			

GENERAL BUSINESS CONDITIONS AND POSITION OF FEDERAL RESERVE BANKS.

General business conditions are described in reports made by Federal reserve agents for the 12 Federal reserve districts.

Below are given in detail digests of conditions in the various districts substantially as reported by Federal reserve agents.

District No. 1—Boston.

Business directly affected by the European war is in much better condition than trade not so benefited. Commercial paper in the hands of brokers is scanty and the demand for money in the larger centers is light. General conditions show slight improvement.

Cotton mills are running under improved conditions although an unsettled cotton market and light demand for goods has heretofore operated to the disadvantage of the mills. Dry goods houses are placing small orders. Mills with foreign orders are running full time and have been able to take advantage of the low prices of cotton, but generally have not been large purchasers. Fall River mills are running at their full capacity and making a fair profit. Scarcity of dyes is causing some uneasiness.

Boot and shoe manufacturing is below normal except where influenced by war orders. Most of the leather concerns have been doing an excellent foreign business.

Foreign orders have kept wool dealers and woolen mills active. Worsted mills appear to feel the unsatisfactory condition of the market and up to the middle of February were doing hardly a fair amount of business. There has since been improvement in this and other classes of goods.

District No. 2—New York.

Conditions in New York show general improvement. In New York City there is a change for the better and optimism as to the outlook. The real estate situation has been distinctly bad. Leases are being made at greatly reduced rates. Confidence in the gen-

eral business outlook is, however, returning. Statements made by representatives of a number of important industries indicate, in the main, improvement and optimism. Commodity prices, especially those for dry goods and textiles, have quite generally advanced since the first of the month as a reflection of better demand.

The most noteworthy occurrence in the New York district during the month of April has been the development of a strong and active market for securities on the New York Stock Exchange. The number of shares dealt in from April 1 to 26, inclusive, is 17,543,201, as compared with an aggregate of 17,333,471 during the three months of January, February, and March. The market received an impetus during the early part of the month by rapid advances in the securities of a number of special industries which it was believed would benefit largely from orders for war material from belligerent nations.

The rise in the market has been accompanied by moderate sales of securities for foreign account, but the freedom in dealings between the New York and London stock markets has been somewhat impeded by the continuance of the rule of the New York Stock Exchange restricting the normal arbitrage transactions. A notable feature of the business transacted during the past month has been the dealing in odd lots, the volume of which is stated by some of the specialists as having been unprecedented. It is difficult to trace the course of security transactions in a volume of deposits and loans so large as that which makes up the aggregate footings of the New York banks; yet the fact that in spite of the active market the loans of the New York Clearing House banks have increased only \$1,047,000 thus far during April, that call rates show practically no change for the month, and that large New York banks report but a small volume of loans made for out-of-town correspondents tends to lend confirmation to the views expressed by reliable brokers that a considerable volume of securities has been purchased for cash.

Bonds have also shown a firmer tendency for the month, with dealers reporting a good demand for the seasoned issues.

The weekly reports issued by the New York Clearing House Association indicate that from November 14, 1914, the eve of the inauguration of the Federal Reserve System, to April 24, 1915, the deposits of its members have increased \$503,000,000, while their loans have increased \$261,000,000. The surplus reserves, which were \$7,000,000 on November 14, 1914, and a week later, owing to the reduction in required reserves which became effective at the inauguration of the Federal Reserve System, were \$137,000,000, had increased on April 24 to \$168,000,000, an actual gain of \$31,000,000 since the Federal Reserve System began operations. Of the foregoing increases during April deposits gained \$32,000,000 and surplus reserves gained \$23,000,000.

On November 21, 1914, the end of the first week of operations of the Federal Reserve Bank of New York, its stock of gold was \$85,000,000; on April 26, 1915, its gold, held either in vault or on deposit with the Federal Reserve agent, is \$121,000,000, an increase of \$36,000,000.

Call money has ruled from 2 to 2½ per cent throughout the month. Time loans on stock exchange collateral have hardened about ¼ of 1 per cent during the month and are now from 2½ to 3 per cent for short maturities and 3½ to 4¼ per cent for long maturities.

Commercial paper has remained practically steady throughout the month; 3¼ per cent has been the rate for a few of the best names, but the general rate has been 3½ to 4 per cent. During the middle of the month, with the hardening of the London discount market, a firmer tendency exhibited itself in the rates for commercial paper, but with the falling back in the London rate and the increase in the surplus reserves of the New York Clearing House banks during the last fortnight the firmer tendency has disappeared. The important commercial paper brokers in this city report that the volume placed through them is distinctly lower than a year ago, and also lower than at the first of this January.

