

Confidential
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REPORT
TO THE
Reserve Bank Organization
Committee
BY THE
Preliminary Committee on
Organization

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25

The Reserve Bank Organization Committee, Washington, D. C.

New YORK, June 1.

GENTLEMEN:

The undersigned, after careful investigation, beg leave to submit the following report upon the nature and treatment of the various problems arising in connection with the organization of the new banking system provided for under the Federal Reserve Act of December 23, 1913, the same being in accordance with the instructions conveyed by you through the Comptroller of the Currency, Hon. John Skelton Williams.

In preparing the report herewith transmitted, special assignments for individual study and inquiry were from time to time made, the effort being to secure the best work that could be done by each member of the group engaged upon this investigation. Co-operation between these individuals has, however, been obtained throughout, and every portion of the work, when completed has been submitted to and revised by each of those whose names are hereto appended. At meetings held for that purpose, there has been general discussion of the methods to be pursued and of the conclusions properly to be reached in each of the several divisions of the report. The document is, therefore, presented as the joint opinion of those whose signatures are appended to it, and has the approval of each and all of them.

In addition to the work thus done, some material has been obtained from outside sources, under careful supervision and direction. The portions of the material thus derived are indicated in the document itself, and their authorship is duly stated.

Special acknowledgment is made to Mr. Max May, of the Guaranty Trust Co. of New York City, for advice and suggestions from the beginning of the work; as well as to Mr. Ralph Van Vechten, of the Continental and Commercial National Bank of Chicago, for recommendations on certain special topics; and to Messrs. Harry E. Ward and C. C. Robinson of the Irving National Bank of New York City for important work on the accounting sections of this report. Thanks are likewise generally expressed to other bankers and experts for courtesies and aid at various points in the course of the inquiry.

Thus prepared and submitted, the recommendations of the report are offered as embodying a general scheme of organization for the new system which it is believed will result in carrying out the spirit and purposes of the Federal Reserve Act.

SCOPE OF REPORT.

Before proceeding to detailed discussion, it is deemed well to enumerate the various specific items of investigation suggested by

a careful analytical survey of the Federal Reserve Act. This outline survey may be presented as follows:

- (1) DISTRICT MAP.
- (2) FORM OF DESIGNATION OF CITIES AND DISTRICTS.
- (3) SUBSCRIPTION BLANKS.
- (4) SHAREHOLDERS' RECORDS (AMOUNT SUBSCRIBED and AMOUNT PAID IN).
- (5) RULES and REGULATIONS GOVERNING the TRANSFER of STOCK.
- (6) BY-LAWS (FEDERAL RESERVE BOARD—FEDERAL RESERVE BANK).
- (7) BY-LAWS (BRANCHES).
- (8) RULES and REGULATIONS for BRANCHES.
- (9) CERTIFICATE SHOWING DISTRICT LIMITS.
- (10) APPLICATION BLANK FOR MEMBER BANKS.
- (11) CERTIFICATE OF ORGANIZATION.
- (12) AUTHORIZATION OF COMPTROLLER OF CURRENCY TO OPEN RESERVE BANK.
- (13) CERTIFICATE OF ELECTION OF "ELECTOR."
- (14) LISTS OF ELECTORS.
- (15) NOMINATING BALLOTS—RULES AND REGULATIONS.
- (16) LISTS OF NOMINEES (WITH COLUMNS FOR 1, 2, 3, 4, 5, CHOICES).
- (17) BOOKS FOR FEDERAL RESERVE AGENT.
- (18) SCHEDULE FOR COMPENSATION—ALL CLASSES.
- (19) CLASSIFIED LIST OF FEDERAL RESERVE BANK DIRECTORS (WITH THEIR TERMS).
- (20) CERTIFICATE OF COMPTROLLER OF CURRENCY SHOWING REDUCTION OF CAPITAL.
- (21) DIVIDEND RECORD (SHOWING SEGREGATION OF EARNINGS AFTER DIVIDEND PAYMENTS) and DISPOSITION of SURPLUS.
- (22) ARTICLES OF ASSOCIATION. Organization Certificate.
- (23) CERTIFICATE OF COMPTROLLER TO CONVERTED BANKS.
- (24) RULES and REGULATIONS re SUBSCRIPTIONS of STATE INSTITUTIONS.
- (25) BY-LAWS (governing conduct in acting upon applications of State Banks, Banking Associations and Trust Companies).
- (26) OATH OF OFFICE—MEMBERS FEDERAL RESERVE BOARD.
- (27) STATEMENT OF LEVY FOR EXPENSES.
- (28) GENERAL ANALYSIS OF ANNUAL OPERATIONS AS BASIS FOR REPORTS. Dependent upon Plan for Statistical Department.
- (29) PLAN OF ORGANIZATION FOR FEDERAL RESERVE BOARD.
- (30) PLAN FOR EXAMINATION OF FEDERAL RESERVE BANKS. Regulations Regarding Statements and Re-

- ports. Weekly Statement of Condition of Federal Reserve Banks. Consolidated Statements.
- (31) RULES and REGULATIONS re ISSUE AND RETIREMENT OF FEDERAL RESERVE NOTES and DELIVERY to and CUSTODY by FEDERAL RESERVE AGENT.
 - (32) CONTROL OF BONDS OF FEDERAL RESERVE AGENTS.
 - (33) REGULATIONS FOR INTERNAL MANAGEMENT OF BANK'S BUSINESS.
 - (34) REGULATIONS GOVERNING FEDERAL ADVISORY COUNCIL.
 - (35) GENERAL BANKING PLAN including Certificate of Organization, Minutes, By-laws, Stockholders' Records, Statements and Reports, General Ledger, Record of Rates—in classes (s. d. Sec 14), Tellers, Credit Department, Collection Department, Issue Department, Loans and Discounts (Schedule of Maturities) Investments—Data (Schedule of Maturities Supporting Business, (Kind), Bookkeeping, Audit, Open Market Record, Statistics, Reserve.....Continuing Record of Elements of—With Percentage, Vault Control, Foreign and Domestic Exchange, Circulation, Record of Note Series and Collateral, Record of Notes of Other Banks, Continuing Record of Deposits with U. S. Treasury (16), Continuing Record of U. S. Bond Accounts.
 - (36) REGULATIONS GOVERNING PURCHASES.
 - (37) FORM OF NOTE, Determination of Letter and Serial NUMBER.
 - (38) REGULATIONS GOVERNING TRANSFER OF FUNDS AND CHARGES.
 - (39) GENERAL CLEARING PLAN.
 - (40) APPLICATIONS and REGULATIONS GOVERNING ESTABLISHMENT OF FOREIGN BRANCHES.

Some of the foregoing items—for example, numbers 2, 9, 11, 13, and others in the above list—will best be studied in the office of the Comptroller of the Currency, because of their predominantly legal or administrative nature. Those which are considered germane to the present inquiry have been dealt with in this report.

It has been deemed wise in preparing this report for transmission to divide it into two distinct parts as follows:

Part I. Dealing with the work of the reserve bank organization committee and the process of organizing the new banking system up to the time that the Federal reserve bank directors are named and the Federal Reserve Board appointed.

Part II. Dealing with the subsequent organization and operation of the new system, the relations between the Federal Reserve Board and the several banks, and the inner workings of the banks themselves.

Part I.

The first part of the discussion thus outlined may itself be divided into two portions as follows:

1. A discussion of the process of districting the country for the establishment of reserve banks.
2. A discussion of the process of providing for the election of directors of the several reserve banks, the payment of subscriptions to stock, and the general conditions under which banks may be admitted into the system.

I.—DISTRICTING THE COUNTRY.

We may first deal with the question of districting the country for the establishment of the new banks. In this discussion careful examination has been made of the hearings before the Reserve Bank Organization Committee during its tour of the country and of many of the briefs filed with it by the respective places that were candidates for designation as reserve bank cities.

CLASSES OF EVIDENCE.

Available data relating to districting may be generally divided into the following classes:

- (a) That relating to the importance, capital, business, and future prospects of the various places represented.
- (b) That relating to the clearings and financial transactions of the various places, and their relation to other cities with reference to banking accounts and reserves carried in other banks.
- (c) That relating to the habits and customs of the surrounding communities in regard to applications for loans and in regard to the distribution of their business between different cities under the present banking system.
- (d) That relating to railway facilities, times of communication, and delivery of mail.
- (e) That relating to the capitalization of the banks of the section, state and national, the amount of their deposits and of their reserves.

CHARACTER AND VOLUME OF LOCAL BUSINESS.

Relatively little attention need be paid to the evidence with regard to the character and volume of local business, or with reference to the rapid development of such trade and industry in the past or its probable future. Under the existing banking system competition and the general course of trade have mapped out distinct channels within which funds are transferred, and have determined the distribution of banking capital upon known lines. There is nothing in the new act to alter this distribution certainly for the present, and there is no reason to believe that the main features of business, its distribution, and its character will be materially altered in the near future. They will continue about the same under the proposed system as they are to-day. The chief difference that will be gradually developed

will be found in the fact that those who have prime commercial paper to dispose of will be able to market it in local reserve centres instead of relying upon distant financial centres. But inasmuch as the capital and reserves of the new banks are to be determined as a percentage of existing bank capital, the reserve banks represent a function, to speak mathematically, of existing banks. They cannot do more for the given section in which they are situated than their capital, contributed by existing banks, will allow. A certain limitation may of course be placed upon this statement in that some stock may be sold to the public at the discretion of the Organization Committee. This, however, will be a limited, and doubtless, exceptional, resource, and the consequence must be that in order to enlarge the resources of a reserve bank it would be necessary to develop those of existing member banks. This will be done as the wealth of the various centers develops. There is, therefore, no direct or immediate relationship between the proposed reserve bank and the business concerns of a given district which is not expressed in the capitalization of the banks of that district.

QUESTION OF CLEARINGS.

In like manner, it may be said that the question of clearings is not one that is vitally essential to the locating of the new banks. Much of the testimony adduced has to do with the relative amount of clearings at given places. On the other hand, it has been frequently pointed out by witnesses that large volumes of trade are not expressed in clearings. The reason why the clearings need not be primarily considered as throwing light upon the suitability of a given point as the location of a reserve bank is found in the facts that, (a) under the existing system of banking the clearings are affected by many extraneous features which will disappear under the new system; (b) the precise amount of the clearings varies as between different cities and will always do so, according to the number and character of the banks and the nature of their relations with one another and with outside banks. Clearings are never a very good index of business either as to volume, nature, or strain on the financial resources of the places where they are effected. There is little need, therefore, to examine figures of clearings in seeking to place the new reserve banks. In all probability, even the most conscientious study of clearings would be found to be useless, owing to the complete alteration which will be effected so soon as the new system has been successfully put into operation and has had time to produce its results in changing the direction of remittances and in altering modes of payment.

CAPITALIZATION.

Again, the bare facts as to the capitalization of the banks and trust companies of a given city or region are of only secondary importance in determining the location of reserve banks. The law specifies that no reserve bank shall be created with a smaller

capitalization than \$4,000,000 and it is, therefore, necessary to obtain in every district an aggregate of banking capital which shall bear the proper relation to this minimum amount on the 6 per cent. basis indicated in the law. For reasons which will be later stated, it is not believed that anything is gained by attempting to take in an unduly large amount of banking capital in any given district. Assuming these premises,—one based on legislative provisions, the other upon general reasoning—the question how great or how effective is the capitalization of existing banking facilities in any particular place is not fundamentally important. The district reserve bank, if operated upon public-spirited lines, will be managed in such a way as to serve in an equitable manner the various needs of the district, and will be managed by directors who presumably represent the whole district, just as the reserve bank system will presumably be operated in the interests of the country as a whole and without effort to serve the interests of one particular section or group of persons. It may be said, therefore, that since the capitalization of the whole district will be available in its due proportion for the uses of the district in all of its varied parts, the development of a portion of this capitalization at a given point has no fundamental bearing upon the placing of the reserve bank at that point. Still less is this true in view of the provisions for the creation of branch banks.

RAILWAY FACILITIES.

A very different point of view must be taken with respect to the question of railway facilities. The Federal reserve bank of a district must be located *somewhere*, and the assumption naturally is that it will be located in the place which is most accessible and from which it can best serve the community. Other things being equal, a large city is favored because it is likely to contain a correspondingly large proportion of the heavy borrowers of a community and to bring them consequently close to the reserve bank where their habits and methods can be easily inspected. It remains true, moreover, that the larger places are usually those where the railway facilities are the best.