District No. 3—Philadelphia.

Information received from all parts of the district indicates that business conditions are below normal. There has been some improvement in the last few months, but the volume of business is generally less than it was one year ago.

The war has kept back foreign textiles, and the manufacture of cotton goods, in some lines, such as knit underwear, and in dress goods, is fairly satisfactory. A scarcity of dyestuffs is interfering with production, especially of hosiery. The manufacture of carpets and blankets is slack. There has been some advance in cotton yarns.

The wool market is quiet, and prices are declining. Orders for foreign Governments have kept some mills active, but these have been largely completed, and manufacturers see little business in the near future. Domestic business has been poor. On men's wear mills have been run about 50 per cent of their capacity, but on women's wear production has been much larger.

The anthracite coal business has improved, and mines are working to their full capacity. The output in the various iron and steel industries has, lately, somewhat increased, and operation is now proceeding at about 65 per cent of capacity. Some concerns are working at their full capacity in the manufacture of ammunition and war supplies. Shipyards are very busy. Sole leather and heavy upper leather have advanced in price on account of war orders. Light upper leather business has been below normal, on account of the falling off in the shoe trade throughout the country. The lumber business is improving, due to apparent increased activity in building operations. The paint business is good. The cement business is below normal. Collections are reported fair.

Recent large orders from the railroads for new equipment and supplies may be taken as evidence of improving conditions.

District No. 4—Cleveland.

Business conditions have improved materially in district No. 4, in comparison with the

opening of the year, or even with six weeks ago. The metal industry has been stimulated by foreign orders.

Manufacturers of clothing report business gradually increasing in goods of medium grades. The coal trade is still unsatisfactory, due to labor, legislative, and trade conditions. Much lake coal was carried over through the winter on the docks, and shipping will begin much later this year. The competitive period in prices which existed during the price cutting of February has now been terminated, and it is predicted that trade will fully recover in the autumn. Money is easy throughout the district, in large as well as smaller centers. Rates are stationary at $3\frac{1}{4}$ to 5 per cent on six months' commercial paper. Funds for investment are plentiful and permanent financing by corporations and municipalities is in progress. Weather conditions are favorable and the agricultural outlook is good.

District No. 5—Richmond.

In this district conditions are improving and give promise of continued betterment. Progress is still retarded by the conditions arising out of the war in Europe, but it is believed that a quick readjustment will follow a termination of the conflict.

There is a decided improvement in cotton prices and confidence as to the future. Cotton milling is considered prosperous particularly with those mills which purchased the raw material at its lower prices. The shortage of dye-stuffs is causing some uneasiness.

District No. 6—Atlanta.

While the commercial and industrial affairs of the sixth Federal reserve district do not show remarkable improvement, there is an increased activity of sound and conservative nature in all lines. Especially is this true in commercial enterprises, as shown by the increase in receipts of railroads, hotels, and the postal department, due largely, no doubt, to the advance in the price of cotton and to the growth of confidence among the business and financial element.

The industrial and manufacturing interests of the district are again on a normal basis. The holding back of the cotton crop and the marketing of it in the spring instead of in the fall, produced rigid economy. Now that cotton is going to market, conditions are improving in all lines of trade. The result of such rigid economy and the necessity for diversification of crops promise good results to agricultural interests.

The bank statements as of March 4 showed a marked improvement over previous statements, and the indications point to an easy money market through the summer.

District No. 7—Chicago.

Business conditions in the seventh reserve district generally show improvement. Outside of those lines which have profited by war orders, the improvement is noticeable although not very pronounced, and there is a general increase in confidence that more normal conditions will return. Seasonable weather, which has prevailed throughout the whole district is having its effect on production and distribution.

The increase in bank deposits in the reserve cities, particularly Chicago, and the fact that rates on commercial paper are low (around $3\frac{1}{2}$ per cent) and the supply small, while not indicative of business improvement, are nevertheless a favorable factor and will be helpful toward increased activity. Ease of money conditions is further indicated by the very slight offerings of rediscounts at this Federal reserve bank.

Advices indicate an increase in winter wheat acreage and satisfactory weather and crop conditions. Improvement is also noted in those portions of the district that have been adversely affected by the cattle quarantine.

The extensive strikes and lockouts in the building trades at Chicago recently inaugurated have had a depressing effect, and if continued much longer will offset the general business improvement at Chicago. The indications, however, favor arbitration and a speedy ending of the trouble.

District No. 8—St. Louis.

Demand for general merchandise has improved, and while below normal, generally speaking, sales and collections for the first quarter of the year will show an improvement over the closing quarter and compare favorably with the first quarter of the past year.

Some portions of the section have suffered from successive droughts, and Kentucky reports that while a good deal of its tobacco is sold it is not delivered, and, consequently, the sellers have not as yet collected the money due them.

The underlying condition of business in Missouri outside of St. Louis is sound, with prospects of good crops and reason to believe that conditions will continue to show improvement. Conditions are also better in Arkansas, but no decided improvement is anticipated until fall, it being largely dependent upon whether cotton and lumber sell at a fair profit. The Arkansas banks, especially the small ones, show a loss in deposits as compared with last year. Conditions continue to improve in Illinois, and there is buying of horses and cattle. The same is true of Indiana, and if crops turn out well, as there is reason to anticipate, marked changes for the better will be shown. Manufacturing and jobbing in Kentucky is not yet up to normal, but the tendency is good. Crops promise well, and this is expected to put Kentucky into good business condition. The situation in Mississippi is not unlike that in Arkansas, and if crops turn out successfully a ready recuperation from last year's losses is anticipated. The present is, however, a time of economy and inactivity. Collections are reported good.

Business conditions in Tennessee are gradually improving and prospects are good.

Commercial paper rates in St. Louis are from $3\frac{1}{2}$ to 4 per cent, but in the other States of the district they are from 6 to 8 per cent.

District No. 9—Minneapolis.

Speaking in a broad general way, business conditions are good. While the crop outlook is excellent there has been a slowing down in

sympathy with conditions elsewhere, and the result of influences growing out of the European war. Banks are generally in excellent condition and interest rates moderate. The outlook favors improvement in all lines of business that are below normal and in those dependent upon agriculture. This is reflected in activity of retail trade. Wheat acreage is the largest the States in this district have ever seen and there is a corresponding increase in the other cereal crops. The tendency is toward conservatism.

In northern Michigan conditions are improved throughout the iron mining counties and copper district. Copper mines are working full time and some of the mining companies have advanced wages, while others have increased their forces and intend to make wage advances in the near future.

In Wisconsin general conditions are very good. Manufacturing business in central Wisconsin is below normal. Furniture plants are on short time and some may close. Leather business is estimated as about 50 per cent less than normal, except at those establishments which produce heavy leather for which there is active demand for export. Lumber business is about one-half of normal, although local business is fairly good. A reliable estimate places the general situation of central Wisconsin manufacturing industries at an average of about 25 per cent below normal with prospect of improvement. Conditions in the paper trade are unsatisfactory.

Conditions in the northern iron ranges of Minnesota show depression, with little indication of return to normal. The jobbing and distributing trade at important centers is reported good and the outlook for spring and summer is regarded good.

Demand for money in North Dakota is increasing. War conditions have increased the crop acreage and more land is being plowed than experienced observers have ever known. Local trade is good and collections very fair. South Dakota reports are generally hopeful. Prospecting and developing in the Black Hills is active and encouraging. The crop acreage

in Montana is largely increased and the outlook excellent. Sheep raising districts have been benefited by the high price of wool. There is optimism in the cattle country.

St. Paul and Minneapolis merchants are enjoying a fair business and conditions are sound, although there is no unusual activity. Spring building operations are holding up well as compared with a year ago.

District No. 10—Kansas City.

Agricultural and horticultural conditions throughout this district are almost perfect, with every promise of abundant crops. The supply of loanable funds far exceeds the demand in practically all sections, with the result that most banks are not finding as much paper as they could use. Large borrowers, especially stockmen, knowing the easy money conditions, are demanding lower rates, and are quite likely to reap the benefit of lower rates this spring than they have had for many years. It is however expected that during the next few months loans will materially increase.

District No. 11—Dallas.

There has been a steady and conservative increase for the retail trade in the larger cities of this district, and the feeling throughout the entire business, agricultural, and live-stock section is as a whole encouraging. Cotton and cottonseed products show an increased demand and sales at satisfactory prices.

Emergency currency will probably all be retired before May. Crop preparations are well advanced under favorable conditions and an

excellent season is anticipated. The acreage for small grain and forage crops has increased. Reports from cattle and live-stock interests show conditions satisfactory and the ranges in good condition.

Banks in agricultural and live-stock districts report improvement in their business, with money easy in the larger city banks at normal rates.

There are some new enterprises under way, and construction work indicates some increased activity in that direction.

District No. 12—San Francisco.