The Federal reserve bank is furthermore, called upon to perform the service of clearing for its members, and in order to effect this object successfully it must be within as quick and easy reach of the member banks as practicable. This is fundamentally important in getting the clearing system into effective operation, and it is believed that this clearing system will be found to be one of the most significant features of the new law. Moreover, easy communication for the purpose of prompt transmission of funds, the shipment of currency in time of necessity with as little delay as possible and the prompt receipt of deposits, as well as the affording of immediate means of communication with other Federal reserve banks, all dictate the selection of places for the head offices of such banks that are best equipped

with means of communication and are able most speedily to receive from and send to their member banks such funds, checks, drafts and the like as may be required by the course of business. The testimony affords considerable valuable information on this point.

HABITS OF BORROWING.

It will be worth while to devote attention to the data that have been developed with respect to the borrowing habits of the community inasmuch as these habits undoubtedly will tend to persist and it is not desirable to break them except where necessary. For example, if it is shown that a large section of the surrounding country is in the habit of dealing with point A and of discounting its paper in the banks of A, that is a consideration in favor of recognizing A as the center of the reserve district which is to include A and the territory adjacent. It is also an argument to be considered in that it indicates that A is already a financial center for that territory with well developed lines of credit outstanding. At the same time, it should be remembered that under the new act there is nothing whatever to prevent individuals from borrowing outside of their own districts or to prevent member banks from rediscounting paper with other banks in other districts or from selling or buying in the open market. They will be able to continue their present practices in that regard. Further, the existing banking system has in some cases tended to centralize funds under an artificial method, and so to build up balances in certain points in a way that they would not naturally have developed. It is, therefore, not absolutely essential, or always possible, in laying out the districts, to pay heed to the existing practices on the part of given banks in borrowing through or from the banks of a specified city. In some cases, it may be necessary to place such borrowing banks or individuals in a district which will center at a point not heretofore regarded as the financial metropolis of the region. It may be generally said that the borrowing habits of the community should be regarded as fully as possible, in all cases where such regard does not run counter to other more forcible or controlling considerations. The testimony throws much valuable light upon these borrowing habits, and is of material assistance in determining the limits to be assigned certain districts.

QUESTION OF A LARGE BANK OR BANKS.

Inspection of the records and testimony filed at the various hearings of the organization committee shows that in several places local bankers advocated the establishment of a very large bank. This was not in all cases because of the desire for an extremely high capitalization, but was in not a few, the outgrowth of a feeling that the city where the bank was to be located was entitled to a certain territory which was regarded as naturally dependent upon or ancillary to it. Thus pleas were made for a bank with a very large capital or a large territory, or both, at

New York City, Chicago and St. Louis. At other places requests for large territories were filed, but in many such cases the requests were due to the converse consideration,—the necessity of including a sufficiently large territory to supply the banking capital requisite upon the percentage basis prescribed by the act, to furnish the necessary reserve bank capitalization. Some analysis may now properly be made of the two points of view thus offered.

Those who demanded the organization of a large bank on the ground that such a bank was necessary in order to supply the necessities of the borrowing community dependent upon such bank were manifestly in error, inasmuch as they assumed that the bank in question was to be primarily dependent upon its capitalization for the means of supporting its discounts. Such is far from being the case. The act itself prescribes that the banks shall be provided shortly after their organization, not only with paid in capital, but also with very large sums in deposited reserves representing the reserve funds of member banks. These both can and should be (as they were intended to be) available for use as reserve bank loaning resources. In addition the government deposits to be made with the banks will furnish further means of supporting credits. The capital will be simply an extra or added strength to the banks. If it be contended that the bank of any given district is not large enough to meet the needs of the community the criticism really amounts to a statement that the amount of the reserves required to be deposited is not sufficient. This difficulty, if it existed, could be overcome by the banks which are jointly stockholders in the reserve bank, by simply depositing more of their funds with the reserve institution. If necessary, it will have to be corrected by enforcing a requirement that a larger percentage of reserves shall be deposited with the reserve banks. Merely to extend the area included within the territory belonging to a reserve bank would not help, because such extension would simply enlarge the area without enlarging the proportion of the capitalization of the bank to that of the member banks. In other words, as fast as the area increased and the capitalization with it, just so fast would the amount of demand or strain likely to be brought to bear upon the reserve bank be increased or extended. This means that no purpose whatever in the direction of strengthening the reserve banks is attained by enlarging the area over which they preside, assuming that a sufficient area has been included to give them a reasonable degree of capitalization at the start.

Secondly, the statement that a very large capitalization is necessary in order to inspire respect either abroad or elsewhere ignores not only the fact that the real strength of the banks lies in their holdings of reserve funds as just set forth, but also ignores the fact that the reserve system will undoubtedly be viewed as a unit by foreign countries as well as by domestic interests. There is, therefore, no argument whatever on the side of those

who demand that an exceptionally large banking capital shall be assigned to some one or more of the new institutions. The contentions put forward in this connection fail to recognize the united character of the system and the fact that in case of necessity the reserve board has power to require any one of the reserve banks to come to the aid of any one or more of the others.

AVERAGE CAPITALIZATION.

An estimate of the probable capitalization of the Federal banks as a whole, assuming that only the national banks enter the system at the start and that practically all of them do so, or (what comes to the same thing), that enough state banks enter to make up for any withdrawals of national banks, would give a total capitalization of about \$107,000,000. The Federal Reserve Act prescribes that the number of banks to be established shall be not less than eight or more than twelve. This means that the average capitalization of the reserve banks shall be not more than one-eighth of \$107,000,000, or \$13,350,000, and not less than one-twelfth of \$107,000,000, or \$9,000,000, in round numbers. There is nothing in the act to indicate a desire or intent on the part of its framers that none of the banks should be materially larger than the others, but on the contrary the act has specifically left a large latitude to those engaged in laying out the country into districts in order that they may exercise their best judgment in apportioning the banking capital among such districts. It is, however, obviously true that since the act requires that no reserve bank shall have a smaller capital than \$4,000,000, and since the whole tenor of the law and of the debate on it was against the creation of one overshadowing institution, the framers of the act did intend that there should be no marked or extreme disparity between the capitalization of the several banks. Inasmuch as the minimum capitalization and the number of banks is fixed, it is evident that if eight institutions were to be established on the basis already indicated, the maximum size which could be given to any one of them and yet comply with the law would be \$79,000,000, while if twelve institutions were to be established the maximum size thus assignable would be \$63,000,000. To these limits the organizers of the act could go without violating the letter of the law. Such a variation in size of the banks would, however, be a manifest violation of its spirit. The same is true of the proposal to establish three or four very large banks made by the bankers at the hearings. This latter plan in turn repeats the proposal which was urged during the debates on the bill that there should be not to exceed four reserve institutions. That plan was an alternative to the plan of a single central institution and was rejected in the same way as the central plan. If the recommendations of the bankers of New York, Chicago, and St. Louis were to be accepted, the country would be practically divided up between these centers except in so far as a fringe had to be left to comply

with the requirements of the law. Worked out in practice and harmonized with one another to some extent, the suggestions of the bankers in these three cities would lead to the establishment of eight banks of which three should be very large and five small. If the five were kept down to the minimum capitalization of \$4,000,000, there would be left \$87,000,000 for division between the three centers, or an average of \$29,000,000 as the capitalization basis for the reserve bank in each place. It is not believed that this would be a compliance with the law or that the bankers in those places submitted any evidence showing that such a capitalization should be assigned.

Assuming this reasoning to be accepted, a first approximation towards a plan for laying out the proposed districts can be arrived at as follows:

The largest of the reserve banks to be located at the principal financial centers of the country should have a capitalization whose minimum limits should be in the neighborhood of \$9,000,000, or less, and whose maximum limit should certainly not exceed \$28,000,000, and should preferably be very much smaller than that amount,—as much smaller as the convenience and customary course of business will permit.

FUNDAMENTAL PRINCIPLES.

The fundamental principles of a positive nature upon which the process of districting should be carried out may now be laid down.

(a) The act calls for not less than eight or more than twelve districts; it leaves the choice of the number within these limits entirely open and to be decided without prejudice.

(b) The plain intent of the framers of the act was to establish a number of different and independent institutions, each sufficiently strong to care for itself without the necessity in normal times of depending upon any other.

(c) The institutions to be created should, therefore, be reasonably similar to one another in size, without attempting to bring about any artificial similarity, and should be located at such points as will most nearly convenience the business of the country.

(d) The creation of any one large bank should be avoided, meaning by large bank, a bank so preponderating in importance as to make it ipso facto the most conspicuous and by far the strongest element in the system; while at the same time it should be sought to avoid the creation of two distinct classes of banks, one consisting of large, powerful institutions, the other consisting of smaller and weaker institutions likely to become dependent upon the neighboring and stronger banks.

(e) While the law requires that a minimum capital of \$4,000,000 shall be present in each and every reserve district and while this requirement must be observed, there is no harm in approaching closely to it or even in going below this limit so far

as the banks are concerned, making up the deficiency by private or Government subscription, if it be true that within a reasonably near future the district will probably advance in wealth and capital so as to make the establishment of such a bank desirable.

(f) Special study should be given both in establishing the districts and in establishing the point in each district where the headquarters bank is to be situated, to the facilities and speed of transportation both between such point and those at which other headquarters banks are located, and between such headquarters point and the outlying portions of the district itself.

GENERAL PROBLEM OF DISTRICTING.

A general survey of the country for the purpose of districting clearly shows that several distinct problems are offered in connection with the division of the country under the Federal Reserve Act. These problems present distinct phases and vary from region to region. While it will not be possible in making assignments to proceed in a consecutive way, geographically speaking, in the division of the country, it will be well to let the work proceed so far as practicable and convenient by grand divisions or regions, recognizing the distinct character of the soil, industry, distribution of population, and transportation systems of the several portions of the Continent.

A limitation to be imposed upon this general principle of procedure as well as a consideration which will aid in developing the different districts is found in the fact that to a certain extent the sites of reserve banks must be regarded as practically predetermined, as in the case of New York, Chicago, and St. Louis, the present central reserve cities. Wherever that is true, for the reasons already generally set forth in the foregoing analysis, it is possible to assign certain territory as definitely belonging to the banks to be placed in the cities aforesaid. Thereby certain definite limitations necessarily to be observed in connection with the subsequent outlining of the districts are laid down.

DIRECTION OF BUSINESS.

In the division to be mapped out effort must be made to recognize the fact that business at the present time has a northern and easterly trend. In most cases the headquarters of given districts will be so located as to recognize this fact and to give the fullest possible scope to existing habits and methods, doing as little violence as possible to prevailing customs and wherever practicable adopting existing banking relationships as the basis for the new organization, particularly in its clearing phases. At the same time there should be no hesitation in making changes wherever it is believed that the existing banking practice is purely artificial and where, therefore, a change will increase convenience instead of diminishing it. Wherever such a change becomes necessary the effort should be to lay out the boundaries of the district in such a manner that both from the transportation

standpoint, as well as from the point of view of business and manufacturing growth the new banking center will develop in harmony with the general commercial interests of the district where it is situated.

QUESTION OF RESERVE HOLDINGS.

Before effecting the districting as a finality it would be well to ascertain with accuracy the reserve affiliations of each and every bank in the system by obtaining from them the facts in the case as already suggested in a memorandum filed with the Organization Committee on January 8, 1914. If each bank has been asked to indicate its choice of a district or city with which to be associated these data should be considered in conjunction with the figures for reserves.

It should be understood, however, that the data, whatever they may be on this subject will not affect in any very general manner the outlines of the districts. On the contrary, those general outlines must be determined by broader considerations and it may be true in many cases that there would be reasons for assigning a bank to a given district notwithstanding that its affiliations would place it elsewhere if nothing else were considered. The single fact that, as is well known, and as the reports of the Comptroller show, a large number of banks have their reserve agents in New York, Chicago or St. Louis rather than in a reserve city near home is due to an artificial condition which has existed heretofore and is not a circumstance to which any particular weight should be assigned in making up the districts under the new system. In a less degree and with very much greater limitation, the same may be said of the facts as to reserve holdings in the smaller reserve cities.

Something needs to be said concerning the general assignment of banks to districts in different parts of the country. A survey will indicate that there must be assigned to the northern and eastern part of the country an apparently disproportionately large number of districts. In the effort to alter this plan of districting in such a way as to give to the "south" or to the "west" a larger number of districts on the ground that there should be a certain sectional equality of distribution, the difficulty of irregular distribution of population and capital will inevitably be encountered. Only two remedies could be applied in connection therewith; (a) the placing of the headquarters of given districts in that part of the country which was supposed to have been slighted—in those districts where the territory included is so great as to occupy parts of two general sections of the country, or (b) to readjust the districts themselves so as to divide up great regions in a different way and make given parts of the country independent or self controlling. Some have suggested that the districts on the Atlantic Coast be elongated while compensating capital is obtained by carrying the extreme southern states such as Mississippi, Alabama and Georgia into a district which should be

allowed to run high up the Mississippi River along the eastern bank of that stream, extending over the southern part of what we have called the Great Lakes district. While this plan might be feasible, it is not believed that it would be desirable. The effect of it would be to establish too great a north and south extent of territory. The same objection would hold good of any district embracing the far southern states with the southern portion of the middle west. Moreover the districts thus created would be decidedly inferior in transportation as well as in quick clearing capacity to those which have been tentatively suggested above. It would seem that there is but one argument seriously to be considered in favor of such a plan—namely the view that any district established should, if possible, contain a variety of different interests which will make seasonal demands for loans at different times. This is the argument for so-called “shoe string” districts that has been put forward from time to time, or as others have expressed it, it is a demand for the inclusion of a lending and a borrowing area within each district.

QUESTION OF LENDING AND BORROWING AREAS.

As regards this argument, it should be noted that even if it be allowed full scope the idea is one which cannot be fully worked out throughout the whole process of districting. The New York and Chicago districts for example will almost necessarily be debarred from making use of it, while the same is true of sundry of the other districts in greater or less degree. This would not be a good argument against employing the plan so far as practicable if it should be entitled to serious theoretical considerations. The question must be considered, therefore, how far such serious theoretical consideration may be granted to it. Under existing conditions the idea is one which undoubtedly should have large weight, inasmuch as to-day the banks of the country are habitually compelled to shift currency back and forth, relying upon one another for seasonal aid through the redistribution of their fluid resources. If conditions were to be the same under the new system as at present it would be necessary to provide for this state of things. However, the very essence of the new plan is intended to meet the condition which in the past has caused chief trouble by eliminating this necessity of interdependence between districts. The Federal Reserve Act will presumably afford a means of making each district self-supporting in a credit way so that assuming the plan to work as it is expected to work the need for mutual seasonal aid and shipments of currency will be minimized.

CHOICE OF CHIEF CITIES.

In choosing the chief city of each district—that is to say the city in which the headquarters bank is to be located—two main considerations are to be borne in mind:

- (a) Existing banking relationships and associations.

(b) Geographical and transportation considerations, governing the relative ease of access of different parts of the district.

In some cases it will be found that these two sets of considerations cannot be harmonized; in others that a city can be selected that will satisfy both.

Wherever possible the preference should be given to a city which has acquired a distinct leadership in the matter of business and with which the banks within the district are in the habit of dealing. Where the choice between two cities would otherwise be difficult to make on account of practical equality in the extent and importance of their commercial relationships, the city to be chosen should be that which has the advantage in ease of communication. This is fundamentally desirable because of the necessities of the clearing process and the advantage to be gained from having all parts of the district within easy reach of headquarters.

LOCATION OF BRANCHES.

The problem of branches is likely to be decidedly serious from the very beginning. It will be found upon a close examination of the subject that the establishment of branches will be practically out of the question so far as any useful purpose is concerned, unless a distinct territory is assigned to each branch. This involves the question whether a district shall be broken up among a number of branches with the headquarters bank simply presiding over the series, or whether a district will be assigned to the headquarters bank just as it is assigned to each branch. In either case the problem of subdistricting each district is raised. Some of the testimony already available, obtained during the hearings before the reserve bank Organization Committee has a valuable bearing upon this subject. At some points it would require to be eked out with other information. There is however, no purpose to be served in attempting a very careful process of subdistricting until the districts themselves have been organized so that what is said in this discussion has been confined entirely to the districts themselves without effort at the detailed study of the subdistrict question.

One further point should be carefully noted in this connection. There are two ways in which the branches may be established. They may be created either (a) as mere local boards of directors charged with the duty of passing upon paper and perhaps carrying on a clearing process for the subdistrict, but without any stock of cash, without a banking house and without the power to make loans directly, merely transmitting the approved paper to the headquarters bank; or (b) as full-fledged branch banking institutions with a banking house and fixtures, a stock of coin, and a full staff of employees. Care and judgment should be exercised even in establishing branches on the first named basis and they should not be created unless they are actually needed for immediate purposes. Even in the latter event, there

should be no undue haste in creating them, but the headquarters banks should be allowed to get a satisfactory start before the complicating elements involved in branch organization are allowed to enter into the problem. There will, however, be no harm in announcing at the time of the districting the probable names of cities regarded as suitable sites for branch banks, leaving the decision to be revised later if necessary, and permitting the question of branch organization to remain in the background until such time as the actual establishment of the branches is resolved upon, when the type of such organization to be adopted may be indicated.*

SELECTION OF DIRECTORS.

The choice of directors for the new banks is provided for in Section 4 of the Federal Reserve Act. This section contains much matter relating to the qualifications of directors, methods of removal, and other topics not germane to the present discussion. These phases of the matter are therefore properly omitted from the present treatment. The portion of Section 4 which is considered to be significant in the present connection is as follows:

At a regularly called meeting of the board of directors of each member bank in the district it shall elect by ballot a district reserve elector and shall certify his name to the chairman of the board of directors of the Federal reserve bank of the district. The chairman shall make lists of the district reserve electors thus named by banks in each of the aforesaid three groups and shall transmit one list to each elector in each group.

Each member bank shall be permitted to nominate to the chairman one candidate for director of class A, and one candidate for director of class B. The candidates so nominated shall be listed by the chairman, indicating by whom nominated, and a copy of said list shall, within fifteen days after its completion, be furnished by the chairman to each elector.

Every elector shall, within fifteen days after the receipt of the said list, certify to the chairman his first, second, and other choices of a director of class A and class B, respectively, upon a preferential ballot, on a form furnished by the chairman of the board of directors of the Federal reserve bank of the district. Each

*The foregoing section of this report, accompanied by a detailed statistical and geographical analysis indicating the sites for Reserve Banks and the limits of the districts pertaining thereto, upon a basis of eight, of nine, of ten, of eleven, and of twelve institutions, was submitted to the Organization Committee early in March, 1914. The Committee having since that date established the districts and indicated the headquarters of the banks, the detailed analyses are here omitted.

elector shall make a cross opposite the name of the first, second, and other choices for a director of class A and for a director of class B, but shall not vote more than one choice for any one candidate.

Any candidate having a majority of all votes cast in the column of first choice shall be declared elected. If no candidate have a majority of all the votes in the first column, then there shall be added together the votes cast by the electors for such candidates in the second column and the votes cast for the several candidates in the first column. If any candidate then have a majority of the electors voting, by adding together the first and second choices, he shall be declared elected. If no candidate have a majority of electors voting when the first and second choices shall have been added, then the votes cast in the third column for other choices shall be added together in like manner, and the candidate then having the highest number of votes shall be declared elected. An immediate report of election shall be declared.

The prescriptions of this language unmistakably call for the selection of two and only two directors, one a banker and one a business man, in each of the three banking groups; ballots to be cast upon a basis of preferential voting which shall result in the designation of different individuals as first, second, and third choice for each place and upon each ballot. This being considered so clear as to be open to no debate it has been deemed best therefore to present merely a form of ballot designed to comply with the terms of the act in regard to the choice of directors. In order fully to carry out the provisions of the law with respect to the election of directors there have been drafted a series of forms for use in balloting for such directors under the terms of the legislation. These forms have been shaped with a view to fulfilling the requirements of the act in general, and particularly of the sections already quoted with respect to the methods of indicating choices of directors. The forms suggested will be found in the accompanying collection of draft forms herewith presented as an accompaniment to Appendix I.

Upon the election of the directors, unless the work has been undertaken prior to that time in accordance with the authority bestowed by the act upon the Organization Committee to exercise the functions of the chairman of the board of directors, the payment of the specified subscriptions to stock will be in order, such payments to be made in accordance with the provisions of the act contained in section whereby the dates for the transmission of each instalment of the stock payments is provided for. A form of stock subscription ledger for the recording of such payments has been prepared. The chief points in connection with it are seen in the necessity of providing for the specified percentages of payment, the

change in the amount due from any bank as a result of changes in its capital or surplus or both, and the possibility that two classes of stock, the one issuable to member banks only, and in that event non-transferable, the other issuable to individuals and assignable and transferable, may be provided for either at the beginning or at some time in the future. A separate stock subscription ledger is provided for use in the case of individual subscriptions, if any, while the ledger intended for the use of individual banks is ruled to permit of additions to or deductions from stock subscriptions resulting from changes in the capital of the several banks necessitating corresponding changes in the amount of the subscription to be exacted of them. The forms presented herewith in the collection accompanying Appendix I for use in the recording of stock subscriptions are, beyond the few points already noted, self-explanatory.

There have also been prepared forms for use in receipting for stock subscriptions. Two such forms are presented, the one intended to be a continuous record which would be transmitted by the bank making the subscription to the body receiving the same, the amount thereof to be recorded upon the form and the latter returned to the subscribing bank in the case of each instalment, while the second form is scrip intended for use in place of the continuous record already referred to, should that method of receipting be preferred. In case the scrip type receipt should be used, a separate and independent receipt would be transmitted for each instalment. It is believed that the scrip receipt will probably be preferable to the continuous record, owing to its greater convenience.

Part II.

In dealing with the general question of the organization of the reserve system after the necessary structure has been set up by the appointment of the boards of directors of the Federal reserve banks and by the appointment of the Federal Reserve Board itself, it is deemed best to recognize several distinct elements as follows:

1. The organization and management of a typical Federal reserve bank whose operations are supposed to be representative of and practically uniform with those of every other.
2. The organization of the office of the Federal reserve agent stationed at each reserve bank, and the duties of such agent.
3. The organization of the Federal Reserve Board.
4. The conduct of business of Federal reserve banks.
5. The relations between Federal reserve banks themselves and between each Federal reserve bank and its member banks.
6. The relations between the Federal reserve system and outside banks.
7. The establishment of branches at home and abroad and the relations between such branches and the "parent" banks to which they are attached.

It will not be feasible, for reasons of convenience which will later appear, to discuss these topics strictly in the order in which they are here presented, but each of the general discussions thus indicated will be dealt with in the course of the report.

A beginning will be made by outlining the proposed type of organization for a Federal reserve bank. The reasons for the precise form of organization suggested will become apparent as the treatment proceeds.

ORGANIZATION OF BANKS.

In dealing with the actual organization of the proposed banks two leading questions are presented:

1. The systematic recording of their doings, including full provision for accounting and internal regulation.
2. The officering of the several institutions, and the general relationship between their organization and that of the Federal Reserve Board.

To some extent these two phases of the subject must be treated together, but the principal features of each branch of the question of organization can be independently disposed of. Attention will first be given to the question of the routine conduct of business in the institutions.

In organizing the Federal reserve bank in each of the districts set apart by the Organization Committee, it will be necessary first of all to determine upon the general type of organization to be employed and to formulate a specific plan of procedure in accordance therewith. The Federal Reserve act makes no effort to prescribe the details of organization, but leaves them to be settled by

the boards of directors, subject to the general requirements of the methods, and restrictions definitely set forth in the national banking act are to be adhered to.

ADMINISTRATION.

It is believed, however, that so far as practicable, the adoption of a uniform system of organization which shall prevail throughout the whole system of banks as nearly as conditions will permit, is much to be preferred to a plan which would allow the banks to adopt a variety of different methods of organization, according to circumstances. The points which have been deemed, on the whole, practically essential in connection with the organization are brought out in the latter portions of this report in connection with the treatment of branches, accounting, and other subjects, but at this point it is considered desirable to sketch their main outlines for the sake of clearness by way of introducing the subject. In general, the following requirements must, it is thought, be complied with:

(a.) Each Federal reserve bank should have a distinct executive head not identical with the Federal reserve agent, even in those cases where the reserve agent has been selected in a manner entirely satisfactory to the banking community, so that stockholders would be quite willing to have the agent act as the executive head of the bank. Of course this implies that in no case should the president or executive head chosen by the stockholders be designated by the Government as reserve agent. The intent of the act is distinctly opposed to any such fusion of functions, the agent being intended to be a Government representative and spend his time in furthering the interests of the public at large—a position he could hardly preserve were he to become an active operating officer, anxious to increase profits and advance given private interests.

(b.) Each Federal reserve bank should be carefully subdivided into departments, each such department representing a definite allotment of business, the divisions being those which correspond with the various types of business set forth by the Federal Reserve act.

(c.) Each Federal reserve bank should be so organized as to provide for a proper check upon the operations of the member banks and for a suitable oversight on the part of the reserve agent.

(d.) Each Federal reserve bank should be subject to specified internal regulations evolved as the result of bank experience, which will conduce to the efficient and economical conduct of its affairs.

(e.) Suitable provision shall be made in each bank for the bonding of employees and for an accurate control of their operations.

An organization chart is presented in Portfolio I for the graphic presentation of this plan.