Agricultural prospects in general throughout the twelfth district are exceptionally good. Fine cattle, sheep, and grain have been yielding extraordinary returns. The new grain acreage is much increased and satisfactory moisture gives an assurance of enlarged crops. While the lumber industry is depressed, evidences are increasing which indicate that the tide has turned. The petroleum industry has also been depressed, but the other mining has already shown improvement. Business in mercantile lines is satisfactory. Active country banks are well loaned up, and city banks have considerable surplus of loanable funds which will soon be fully employed in crop moving, which begins very early in this section.

The relation between business conditions and the operations of Federal reserve banks is seen in the statements for the Federal reserve banks, a digest of which follows:

Resources and liabilities of each of the 12 Federal reserve banks and of the Federal reserve system at close of business on Fridays in April, 1915.

[In thousands of dollars.]

RESOURCES.

	Boston.	New York.	Phila- delphia.	Cleve- land.	Rich- mond.	At- lanta.	Chicago.	St. Louis.	Minne- apolis.	Kansas City.	Dallas.	San Fran- cisco.	Total for system.
Gold coin and certificates:													
Apr. 2.....	\$15,080	\$94,634	\$13,723	\$16,227	\$8,767	\$4,984	\$34,635	\$10,124	\$8,030	\$10,888	\$7,631	\$14,453	\$239,176
Apr. 9.....	15,252	95,378	14,353	16,210	8,809	4,887	34,298	10,124	8,040	10,433	7,708	14,048	239,540
Apr. 16.....	15,643	94,307	14,365	16,038	8,530	4,902	33,672	10,148	8,040	10,439	7,761	13,361	237,206
Apr. 23.....	15,695	95,113	14,941	16,000	8,377	4,904	34,105	10,194	8,057	10,479	7,799	13,046	238,710
Legal tender notes, silver certificates, and subsidi- ary coin:													
Apr. 2.....	1,551	16,329	3,496	669	42	1,005	304	964	5	563	677	22	25,627
Apr. 9.....	1,183	20,778	3,678	706	29	962	333	1,086	5	563	687	8	30,018
Apr. 16.....	1,525	18,669	4,063	751	29	782	1,140	1,154	6	539	695	7	29,360
Apr. 23.....	1,399	17,324	4,472	725	49	485	2,331	1,176	6	514	698	5	29,184
Bills discounted and loans:													
Apr. 2.....	1,558	5,499	2,288	2,010	6,667	5,538	2,489	769	732	569	3,792	1,767	33,673
Apr. 9.....	1,791	5,842	2,250	1,997	6,810	5,407	2,379	685	781	693	4,106	2,510	35,251
Apr. 16.....	2,109	6,211	2,140	1,888	6,846	5,025	2,464	738	828	766	4,357	2,543	35,915
Apr. 23.....	2,175	6,044	1,967	1,989	6,947	5,153	2,483	708	812	989	4,675	2,536	36,478
Investments:													
Apr. 2.....	1,123	7,444	2,027	1,364	3		6,025	877	1,405	985		1,046	22,299
Apr. 9.....	1,323	7,544	2,002	1,399	1		6,025	877	1,490	995		1,095	22,751
Apr. 16.....	1,323	7,754	2,067	1,441	1		6,150	923	1,514	1,003		1,118	23,303
Apr. 23.....	1,654	7,885	2,167	1,904	1		6,378	923	1,514	1,020		1,182	24,628
Due from other Federal reserve banks—net:													
Apr. 2.....	375	9,427	1,734	332			2,157	4,223					10,289
Apr. 9.....	1,115	4,817	1,095	245			2,792	2,900					5,659
Apr. 16.....		7,264	891	346		28	1,684	1,959					5,315
Apr. 23.....		11,417	651	450		489		2,739					8,254
All other resources:													
Apr. 2.....	398	2,574	117	403	28	244	2,629	519	501	142	308	742	8,605
Apr. 9.....	371	991	198	373	18	317	2,655	621	349	412	470	727	7,482
Apr. 16.....	466	2,448	597	450	21	192	2,528	1,272	299	444	661	702	10,080
Apr. 23.....	366	2,171	424	354	25	117	2,546	1,565	205	346	617	701	9,437
Total resources:													
Apr. 2.....	20,085	135,907	23,385	21,005	15,507	11,771	48,239	17,476	10,673	13,147	12,408	18,030	339,674
Apr. 9.....	21,035	135,350	23,576	20,930	15,667	11,573	48,462	16,353	10,665	13,096	12,971	18,388	340,701
Apr. 16.....	21,066	136,653	24,123	20,914	15,427	10,929	47,647	16,194	10,687	13,191	13,474	17,731	341,179
Apr. 23.....	21,284	139,954	24,622	21,422	15,399	11,148	47,843	17,305	10,594	13,348	13,789	17,470	346,691

LIABILITIES.