For the purpose of presenting a connected view of the plan of organizing the banks, it has been deemed best to formulate a tentative set of by-laws for a typical Federal reserve bank, such by-laws to be varied or modified in detail according as special requirements on the part of the different institutions might demand. These by-laws will be first presented and will later be supplemented by a detailed sketch of practicable accounting systems.

BY-LAWS
of
THE FEDERAL RESERVE BANK
of

.....

PREAMBLE.

As provided in its Certificate of Organization, dated, the name of this bank shall be The Federal Reserve Bank of....., and it shall do business in the City of, State of, and serve the territory known as Federal Reserve District, It was duly authorized to commence business by the Comptroller of the Currency, under date of.....

ARTICLE I.

Directors.

Section 1. Number and Quorum.—The number of directors shall be nine. A majority of the directors shall constitute a quorum.

Section 2. Classes.—The board of directors, as provided by law divided into three classes—A, B, and C—shall, at its initial meeting, designate one member of each class whose term of office shall expire one year after the first day of January nearest the date of such initial meeting; in like manner, one whose term shall expire in two years, and one in three years. Thereafter, the term of office of each director shall be three years.

Section 3. Vacancies.—Vacancies shall be filled and successors elected in the manner provided by law.

Section 4. Meetings.—There shall be a stated meeting of the board every.....at.....o'clock A. M., or, if that day be a holiday, on the first preceding day not a holiday.

The chairman of the board shall be empowered to call a special meeting at any time, or upon the written request of any three directors, or whenever requested so to do by the president.

Section 5. Powers.—The board of directors shall, subject to the approval of the Federal Reserve Board, fix the compensation and define the duties (other than those herein provided for) of officers, clerks, and employees of the bank. It shall duly provide for the expenses of the Department of Federal Reserve Agent and for the pro rata amount of expenses of the Federal Reserve Board and the Federal Advisory Council.

Section 6. Order of Business.—The following shall be the order of business at each regular meeting of the board:

1. Reading or inspection of minutes of the last regular meeting.
2. Report of the president, including information concerning banking and business conditions in the district.
3. Report of the secretary-treasurer, including detailed summary of all business transacted since last regular meeting and statement of present condition, the latter to include:
 - (a.) Statement of all loans, rediscounts, investments and purchases;
 - (b.) All official correspondence received from Federal Reserve Board;
 - (c.) Weekly statement of condition made to Federal Reserve Board;
 - (d.) Summary of condition of member banks;
 - (e.) Minutes of meetings of boards of directors of branches.
4. Committee reports.
5. Unfinished business.
6. Discount policy and formulation of report to Federal Reserve Board on reasons for same.
7. New business.

ARTICLE II.

Executive Committee.

Section 1. How Constituted.—There shall be an executive committee consisting of the president, the Federal reserve agent, and one director of class A or B. Such director shall be elected by the board to serve for a period not to exceed one month, and his successors shall be chosen in rotation until each member of classes A and B shall have served or shall have been given an opportunity to serve. The board shall elect each month an alternate for service on the executive committee, who shall be authorized to act in the absence or disability of the member first chosen.

Section 2. Powers.—Subject to the rules and regulations of the meetings upon call of the Chairman and shall cause to be kept minutes of all such meetings held by it, which shall be read and approved by members of the board at the next succeeding meeting of the board.

Section 3. Powers.—Subject to the rules and regulations of the board of directors and of the Federal Reserve Board, the executive committee shall have the following powers:

1. To pass upon all commercial paper submitted for discount.
2. To initiate open market transactions.
3. To recommend to the board of directors, from time to time, changes in the discount rates.
4. To buy and sell securities.
5. To apply and provide for the security of such Federal reserve notes as may be necessary for the general requirements of the bank.
6. To employ clerks and other subordinates, to define their duties, and to fix their compensation.

ARTICLE III.

Officers.

Section 1. The officers to be chosen by the board of directors shall be a president, a first and a second vice-president,* a secretary-treasurer, and such other officers as the board may from time to time determine. They shall hold office during the pleasure of the board. Such officers shall, so far as may be practicable, attend board meetings.

Section 2. Chairman.—The chairman of the board shall preside at all meetings thereof. He shall, together with the officers of the bank, have supervision of all credit records and data concerning member banks and borrowers which may be compiled from reports and examinations of such banks. All reports and statements made to the Federal Reserve Board shall be submitted to the chairman and shall be countersigned by him as Federal reserve agent. All examinations of member banks made on behalf of the Federal Reserve Board shall be conducted under his general direction as such agent.

Section 3. Deputy Federal Reserve Agent.—In the absence or disability of the chairman, as such, or as Federal reserve agent, his powers shall be exercised and his duties performed by the deputy Federal reserve agent. Subject to the rules and regulations of the Federal Reserve Board and the direction of the Federal reserve agent, such deputy shall represent the bank in examinations of member banks and shall perform such other duties as may be assigned to him. In case of the absence or disability of both the Federal reserve agent and his deputy, the third member of Class C of the board of directors shall act as chairman and Federal reserve agent pro tem.

Section 4. The President.—The president shall have general charge of the bank and shall preside at all meetings of the executive committee, subject, however, to such rules and regulations as may be incorporated herein or from time to time promulgated by the board of directors. He shall have power to make any and all transfers of securities of the bank which may be authorized to be sold by the executive committee and shall, jointly with the secretary-treasurer, sign all certificates of stock of the bank.

In all cases where the duties of subordinate officers and agents of the bank are not specifically prescribed by the by-laws or the board of directors, they shall be the duties specified by and instructions of the president. The president may, with or without the advice of the executive committee, suspend or remove any employee of the bank, subject, however, to a hearing before said committee.

The secretary-treasurer shall have custody of the seal of the bank, with power to affix the same to certificates of stock and other instruments, as may from time to time be required.

*The number of vice-presidents will depend upon the size of the bank and the character of its work.

Section 5. The Vice-Presidents.—In case of the absence or disability of the president, his powers shall be exercised and his duties discharged by the first vice-president, and, in the absence or disability of the latter, by the second vice-president. In the event of the absence or disability of all three, the executive committee shall, by a majority vote of its members, appoint a director president pro tem.

Section 6. The Secretary-Treasurer.—The secretary-treasurer* shall carry out the instructions of the Board of Directors regarding the custody of all moneys received and paid out on account of the bank. He shall, jointly with the president, have custody of all investments of the bank. He shall keep the minutes of all board meetings and of all committees of the board.

ARTICLE IV.

Counsel.

Section 1. The board of directors shall, subject to the approval of the Federal Reserve Board and upon such terms as it may prescribe, appoint a counsel who shall represent the bank in such matters as may be assigned to him and shall approve all legal instruments.

ARTICLE V.

Auditor.

Section 1. The board shall appoint an auditor, who shall be subject to its direction and to that of the Federal reserve agent and shall make a weekly report direct to the board of directors of the Federal reserve bank, giving a full statement of condition based upon his audit. The auditor shall have charge of the internal auditing of the bank, the reconciliation of accounts, the periodical examination of branches, and, in general, the audit of all transactions, expenses, receipts, and disbursements.

ARTICLE VI.

Bonds.

Subject to the rules and regulations of the Federal Reserve Board, the board of directors shall provide all bonds necessary to cover officers and clerks of the bank.

ARTICLE VII.

Branches.

All branches established by the board shall conduct business in the manner prescribed for the main office and pursuant to such by-laws, rules, regulations, and directions as may from time to time be promulgated by the directors and officers of the bank.

*Whether one or two officers, will depend upon the size of the bank and the character of its work.

ARTICLE VIII.

Information.

Section 1. All persons employed by the bank shall keep inviolate its business affairs and concerns, and shall not disclose or divulge the same to any unauthorized person whomsoever. Any employee who shall give information contrary to this by-law shall be liable to immediate dismissal.

Section 2. The action or policy of the board and of the executive committee shall not be expressed by any individual member, but by its duly constituted officers after formal action by the whole board.

Section 3. For the information of member banks and the public, there shall be maintained in the office of the secretary-treasurer a bulletin board, upon which shall appear the current rates of discount established by the directors and such other information as they may deem it necessary to make public.

ARTICLE IX.

Certificates of Stock.

All certificates of stock shall be signed by the President and Secretary-Treasurer, and bear the corporate seal.

ARTICLE X.

Transfers.

No transfer shall be permitted, except upon the surrender of the outstanding certificate of stock or scrip, and no new certificate shall be issued until the former certificate is cancelled; but the Board of Directors may authorize the issue of a duplicate in place of a lost certificate, taking a satisfactory bond of indemnity. It shall be the duty of the Federal Reserve Agent to register the stock or scrip of the bank.

ARTICLE XI.

Amendments.

These by-laws may be amended at any regular meeting of the board by a majority vote of the entire board; provided, however, that a copy of such amendment shall have been delivered to each member at least ten days prior to such meeting.

INTERNAL REGULATIONS.

Besides the general by-laws as thus set forth, it is believed that the proper conduct of the new banks will call for a code of rules of internal regulations.

Probably one of the greatest initial difficulties in opening the Federal Reserve Banks will be the securing of a competent staff. The continued efficiency of even a thoroughly competent corps of Bank employees depends largely upon the discipline in vogue in the institution. Such discipline requires the application of rules designed to promote morale and proper thoroughness.

These rules should be sufficiently wide in their latitude to insure

the primary essentials of co-ordination. Their structure should be more than a series of prohibitions, and should serve to give the tendency toward that which is desired, even if not categorically expressed.

They should at least be so arranged as:

1. To set forth the time at which employees of various grades should report for duty; to stipulate when the windows shall be closed for business; to designate a maximum lunch period; to provide for temporary absence or leave of absence; to provide for reports of tardiness, and to provide for overtime work.

2. To set forth when the vault shall be opened and closed and upon what authority the vault may be kept open after the time provided; to designate what records shall be kept by the Vault Officer and what his duties shall be; to stipulate what parties in conjunction shall hold combinations.

3. To require care to be taken of securities in the various departments, to set forth how shipments of securities must be handled; to provide for receipting and recording of securities received and delivered; to set forth under what conditions and under what authority valuables may be deposited and withdrawn from the vault.

4. To set forth certain necessary regulations and restrictions regarding apparel, neatness, and habits; to prescribe mutual courtesy and politeness; to restrict smoking to certain hours.

5. To require neatness of desks, cabinets, and other working furniture; to require care and neatness in records prescribing how records shall be kept and closed.

6. To provide for initialing and signing of all necessary tickets and vouchers, what class of entries certain authorities are empowered to sanction; to provide for signing of checks, receipts, and other papers.

7. To describe the duties and powers of the auditor; to specify to whom the auditor is responsible and to what extent his authority obtains in the matter of accounting and the records; to place final responsibility for all systems and changes on the auditor.

8. To indicate how supplies shall be ordered and how audited; to state upon whose authority expenditures may be incurred; to prescribe when bills shall be paid, who shall receive and distribute supplies; to require that when re-orders are necessary old forms shall be submitted to auditor for possible change and correction.

9. To provide who shall code and decode cables and telegrams; to designate an officer who shall hold test-words and keys; to prescribe how copies and records shall be kept and telegraph bills checked.

10. To prescribe who shall receive, assort, and distribute mail, who shall be authorized to sign letters; to direct how correspondence files shall be kept and how access thereto may be granted.

11. To provide for the assembling of all reports in the hands of a designated functionary at a certain time.

WORK OF TRANSFER AGENT.

It is further suggested that in case the Federal Reserve agent shall be authorized to act as agent for the transfer of stock of the bank to which he is accredited the following considerations be observed by him, particularly in relation to stock, if any, that may be held by individuals. It is understood that at the outset no such stock will be held by individual stockholders; but a set of regulations designed to cover not only present conditions, but those that might arise under the terms of the law has been developed.

1. The salient point in transferring certificates of stock is to ascertain who has authority to assign the certificate and how the authority was granted; whether by special resolution, general resolution, or by the By-Laws, in respect to a corporation; whether by will, indenture, or Court order, in respect to Executors, Trustees, Administrators, Guardians, Agents, and the like; or whether by power of attorney.

2. In every case proof of papers submitted shall be first ascertained to the satisfaction of the Transfer Agent. He shall require that certificates issued in the name of a corporation or an association be endorsed by such officials authorized by a special or general resolution, or the By-Laws, and a certified copy thereof attested by the Secretary with the seal affixed, filed with the stock certificate. A copy of the resolution shall be accompanied by a notary's certificate certifying that he had inspected the minutes and that the resolution was a true copy thereof.

3. In issuing certificates to Trustees, the trust shall be fully described by a reference to the will or indenture under which the trust is created, and the name of beneficiary given, if possible. In transfers from Trustees, all Trustees shall sign, and transfers must be accompanied by a copy of instruments properly certified showing the authority of the Trustees to sell or transfer. Trustees appointed by a Court shall exhibit both certified copy of instrument and certified copy of the Court appointment. Transfers by Administrators shall be accompanied by a copy of appointment certified by the Probate Court. Transfers by Executors or Administrators, with the will annexed, shall be accompanied by a copy of the will and copy of the Court appointment, both certified by the Probate Court.

4. In issuing certificates to a minor, the Guardian's name shall also be given, as follows: "James Brown (minor) under Guardianship of William Jones."

Transfers from a minor shall be made only by a Guardian appointed by the Court, who shall exhibit a properly certified copy of his appointment.

5. Trustees, Executors, Administrators, Guardians, or Agents shall not transfer directly to themselves individually.

6. In transfers executed by an Attorney, the original power of attorney, certified by a Notary, or a copy of same shall be left on file. Authority to transfer stock shall appear in the instrument, and evidence is required that the signature to the power of attorney

is genuine and that the power of attorney is in force at the time of transfer.

7. In issuing a certificate to a married woman, her Christian name and not that of her husband with "Mrs." prefixed shall be used. In case a new certificate is desired by reason of change of name by marriage of an unmarried woman, the old certificate shall be signed as follows: "Mrs. Mary E. Brown (formerly B. Smith)," the new certificate being issued in the name of "Mrs. Mary E. Brown."

8. Signatures on assigned certificates shall be guaranteed or notarially acknowledged.

9. Transfers shall not be made directly from husband to wife or from wife to husband.

10. Certificates issued in the name of an individual shall show their Christian name as follows: John Smith, Charles A. Jones.

11. Certificates issued in the name of a bank, corporation, or association shall show title and address as follows:

First National Bank, New York City.

First National Bank, Chicago, Ill.

Farmers National Bank, St. Louis, Mo.

12. Certificates shall not be issued in the name of an estate of a deceased person, but in the name of the representative of the said estate.

13. Certificates in the name of a deceased person shall not be transferred until the filing of papers as aforesaid and the filing with the Transfer Agent of consent from the Comptroller of the State in which deceased resided.

14. All transfers in the name of a deceased person shall be referred to Counsel of Transfer Agent, as each state has different inheritance laws in respect to estates of decedents.

15. The signature of the assignment on the back of stock certificates shall correspond to the name as written on the face of the certificate in every particular, without alteration.

16. All notarial acknowledgments shall have affixed a certificate of certification by County Clerk or Court of notarial authority.

SYSTEM OF ACCOUNTING.

As already noted, the system of accounting to be employed by the reserve banks is logically to be considered and dealt with under the head of organization. Inasmuch, however, as the accounting problems of the banks necessarily involve references to features of business management, such as the clearing system of the banks, the duties of Federal Reserve agents and others, it is deemed preferable to postpone consideration of the accounting system of the banks until all matters of organization involving modifications or adjustments of accounting processes have been concluded.

FEDERAL RESERVE AGENTS.

The Federal reserve act provides for the appointment of a new type of official, heretofore unknown to Federal law, to be designated

as "Federal Reserve Agents." With reference to these agents the reserve act provides (section 4) as follows:

"Class C directors shall be appointed by the Federal reserve board. They shall have been for at least two years residents of the districts for which they are appointed, one of whom shall be designated by said board as chairman of the board of directors of the Federal reserve bank and as Federal reserve agent. He shall be a person of tested banking experience; and in addition to his duties as chairman of the board of directors of the Federal reserve bank, he shall be required to maintain under regulations to be established under the Federal reserve board a local office of said board on the premises of the Federal reserve bank. He shall make regular reports to the Federal reserve board and shall act as its official representative for the performance of the functions conferred upon it by this act. He shall receive an annual compensation to be fixed by the Federal reserve board and paid monthly by the Federal reserve bank to which he is designated."

Elsewhere in the act it is provided that the reserve board shall:

"Make regulations for the safeguarding of all collateral, bonds, Federal reserve notes, money, or property of any kind deposited in the hands of such agents. . . ."

By Section 16 it is provided that:

"Any Federal reserve bank may make application to the local Federal reserve agent for such amount of the Federal reserve notes hereinbefore provided for as it may require. Such application shall be accompanied with a tender to the local Federal reserve agent of collateral in amount equal to the sum in the Federal reserve notes thus applied for and issued pursuant to such application. The collateral security thus offered shall be notes and bills accepted for discount under the provisions of section 13 of this act, and the Federal reserve agent shall each day notify the Federal reserve board of all issues and withdrawals of Federal reserve notes to and by the Federal reserve bank to which he is accredited. . . ."

The functions of Federal reserve agents as thus set forth are broad inasmuch as the agent is made the local representative of the Federal reserve board for the performance of the functions entrusted to such board. The agent is therefore able to exercise under the direction of the said board such powers as the board may desire specifically to entrust to him. At the same time the act is exceedingly specific in its directions with reference to the records that are to be maintained by such agent. While experience will undoubtedly in the long run alter and develop any conceptions of the functions of Federal reserve agent which may be employed at the beginning, it is manifestly necessary to develop a set of instructions for Federal reserve agents to be used by them at the inauguration of the reserve banks and to continue in use

until such time as experience may demonstrate the necessity of some new method of describing such functions or some extension of them, while it is equally desirable and necessary to describe with care the records which are to be maintained by such agents.

Attention will first be paid to the general duties of the agent himself and to the scope of the functions to be performed by him.

The intent of the act never was that of placing the Federal reserve agent in charge of the Federal reserve bank to which he is accredited or of vesting him with practical banking functions in the direct management of business relationships between the reserve bank and its member banks. Its purpose was to make him a local supervisory factor representing the Federal reserve board and ultimately the Government, that is to say the public, his duties being fundamentally those of controlling the issue of the notes applied for by the reserve banks and of inspecting and supervising banking operations in the district for the purpose of assuring himself, and of being able to assure the reserve board, that the banks, both member and Federal reserve, were complying with the letter and spirit of the law.

In pursuance of this conception of the duties of Federal reserve agents, it will be necessary for the Federal Reserve Bank to be in possession of detailed information concerning each member bank, as to financial condition, character of management, competency of officers and directors, care exercised in granting and checking credits, custom in extending accommodation to directors and officers, or to corporations which they may own, control, or be interested in, and relations with large borrowers. Safeguards must be adopted to control the use of rediscounting power and to check overexpansion.

In this connection, it will be desirable to have detailed records.

It will be necessary for the Federal Reserve Agent to be familiar with the affairs of the bank and the general business and credit conditions in the district which the bank serves. For this reason, it is both desirable and necessary that a plan be adopted which will give to the Federal Reserve Agents, facilities for obtaining definite, reliable, accurate, and detailed information.

Application for the issue of Federal Reserve notes must be made to the Reserve Agent and must be accompanied by a tender of bills and notes as collateral security (Sec. 16, Par. 2). It is therefore suggested:

1. That the Federal Reserve Agent exercise general supervision over credit records and data concerning member banks and borrowers which may be compiled from reports and examinations of member banks, and elsewhere.

2. That all statements or reports made to the Federal Reserve Board, be prepared under the direction, or bear the countersignature of the Federal Reserve Agent.

3. That special examinations of member banks provided for in the act should, when undertaken, be made under general direction of the Federal Reserve Agent.

We may now proceed to enumerate the chief features of a plan for the management of the business of the Federal Reserve Agent.

GENERAL PLAN—STATEMENT AND REPORTS.

1. FEDERAL RESERVE BANKS:

There should be adopted a form of General Statement or Balance Sheet which will show on its face the true condition of each bank and give under appropriate headings the assets and liabilities in detail, as well as such supplemental information as will be necessary to give to the Federal Reserve Board an idea of general business and financial conditions in the district which the bank serves.

2. WEEKLY REPORT:

At the close of business Friday of each week a statement, showing the general condition of each Federal Reserve Bank, should be forwarded by the agent to the Federal Reserve Board at Washington. Figures should be telegraphed so as to be received at Washington by 9 A. M. Saturday morning.

3. FEDERAL RESERVE BOARD:

A statement showing condition of each Federal Reserve Bank and a consolidated statement for all Federal Reserve Banks is to be published once each week. (Section 11, Paragraph A.) It is suggested that publication be made either on Saturday or Monday. This will be more fully discussed in speaking of the board itself.

4. MEMBER BANKS:

For the purpose of ascertaining the general condition of member banks in each Federal Reserve District, it is suggested that a weekly report, showing the average condition of each member bank, be made to the head office of each Federal Reserve Bank, at the close of business Friday of each week. The figures should be compiled under the direction of the Federal Reserve Agent and the summary forwarded by mail or telegraph to the Federal Reserve Board. If deemed advisable, a brief summary of condition of member banks in each Federal Reserve District and a combined statement of all member banks should be published not later than Wednesday of following week, by the Federal Reserve Board.

5. RELATIONS WITH BOARD:

The Federal Reserve Agent must each day notify the Federal Reserve Board of all issues and withdrawals of Federal Reserve Notes to and by the Federal Reserve Bank to which he is accredited. (Section 16, Paragraph 2.) It is suggested that the Federal Reserve Agent be also required to forward to the Federal Reserve Board at the close of business Friday of each week a detailed statement giving:

(1.) Amount of gold and lawful money deposited with him by the Federal Reserve Bank to which he is accredited for exchange for outstanding Federal Reserve notes. (2) Bills of exchange, notes and drafts held by him as collateral to Federal Reserve

notes issued to the Federal Reserve Bank. (3) Record of the total outstanding notes at the beginning of week, notes issued or retired during the week, and liability of Federal Reserve Bank upon outstanding notes on day of report. (4) A summary to be carried forward from previous report, showing amount of Federal Reserve Notes received from Comptroller, outstanding notes in circulation, notes returned to the Comptroller for cancellation or destruction, and notes in hands of Federal Reserve Agent. (5) List of collateral held by Federal Reserve Agent, showing the aggregate liability of makers, drawers, endorsers, and acceptors, on bills of exchange, notes, and drafts, received from Bank, as security for Federal Reserve Notes issued.

Forms designed to serve for the preparation of these reports and records have been carefully drafted and will be found in the collections of forms accompanying this report. Two distinct sets of forms for the purpose of carrying out the foregoing recommendations have been drafted—one set accompanying the accounting plan presented in Appendix I, and numbered as portfolio III, the other included in that presented in Appendix II, and numbered as portfolio II.

IDENTIFICATION OF NOTES.

In this connection it is also deemed best to make a recommendation that will be of considerable importance in furthering the convenience of the reserve banks in assorting their notes.

Section 16, Paragraph 3, of the Federal Reserve act provides that:

“Notes . . . shall bear upon their faces a distinctive letter and serial number which shall be assigned by the Federal Reserve Board to each Federal reserve bank.”

In order that a uniform set of numbers may apply to the Federal reserve system throughout, it is recommended that the number which shall appear on the Federal reserve notes as above provided, shall be the official number of the city where the issuing Federal reserve bank is located, according to the system of numbers now used by the banks of the country in numbering checks. The consecutive order of these numbers is based upon population. Letters should also be assigned to the banks to indicate their position in the reserve system, the Arabic numerals being arbitrary so far as that system itself is concerned.

Some of the Federal reserve districts and banks would, under this system, be numbered as follows:

1. A New York.
2. B Chicago.
3. C Philadelphia.
4. D St. Louis.
5. E Boston.
11. F San Francisco.

The use of letters in connection with these numbers makes pos-

sible a continuity of designation, so that if additional reserve banks are organized it will not be necessary to change any previous numbers or letters.

The notes should be printed with the letters and numbers in the upper right-hand corner and the lower left hand corner, and they should be sufficiently distinct to enable tellers and clerks to assort the notes readily by number when preparing them for return to their originating banks.

EXAMINATIONS:

In connection with the sections of the Federal Reserve Act concerning examinations, suggestion is made as to:

1. Examination of Federal Reserve Banks and Branches.
2. Examination of Records and Accounts of Federal Reserve Agents.
3. Examination of affairs of Member banks, so as to inform the Federal Reserve Bank as to the condition of Member banks and lines of credit that are being extended. (Sec. 21, Paragraph 3.)
4. Establishment of a Credit Bureau in each district for collecting and compiling information concerning Member banks, and borrowers who are dealing with Member banks, or who are selling paper in the open market.

FEDERAL RESERVE BANK:

Sec. 11, (Par. A) authorizes and empowers the Federal Reserve Board to examine at its discretion accounts, books, and affairs of each Federal Reserve Bank.

Sec. 21, (Par. 5) provides that the Federal Reserve Board shall at least once each year order an examination of each Federal Bank, and upon joint application of ten Member Banks, the Federal Reserve Board shall order a special examination and report of condition of any Federal reserve bank.