Reserve deposits:													
Apr. 2.....	\$16,868	\$129,267	\$19,229	\$16,996	\$7,984	\$5,799	\$43,834	\$15,615	\$8,834	\$9,943	\$6,929	\$12,656	\$293,954
Apr. 9.....	17,818	128,683	19,418	16,922	7,849	5,561	44,054	14,492	8,983	10,352	7,153	12,757	294,042
Apr. 16.....	17,532	129,967	19,965	16,905	7,831	5,520	43,237	14,324	8,840	10,168	6,980	12,885	294,154
Apr. 23.....	17,599	131,458	20,464	17,259	8,094	5,789	43,093	15,411	8,763	9,649	6,981	12,650	297,210
Due to other Federal reserve banks—net:													
Apr. 2.....					1,213	432			205	1,208	2,132	2,769	
Apr. 9.....					920	472			47	880	2,021	3,025	
Apr. 16.....	316				501				211	1,157	2,434	2,238	
Apr. 23.....	452				142		188		129	1,747	2,624	2,210	
Federal reserve notes in circulation—net lia- bility:													
Apr. 2.....					4,099	3,954				133	1,411		9,597
Apr. 9.....					4,650	3,940					1,859		10,449
Apr. 16.....					4,840	3,807					2,120		10,767
Apr. 23.....					4,883	3,751				46	2,209		10,889
Capital paid in:													
Apr. 2.....	3,217	6,640	4,156	4,009	2,211	1,586	4,405	1,861	1,634	1,863	1,936	2,605	36,123
Apr. 9.....	3,217	6,667	4,158	4,008	2,217	1,586	4,408	1,861	1,635	1,864	1,938	2,606	36,165
Apr. 16.....	3,218	6,686	4,158	4,009	2,219	1,587	4,410	1,870	1,636	1,866	1,940	2,608	36,207
Apr. 23.....													
All other liabilities:													
Apr. 2.....													
Apr. 9.....					31	14							45
Apr. 16.....					36	15							51
Apr. 23.....		1,804			41	20							1,865
Total liabilities:													
Apr. 2.....	20,085	135,907	23,385	21,005	15,507	11,771	48,239	17,476	10,673	13,147	12,408	18,030	339,674
Apr. 9.....	21,035	135,350	23,576	20,930	15,667	11,573	48,462	16,353	10,665	13,096	12,971	18,388	340,701
Apr. 16.....	21,066	136,653	24,123	20,914	15,427	10,929	47,647	16,194	10,687	13,191	13,474	17,731	341,179
Apr. 23.....	21,289	139,954	24,622	21,422	15,399	11,148	47,843	17,305	10,594	13,348	13,789	17,470	346,691

Principal items of resources and liabilities of national banks, as shown by returns for March 4, 1915, compared with like returns for December 31, 1914, and March 4, 1914.

Items.	Returns for Mar. 4, 1915.	Compared with Dec. 31, 1914.		Compared with Mar. 4, 1914.	
		Increase.	Decrease.	Increase.	Decrease.
Loans and discounts.....	\$6,499,964,605	\$152,328,094		\$142,428,706	
Overdrafts.....	7,046,534		\$8,751,690		\$14,289,094
United States bonds.....	781,193,910		13,885,021		12,991,831
Due from Federal reserve bank.....	290,678,432	29,218,657			
Due from other banks.....	1,345,973,690	186,984,111		10,445,185	
Federal reserve notes.....	3,698,200	1,684,515			
Specie.....	591,852,399	56,995,286			200,841,695
Legal-tender notes.....	127,091,112		1,279,862		48,281,909
Capital stock.....	1,066,589,307	637,802		10,107,187	
Surplus and profits.....	1,012,990,212	4,129,789		9,013,781	
National bank notes in circulation.....	746,517,138		102,289,634		25,876,804
Due to banks.....	2,243,744,736	373,973,083			228,696,678
Time deposits.....	1,199,188,335	27,966,117		640,036,462	
Demand deposits.....	5,149,701,825	2,438,207			492,425,831
Rediscounts.....	38,534,087	2,947,223		29,761,553	
Bills payable.....	57,126,299		39,729,193		11,753,564
Total resources.....	11,566,846,004	209,759,987		2,348,744	
Number of banks reporting.....	7,599	18		106	

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