The law provides for an examination of each Federal Reserve Bank, at least once a year. Each bank should be examined twice yearly. It would be well if possible to have all Reserve Banks examined by a carefully selected corps of bank specialists, who would be instructed to make a thorough and detailed audit of the affairs of each bank, making full report to Federal Reserve Board and to the Board of Directors of each Federal Reserve Bank.

The examination should cover a thorough investigation of investments, rediscounts, collateral loans, and open market transactions, particular attention to be paid to compliance with the provisions of the Federal Reserve Act and to the rulings of the Federal Reserve Board. Relations with the foreign Agents, agencies, banks, and branches of Federal Reserve Banks, should be investigated, and balances and accounts should be verified and reconciled. Accounts of Member banks and balances due to or from other Federal Reserve Banks should be reconciled, as should also all monies on deposit to the credit of the United States Government, or of public officials. The Foreign Department in each bank

should be audited. Profit and Loss accounts should be carefully analyzed. Thus, the examination should cover a complete audit of the Bank and branches. The examiner should consult with the Federal Reserve Agent and the Board of Directors, upon the completion of the examination.

Report should also be made as to the competency of management, condition of records, attention given by directors to the affairs of the Bank under examination, and attention should be called to any unsafe or unsound condition or tendency that might be apparent in any department of the bank.

The use of a special corps of examiners for examinations of Federal Reserve Banks would have many advantages. The work will call for men combining the qualities of credit specialists, appraisers, and bank accountants. The examiners will become more valuable at each succeeding examination.

EXAMINATION OF RECORDS OF FEDERAL RESERVE AGENT

The records and accounts of the Federal Reserve Agent, in each Federal Reserve district should be examined at least quarterly, and a detailed report made to the Federal Reserve Board by examiners in its employ. The examination should cover a verification (a) of gold and lawful money held by Federal Reserve Agent, deposited with him by the Federal Reserve Bank for exchange for outstanding Federal Reserve Notes; (b) of all bills of exchange, notes, and drafts held as collateral security for Federal Reserve notes; (c) records of substitution and withdrawals of collateral; (d) of Federal Reserve notes, received from Comptroller of Currency, delivered to Federal Reserve Banks and in hands of Federal Reserve Agent; (e) of all other books and records.

In each bank there should be an Auditor, who should be under instructions and subject to the direction of the Federal Reserve Agent.

MEMBER BANK EXAMINATIONS.

Sec. 21 provides: "The Comptroller shall appoint examiners who shall examine every Member Bank at least twice each year, provided, however, that the Federal Reserve Board may authorize examinations by the State authorities to be accepted in the case of State Banks or Trust Companies, that are stockholders in any Federal Reserve Bank. The examiner making the examination of any National Bank, or of any other Member Bank . . . shall make a full and detailed report of the condition of said bank to the Comptroller of Currency."

Sec. 21, Par. 3, provides that "In addition to the examination made and conducted by the Comptroller of Currency, every *Federal Reserve Bank* may, with the approval of the *Federal Reserve Agent*, or the Federal Reserve Board, provide for special examination of member banks within the district. . . . *Such examinations shall be so conducted as to inform the Federal reserve bank of the condition of its member banks and of the lines of credit which are being extended by them.*"

Under the plan suggested, each member bank will forward to the head office of the Federal Reserve Bank in the district in which the member bank is located, a weekly report, showing its average condition for the week.

This information will be recorded in a manner to show changes in condition from week to week. For more detailed information, however, the Federal Reserve Bank will be dependent upon data obtained in connection with the examination of member banks.

Success in bank examinations depends to a large degree upon the care exercised by the examiner in investigating the lines of credit extended to borrowers by the bank under examination, upon the facilities which the examiner has of obtaining reliable information as to the character and financial responsibility of the officers, directors, and principal borrowers, and finally upon the method used in collecting, compiling, and recording information for use in subsequent examinations.

There should be adopted in each Federal Reserve district a uniform plan of examination, which would provide for a thorough and detailed examination of each member bank by a force of competent, well-equipped examiners, authorized to take the necessary time. A high standard of efficiency should be established which would make it attractive and desirable for State banking institutions to join the Federal Reserve System. Examinations of city and country institutions should be made equally effective.

To prevent a multiplicity of examinations, the special examination by the Federal Reserve Bank might be made in connection with the regular examinations made by National or State Bank examiners. Certain information should be obtained for use of the Federal Reserve Bank: (1) A record of all loans over a stated amount. (2) The character of collateral accepted as security. (3) A record of Bank Stock hypothecated at bank under examination. (4) The classification of loans, investments, and collateral. Suggested form for use in this connection has been developed and will be found in the portfolio of forms accompanying Appendix I.

LOCAL CREDIT BUREAU.

It is believed and recommended that the Federal Reserve System should be equipped with very carefully prepared credit bureau records. Two plans for developing such records have been considered. Under one the records would be conducted and kept at the several reserve banks; under the other they would be kept in a single office under direction of the Reserve Board in Washington. In either case frequent communication of results must occur between the several banks and the Board. A choice between the two plans will depend somewhat upon the system of accounting determined upon. In Appendix I is given a system of accounting more adapted to the establishment of a local credit bureau in each reserve bank, while in Appendix II records are so formulated as to concentrate credit records in Washington as a by-product of the accounting. The credit bureau principles in general will be the same in either case. (See portfolios II and III.)

Assuming for the purpose of the discussion that in each Federal Reserve Bank a Credit Bureau in charge of the Agent is to be established, its duty should be the collection and recording of data concerning member banks, and the standing of individuals, firms, and corporations, discounting at or borrowing of member banks, or selling paper in the open market.

This Bureau should have card indexes showing:

1. Loan Record—compiled from examination reports, showing borrower's loan liability at each bank, with a minimum limit of \$5,000 in City and \$2,500 in Country banks.
2. Bank Stock Hypothecation Record; showing bank stock hypothecated at member banks.
3. Inactive Collateral Record; showing Securities of small or close corporations, or securities having a limited or inactive market, whether securities be held as investments, or as collateral by member banks.
4. Record of the business, firm, or corporation affiliations of the directors and officers of every member bank in the district.
5. Current record of failures, bankruptcies, and large judgments affecting borrowers of any member bank.
6. Record of character, standing, and financial responsibility of all bankers and note brokers engaged in selling notes, drafts, and bills of exchange in open market.
7. Record of standing and financial responsibility of individuals, firms, and corporations selling notes, drafts, and bills of exchange in open market.

A plan for the exchange of information should be arranged with the Credit Bureaus established in other Federal Reserve Districts, and with the approval of the Comptroller of Currency, with the Credit Bureaus established by State Banking authorities where a proper system for safeguarding information has been adopted.

Credit Bureau data should be available to the Federal Reserve Agent, the executive officers and directors of Federal Reserve Banks, and the National Bank and Federal Reserve Bank Examiners.

Suggested forms for these records are presented in the portfolios accompanying the Appendices, especially in portfolio III.

The Credit Bureau will also have the benefit of service of mercantile agencies and will no doubt subscribe to various financial publications.

OTHER CREDIT RECORDS.

It is provided in the general plans of accounting offered herewith that each Federal Reserve Bank shall keep detailed records showing:

1. The aggregate liability of member banks on paper rediscounted by the Federal Reserve Bank, as well as the liability of member banks on bills, notes, and drafts purchased from or discounted for others.
2. The aggregate liability of individuals, firms, corporations,

banks, bankers, municipalities, etc., on bills, notes, and drafts, rediscounted for member banks, or purchased in the open market.

A similar record should be kept of the liability of concerns upon foreign exchange bills and drafts bought and sold and of foreign bills of exchange purchased for investment.

It will be seen that there is provided a means of ascertaining definitely the aggregate liability of any one firm, individual, or corporation, on bills, notes, or drafts held by the Reserve Bank. Through the Credit Bureaus there will be facilities for ascertaining the extent of paper held by member banks. If the principal office of a concern is located in another district, a comparison may be made with the Credit Bureau in that district.

To ascertain the credit standing and financial responsibility of concerns selling their bills of exchange, notes, and drafts in the open market, arrangements may be made to obtain from the note brokers copies of signed financial statements and copies of auditors' reports. Access to records of Credit Bureaus of other districts, will enable the Federal Reserve bank to obtain definite information as to the extent of liability at banks where principal borrowing accounts are maintained. However, as in the case of the credit departments in banks and mercantile houses, all information will have to be systematically recorded, statements carefully analyzed, and comparative statements made.

It will take some years to develop the Credit Bureau and Department, but each Federal Reserve Bank will have access to many sources of information which are not at present available. Through their commanding positions, the Federal Reserve Board and Banks will be able to exercise a close supervision over the commercial paper market; to eliminate many of the abuses which are now apparent, and probably suggest a means of standardizing statements, audits, and reports of borrowing concerns.

The Credit Bureaus will aid examiners in their investigations and tend to increase the efficiency of all bank examinations if the proper degree of co-operation is established. The Bureau will have after each examination definite information regarding the credits and condition of the bank. The Federal Reserve Bank will be vitally interested in all data concerning the standing of each member bank, in order to determine the line of rediscount that may be safely and wisely extended. To prevent inflation and an abuse of the accepting power, there must be continuous vigilance.

The power to restrict or limit the rediscounting privilege will be effective in forcing the elimination of lax methods and unsafe practices; will prevent the gradual accumulation of questionable assets, and will in effect require members to conduct business along sound, businesslike lines. The Federal Reserve Examinations of member banks and examinations by National Bank Examiners will be a distinct advantage to members and will eventually prove a guarantee of solvency.

If the main work of conducting credit records be carried on under the charge of the Agent at each of the Reserve Banks, as thus suggested, it will still be desirable that there be a centralization or combination of results under direction of the Board at Washington through some one of its several divisions which shall transmit the combined information to the other bureaus; while if the information is directly compiled at Washington in the first place a local receiving mechanism will also be needed in each bank.

STATISTICAL BUREAU.

An important part of the work of the Federal Reserve Board will be found in the making of thorough and satisfactory analyses of data relating to bank operations in different parts of the country. These analyses will be necessary both from a scientific, and a practical banking, standpoint. They should include careful compilations of figures designed to show the actual operations under each section of the reserve act, changes in the outstanding currency circulation, fluctuations in the specie stock of the several reserve banks and of the system as a whole, variations in the conditions of domestic and foreign exchange, and a variety of other items. While it is undoubtedly true that experience in the management of the system will materially modify any plan for the collection of such statistics and for the making of analyses of the kinds already indicated, it will be desirable to start with a complete and thorough basis for classifying the various data collected and for presenting the net results in an easily comprehensible form. Indeed it will be only by this means that the subsequent development of the statistical analyses along lines closely adapted to the peculiarities of the system itself will be practicable. It has therefore been deemed wise to present the outline for a statistical bureau to be organized under the direction of the board at Washington. Such an outline has been prepared under the direction of the committee by Mr. Ludwig Bendix of New York City, and is presented in Appendix III of this report.

BONDING OF AGENTS.

The Federal Reserve act provides in section 11, paragraph 1, that:

"The Federal Reserve Board shall be authorized and empowered

"(1) To require bonds of Federal reserve agents to make regulations for the safeguarding of all collateral bonds, Federal reserve notes, money, or property of any kind deposited in the hands of such agents, and said board shall perform the duties, functions, or services specified in this act, and make all rules and regulations necessary to enable said board effectively to perform the same."

With reference to the first provision in this section, namely, that authorizing the Federal Reserve Board to "require bonds of Federal reserve agents" (the Organization Committee being presumed to exercise the same functions as the Federal Reserve Board under section 2 of the act), it is suggested that three questions arise:

1. The amount of the bonds to be given by Federal reserve agents.

2. The nature and form of the bonds to be furnished by them.

3. The question whether such bonds shall be separate and applicable only to the reserve agents or whether a "blanket bond" covering all employees and officers of the Federal reserve bank and including the reserve agent with others, should be permitted.

In view of the fact that the Federal reserve agent is distinctly a Government officer, although paid by the bank to which he is accredited, and in view of the fact that his responsibilities are to the Federal Reserve Board primarily, rather than to the bank itself, it is recommended that each and every Federal reserve agent be called upon to give a separate bond for himself and his own staff, and that he be not included in the blanket bond, if any, which may be written for the protection of all other officers and employees of the bank at large. His bond would thus cover merely his own liability and that of the subordinates under him in his own office.

The question of form of bond has formed the subject of careful inquiry, and it is believed that the form employed by the American Bankers' Association, and recommended by them for general use, is the best that can be employed under the circumstances.

With reference to the amount of the bond to be given by Federal reserve agents, considerable difference of opinion has been encountered, and as a result, consultations have been had with the officers of some of the principal bonding companies. As a result of the investigation thus had and the advice furnished, it is recommended that the bonds of Federal reserve agents shall not fall below a minimum of \$100,000, and that they shall vary according to the activity and resources of the reserve bank to which each such agent is accredited, probably not exceeding \$250,000 in any case.

DOMESTIC BRANCHES.

The Federal Reserve Act contains the following provisions (section 3) with reference to branch offices:

Section 3. Each Federal Reserve Bank shall establish branch banks within the Federal Reserve district in which it is located and may do so in the district of any Federal Reserve bank which may have been suspended. Such branches shall be operated by a board of directors under rules and regulations approved by the Federal Reserve Board. Directors of branch banks shall possess the same qualifications as directors of the Federal reserve banks. Four of said directors shall be selected by the reserve bank and three by the Federal Reserve Board, and they shall hold office during the pleasure, respectively, of the parent bank and the Federal Reserve Board. The reserve bank shall designate one of the directors as manager.

It will be observed that this section is expressed in such broad and general terms as to leave in the hands of the Federal

Reserve Board and of the Organization Committee at the outset, very large powers with respect to branches. It will be possible practically to prescribe the conditions under which such branches will operate, subject only to the general limitations as to directors laid down in the section as above quoted.

Two methods of dealing with these branches suggest themselves:

1. The establishment of a completely organized banking house acting as a branch of the reserve bank of the district in each place where a branch may have been determined upon.

2. The establishment of a local office only without banking machinery and equipped merely with a limited clerical organization at the service of the board of directors appointed as above provided for.

These types of organization may be considered in reverse order.

If it be determined to organize simply a local office the board of directors of the branch so-called would necessarily amount to nothing more than a sub-committee whose functions would be those of ascertaining the character of the paper offered for rediscount by the banks of the community, certifying to its desirability, or disapproving it as the case might be, and then transmitting the paper for actual rediscount to the reserve bank of the district. This plan would have the advantage of avoiding the outlay necessitated by the organization of a complete branch and would also eliminate all necessity for establishing a system of accounting in the branch which should fit into the accounting system of the reserve bank of the district. It would also eliminate all question of necessity for a readjustment of the clearing system. On the other hand the question may be raised whether so simple a type of organization would satisfy the demands of the community in which the branch was located and would supply a sufficient addition to the mechanism of the reserve bank to warrant establishing it. Its function would obviously be only that of a credit committee passing upon particular paper. If this plan should be resorted to, it is suggested that the only records required by the branch would be those relating to offerings of paper.

On the other hand, if a full-fledged bank should be established at each branch point, it is believed that the following questions would have to be definitely considered in connection with the matter:

1. Relation of branch accounting to accounting of district reserve bank.

2. Relation of method of handling checks and transit items to corresponding methods in district bank.

3. Area or territory to be assigned to branch as special or peculiar to it, i. e., extent of sub-district within which such branch would be located.

4. Internal organization of branch.

5. Capitalization, if any, to be assigned to the branch.

Assuming that branches were to be created on this plan at the outset, it is suggested that in every particular the regulations recommended in this report with respect to the management of a district reserve bank should be applied in the conduct of the branch, in so far as practicable. At certain points, however, it will not be desirable to develop a full-fledged organization in the branch. The question then arises precisely how far the organization should go and at what point reductions or curtailments have to be made.

It is recommended that in the event of the establishment of such branches they be assigned a proportionate capitalization based upon the capitalization and surplus of the member banks included within the territory assigned to the branch. This, however, should be only a tentative matter and such assignment of resources should be merely to bridge over the period during which it is found from experience about what amount of paper will on the average be presented by the banks in each branch district. When sufficient experience has been had to determine this point, the resources to be employed should be distributed among the branches in proportion to the quantity of paper presented on the average by the member bank in each such branch district. It is recommended further that the parent bank of the district shall in every case retain for itself a substantial portion of the district as a territory from which paper shall be directly presented for rediscount. This would mean simply that the branch districts would be established whenever there was a special need for them in a particular part of a district which presented a clear-cut independent trading area whose territory was an economic unit and whose member banks naturally stood in close relationship to one another. The suggestion also amounts to a rejection of any plan for subdividing a district completely into branch areas while the district reserve bank itself exercised no distinct banking functions except those of oversight. It is believed that this latter plan would not be desirable, but that in every district there should be a strong independent reserve bank organization performing actual banking functions and directly rediscounting the paper of a considerable number of the member banks included within such district.

Whenever a branch is established with a banking house of its own, actual banking machinery and a board of directors, as provided by the Federal Reserve Act, it is recommended that it be required to install a system of accounting precisely similar to that prescribed by regulation for the Federal reserve banks themselves and that it be permitted to vary from the system laid down for such reserve banks only at those points where the maintenance of certain records is rendered unnecessary by reason of the fact that the branch does not perform the functions to which such records relate.

BY-LAWS.

The following suggested outline of by-laws will afford further detailed data concerning the internal organization requiring to be perfected in each branch:

BY-LAWS
of
FEDERAL RESERVE BANK OF ..
BRANCH
of
Federal Reserve Bank of
Established by it, 191..

ARTICLE I.

Directors.

Section 1. Number and Quorum.—The number of directors shall be seven. A majority of the directors shall constitute a quorum.

Section 2. Meetings.—There shall be a stated meeting of the board every Wednesday at o'clock A. M., or, if that day be a holiday, on the first preceding day not a holiday.

The chairman of the board shall be empowered to call a special meeting at any time, or upon the written request of any two directors or whenever requested so to do by the manager, or by the Federal Reserve Bank of the district.

Section 3. Powers.—The board of directors shall annually submit for approval to the parent bank a schedule of compensation and duties of officers, clerks, and employees of the branch.

Section 4. Order of Business.—The following shall be the order of business at each meeting of the board:

- (1) Reading or inspection of minutes of the last regular meeting.
- (2) Report of the manager, including information concerning banking and business conditions in the district, as well as detailed summary of all business transacted since last regular meeting and statement of present condition, the latter to include:
 - (a) Statement of all loans, rediscounts, investments and purchases;
 - (b) All official correspondence received from the parent bank.
- (3) Committee reports;
- (4) Unfinished business;
- (5) Approval of report and recommendations to parent bank (duplicate to be sent to Federal Reserve Board);
- (6) New business.

ARTICLE II.

Discount Committee.

Section 1. How constituted.—There shall be a discount committee consisting of the manager, the chairman of the board, and one director of the class appointed by the parent bank. Such director shall be elected by the board to serve for a period not to exceed one month, and his successors shall be chosen in rotation until each member of his class shall have served or shall have been given an opportunity to serve. The board shall elect each month an alternate for service on the discount committee, who shall be authorized to act in the absence or disability of the member first chosen.

Section 2. Minutes.—The discount committee shall cause to be kept minutes of all meetings held by it, which shall be read and approved by members of the board at the next succeeding meeting. A copy of such minutes shall be promptly sent to the parent bank.

Section 3. Powers.—Subject to the rules and regulations of the board of directors of the parent bank, the discount committee shall be vested with the following powers:

- (1) To pass upon all commercial paper submitted for discount.
- (2) To suggest open market transactions to the parent bank;
- (3) To apply through the Federal Reserve Bank of the district for such Federal reserve notes as may be necessary for the general requirements of the branch.

ARTICLE III.

Officers.

Section 1. The officers to be chosen by the board of directors shall be a manager, who shall be one of their number, a vice-manager* and such other officers as the board may from time to time deem necessary. They shall hold office during the pleasure of the board.

Section 2. Chairman.—The chairman of the board shall be chosen by the Federal Reserve Board from the directors appointed by said Board. He shall preside at all meetings of the board. He shall, together with the officers of the bank, have supervision of all credit records and data concerning member banks and borrowers which may be compiled from reports and examinations of such banks. All reports and statements made to the parent bank shall be prepared under the general direction of the chairman and copies thereof shall be sent directly to the Federal Reserve Board.

Section 3. Vice-Chairman.—In the absence or disability of the chairman, his powers shall be exercised and his duties

*The number of vice-managers will depend upon the size of the branch and the character of its work.

performed by the vice-chairman, who shall be designated by the chairman or, in default of such designation, by the manager, from the directors appointed by the Federal Reserve Board.

Section 4. *Manager.*—The manager shall have general charge of the branch and shall preside at all meetings of the discount committee, subject, however, to such rules and regulations as may be incorporated herein or from time to time promulgated by the board of directors of the branch or of the parent bank.

In all cases where the duties of subordinate officers and agents of the branch are not specifically prescribed by the by-laws or by the board of directors of the branch or the parent bank, they shall be the duties specified by and instructions of the manager. The manager may, with or without the advice of the board of the branch, suspend or remove any employee of the branch, subject, however, to a hearing before said board.

Section 5. *The Vice-Manager.*—In case of the absence or disability of the manager, his powers shall be exercised and his duties discharged by the vice-manager. In the absence or disability of both, the board of directors shall, by a majority vote of the directors present, appoint a director manager pro tem.

The vice-manager shall have charge of all moneys received and paid out on account of the branch and shall examine and countersign all checks for the payment of money signed by the manager. He shall, jointly with the manager, have custody of all investments and collateral held by the branch. He shall keep the minutes of all board meetings and of all committees of the board.

In case of the absence or disability of the vice-manager, or whenever occasion may require it, the manager shall appoint such director or employee of the branch as he may deem proper, vice-manager pro tem.

ARTICLE IV.

Information.

Section 1. All persons employed by the branch shall keep inviolate its business affairs and concerns, and shall not disclose or divulge the same to any unauthorized person whomsoever. Any employee who shall give information contrary to this by-law shall be liable to immediate dismissal.

Section 2. The action or policy of the board shall not be expressed by any individual member, but by its duly constituted officers after formal action by the whole board and under rules and regulations prescribed by the parent bank.

Section 3. For the information of member banks and the public, there shall be maintained in the office of the manager a bulletin board, upon which shall appear the current rates of discount established by the parent bank and such other information as it may deem necessary to publish.

FOREIGN BRANCHES.

The power to establish foreign branches is broadly conveyed in the Federal reserve act, which includes authority covering not only the creation of such branches, but also the establishment of agencies, the appointment of correspondents, etc. The question, however, whether or not to create such branches rests upon a somewhat different basis from that which relates to the establishment of domestic branches.

With reference to operations in foreign countries it is to be expected that as the reserve system develops these operations will become extensive and important. They should be fully provided for by a plan which will assure absolute efficiency in the handling of the functions of reserve banks abroad. That at the start it may be desirable to await the definite organization of the reserve institutions is quite probable, but before many months the management of the business abroad must be seriously taken in hand. Inasmuch as the approval of the Federal Reserve Board is requisite to the establishment of foreign branches, it is evident that the board will have full authority in the matter.

The first point which, it is believed, calls for careful consideration is the number of branches of reserve banks which shall be independent of one another. Plainly the provisions of the law are such that if the Reserve Board should approve of such a course each and every one of the several reserve banks might establish independent branches in foreign centers. The conceivable result of such action would be the establishment of a number of branches, one to each reserve bank, equal to the number of reserve banks, in every important foreign center. This, it is believed, would be unwise. From the standpoint of the foreigner the reserve system should be organized as a unit, while in controlling the flow of specie to and from the United States it should act as a unit with a single and uniform policy and without competition within itself. These requirements could be fulfilled best, it is believed, by requiring the reserve banks to join in designating a common agent or to join in creating a joint branch at each foreign center where it is believed that such representation is needful or desired. If it should appear that some of the reserve banks do not care to have such representation abroad, their co-operation could be waived, the whole matter being placed upon a voluntary basis. But if they find that they want such representation, then they should be required to co-operate in establishing and bearing the expenses of the branch existing at the point where the representation is desired. This naturally necessitates a plan of dividing the expenses of the branches or agencies abroad between the Federal reserve banks. It is recommended that the following plan shall be in substance followed:

1. Whenever a Federal reserve bank desires to establish a

branch or agency in a foreign country it shall make application to the Federal Reserve Board for permission to do so and in case such permission is granted it shall be allowed to establish the branch or agency under conditions of organization conforming to the principles laid down in the general provisions that may be adopted with regard to branches.

2. If any other reserve bank should subsequently desire to secure representation in the same place at which such branch or agency may already exist it shall be required to select the same agent, or if a branch has actually been established it shall be permitted to join in the operation of the branch, bearing a share of the expense dependent upon the percentage of total operations undertaken for its account as compared with the aggregate operations of the branch.

3. The personnel of the branch organization shall continue as first established by the reserve bank which created the branch, but as places fall vacant they shall be filled upon the nomination of the reserve bank subsequently joining in the operation of the branch in a proportion corresponding to its payment of expenses.

4. Should other reserve banks desire to join in the operations of the branch they may do so upon a basis of division of expenses based upon the principles already laid down above.

5. Should the Federal reserve banks subsequently desiring representation (after the establishment of the branch by one such bank) prefer to have the branch already existing act as agent for them they may do so, and in that event the reserve bank or banks actually co-operating in the conduct of the branch shall charge for their services a sum to be determined at the end of each half year and dependent upon the proportion borne by the operations of the bank or banks designating the branch as agent, to the total operations of such branch.

6. Whenever a foreign branch is organized a specified sum shall be assigned to it as a basis for its operations, such sum to be determined in each and every case by consultation between the Reserve Board, or the Organization Committee, if the task is undertaken while the system is in its initial stages. Other reserve banks which subsequently participate in the operation of the branch shall assign to it a sum of working capital to be determined in the same way.

7. In the event that several reserve banks desire at the outset to join in the establishment of a branch at a designated foreign center, the total working capital to be set apart will be determined as above indicated and shall be divided among the several reserve banks in proportion to their capitalization.

8. The accounting records of each such foreign branch shall be the same as those prescribed for domestic branches, except that the reserve banks participating in the operation of the branch shall be regarded as joint partners.

RELATIONS BETWEEN BANKS.

In discussing the relations between members of the Federal reserve system, attention must be devoted to three phases of the question:

1. Relations between the Federal reserve banks themselves.
2. Relations between member banks in each district and member banks in different districts.
3. Relations between member banks and their own Federal reserve banks.

In surveying these distinct elements of the problem, it is deemed best to consider first of all a matter which involves portions of the question referred to under the first head above and of that referred to under the third head. This is the clearing of checks. It is believed that the most important problem involving these relations between the banks in normal times will be that of clearing the items drawn upon the reserve banks by their member banks and those drawn upon the individual member banks by their depositors. If this clearing process is satisfactorily and effectively carried out, it will profoundly modify the relationships now existing between banks and will have an important influence in reshaping the operations of present clearing houses, transforming ultimately the functions of these clearing houses and changing the degree of their significance from the standpoint both of their members and of outside institutions.

CLEARING SYSTEM.

The provisions of the Federal Reserve Act with respect to the introduction of a system of clearings are found in Section 16, where it is provided that:

"Every Federal reserve bank shall receive on deposit at par from member banks or from Federal reserve banks checks and drafts drawn upon any of its depositors, and when remitted by a Federal reserve bank, checks and drafts drawn by any depositor in any other Federal reserve bank or member bank upon funds to the credit of said depositor in said reserve bank or member bank. Nothing herein contained shall be construed as prohibiting a member bank from charging its actual expense incurred in collecting and remitting funds, or for exchange sold to its patrons. The Federal Reserve Bank shall, by rule, fix the charges to be collected by the member banks from its patrons whose checks are cleared through the Federal reserve bank and the charge which may be imposed for the service of clearing or collection rendered by the Federal reserve bank.

"The Federal Reserve Board shall make and promulgate from time to time regulations governing the transfer of funds and charges therefor among Federal reserve banks and their branches, and may at its discretion exercise the functions of a clearing house for such Federal reserve banks, or may designate a Federal reserve bank to exercise such

functions, and may also require each such bank to exercise the functions of a clearing house for its member banks."

It is evident that this provision distinctly contemplates two classes of work:

(a) A clearing system providing for the clearing of items among member banks which are stockholders and depositors in any Federal reserve bank.

(b) A clearing system which shall provide for clearing the transactions of Federal reserve banks among themselves.

It is strongly believed and recommended that a complete and thorough clearing system shall be inaugurated by every Federal reserve bank at the earliest possible moment consistent with success. This system should further be continued and extended as rapidly as is reasonably possible until it extends to all classes of operations and provides for the clearing of items drawn on both member and non-member banks. The facilities of the reserve banks should be used both locally and for out-of-town checks in the broadest possible sense and under conditions which will place the member banks upon a satisfactory basis of competition with non-members while giving to the customers of member banks the advantage of a system of par collection wherever possible and of collection at cost wherever charge must be made. Undoubtedly experience will show some necessary changes both of method and of rates of charge from the plan herewith recommended, but it is believed that the basis of a satisfactory system is herewith afforded and that no material alterations will be subsequently necessary. Having in mind the fact that the banks cannot perform their full functions in this respect at the very outset, it is, however, recommended that they start only with a partial system of clearings, subsequently extending this as they become able to do so.

An analysis of the law shows that it is the intent to readjust the domestic exchange machinery of the present banking system to conform with practices and regulations that the experience of clearing houses have demonstrated to be the most efficient. Therefore, in drawing up forms and regulations to govern the operations of the Federal reserve banks, the policy should be to adopt so far as possible clearing house principles as a model. Wherever, in the plan to be proposed, it may seem at first glance that a proposed method of procedure is not specifically authorized in the bill, the warrant for such proposition is contained in the phrase "functions of a clearing house," and nothing herein suggested will be found to do violence either to clearing house principles or practices.

It is one of the primary functions of banking and the purpose of all clearing houses to make full use of the "clearing principle," which is the offsetting of debits with credits, to effect settlements by book transfers, and to use such credit instruments as checks and drafts, thus reducing to a minimum the handling of actual currency. The primary object of the plan here presented is to use the machinery of the Federal reserve system to make the enormous domestic exchange business of the country clear itself, the

balances of the entire nation being finally focussed and cleared by a simple operation on the books of the Federal Reserve Clearing House.

Each Federal reserve bank should be governed by uniform regulations with respect to domestic exchange functions since each such bank is a part of the whole system of clearing. These regulations apply to forms, advices, accounting systems and organization of departments and conform to the rules applied by all well-conducted clearing house associations. They will be grouped for convenience of treatment into three divisions:

- (1) The relations between the Federal reserve banks and the member banks in the same city.
- (2) The relations between the Federal reserve banks and their members outside the city.
- (3) The relations between the Federal reserve banks themselves.

RELATIONS BETWEEN THE FEDERAL RESERVE BANKS AND THEIR MEMBERS IN THE SAME CITY.

The Federal Reserve Banks may if thought best co-operate with the other banks of cities where they may be located, first, by joining the local clearing house, and second, by providing a means of settlement of clearing house balances through book transfers.

Several points are open to discussion in connection with plans or regulations governing the relations between the Federal reserve banks and their members located in the same city. The logical development of the Reserve Banks will ultimately result in their assuming the functions of a clearing house, but in view of the policy not to interfere unnecessarily with present practices and also on account of the fact that nearly all clearing houses are composed partly of non-member banks, it is recommended that the Federal reserve banks shall not accept local member checks on deposit, provided such checks are payable through the clearing house, until such time as it will be possible for the bank to assume all the functions of the local clearing house.

The Federal reserve banks will present checks on outside member banks and outlying local member banks through the mails, but it would be more economical and convenient to present city member checks through the clearing house. A question here arises as to whether the Federal reserve banks should be members "both sides," that is: receiving, as well as presenting, checks at the clearing house. Were the existence of clearing houses where the Federal reserve banks are located to be considered permanent, or were all the members of the clearing house certain to be members of the system, then it would seem wise to recommend that the

reserve Banks should "out-clear" only, but, the facts being otherwise, local members should be permitted either to deposit drafts on the Federal reserve banks or to present them through the Clearing House. As to the deposit of member checks by local banks, it is recommended that a time limit be set by each Federal reserve bank, say at 2 P. M., after which no items of less than \$1,000 of any kind would be accepted on deposit. This rule will be found necessary to prevent the clogging of the internal machinery of the banks, which would delay the outgoing mail. Experience in large city banks has demonstrated that it is much easier to handle large volumes of checks if they come in early in the day, because a given number of checks can be handled with much less labor and chance of error if received within a fixed time limit than the same number of items can be handled when spread over a longer period. The bulk of all checks received by business men come by morning mails and the individual depositors in member banks can be gradually educated to make their deposits early.

The settlement of balances resulting from clearing house exchanges must be adjusted to conform with the fact that all members of clearing houses will not be members of the Federal Reserve System. Settlement may be effected by one of the following methods:

1. Debtor banks will give their drafts on the Federal Reserve Banks to the manager of the clearing house, non-member debtor banks paying to the manager funds acceptable for deposit with the Reserve Banks. The manager of the clearing house would then deposit the drafts with the Reserve Bank. The Reserve Bank would credit such deposits to a "clearing account" which would be subject to the manager's check in favor of creditor banks. The rule should be laid down that drafts on the Federal Reserve Bank given to member creditor banks should be deposited and not cleared through the next exchange.

2. Assuming that all clearing house banks are members of the system, the manager of the clearing house will present to the Federal Reserve Agent a memorandum showing debtor and creditor balances which may then be settled by a transfer on the books of the Federal reserve bank.

If it should occur in any city that all the banks are members both of the clearing house and of the Federal Reserve System, and the clearing house be continued, it would be practicable to have the Federal reserve bank "out clear" only.

The relationship, therefore, between the Federal reserve banks and members in the same city may be said to be a local problem which may be adjusted along the broad lines here suggested without in any way interfering with the policy of uniformity in the essential features of regulation affecting the clearing functions of Reserve Banks.

In general matters the regulations covering the accounts of member banks will apply to city members as well as country members.

THE RELATIONS BETWEEN THE FEDERAL RESERVE BANKS AND THEIR MEMBERS OUTSIDE THE CITY.

The deposit section of the Federal Reserve Act provides that:

"Any Federal Reserve Bank may receive from any of its member banks, and from the United States, deposits of current funds in lawful money, national-bank notes, Federal reserve notes, or checks and drafts upon solvent member banks, payable upon presentation . . ."

Under this provision the following elements of the deposit process will be as follows:

1. Lawful money, national bank notes and Federal reserve notes are to be deposited as such deposits are now made in banks—that is, using a regular deposit slip bearing the name and number of the member bank and the items to be separated as to kind of money deposited. No checks are to be enclosed with deposits of money.

2. In receiving checks on deposit, the Federal reserve banks assume a service for their members which unless it is properly controlled and regulated will result in a serious burden and will tax the resources of the reserve banks to the utmost. Care must be taken that the work be reduced to a minimum and that the member banks relieve the reserve banks as far as is practicable.

3. A uniform letter of remittance or deposit should be used throughout. Member banks will divide the items deposited into those payable by the Federal Reserve Banks and those payable by other banks in the city where the reserve bank is located. These items may be placed on one sheet or letter in separate totals. A different sheet or letter must be used for each state within the region or district, and as the number of members increases such states may be redivided in accordance with the regulations of each reserve bank.

4. Items payable in other Federal reserve districts will be separated into two totals, "inside" and "outside," and the outside items will be grouped as to states, although a single total will be accepted and such "outside" items may be placed on a single remittance sheet.

5. With each deposit of checks from member banks there is to be enclosed a summary sheet giving the total of each separate sheet or division with a grand total or footing.

6. Opposite each item in the entire deposit, the member bank should designate the place payable, preferably by number. Special instructions such as "no protest," "wire non-payment," etc., should be covered by an official tag or slip which is to be securely fastened to the item and no confirmation of such instructions

shall be required to be written on the letter. A distinctive mark or symbol should also be stamped upon each such check.

7. Each item deposited shall be endorsed by the member bank with a rubber stamp which shall bear the name of the Federal reserve bank through which the items are cleared, the date received by the Federal reserve bank, and the name and number of the member bank. This stamp, when used by the member bank, shall be considered to guarantee all previous endorsements and shall read as follows:

Cleared through
The Federal Reserve Bank of N. Y.
August 1, 1914
First National Bank
50-36 Syracuse, N. Y. 50-36

8. All items deposited by member banks with Federal reserve banks should become "reserve" only after they have been collected, that is, placed in the possession of the paying bank, and thus chargeable to the account of the drawer. They may be charged by member banks into the general ledger item "Due from Federal Reserve Bank of" the day they are mailed, but a memorandum account should be carried by the member bank in which this item is to be divided into "transit account" and "reserve account." Each member bank shall be furnished a time schedule and in connection therewith shall operate a book which may be designated the "Reserve Maturity Tickler." In accordance with the time schedule, the member banks will post the detail amounts according to the divisions mentioned under the dates when such checks may be credited to "transit a/c" and charged to "reserve a/c." These dates in every case will be based on the receipt of the items at the place of payment.

An alternative plan differing in theory as applied to reserves but more practical and simple in operation, may be considered as follows: The Federal reserve banks will charge member checks against the balance of such members upon the day forwarded. This would reduce the amount of bookkeeping necessary and would simplify the time schedule by more than one-half. On the other hand, member banks would be apt to object to having their reserves thus depleted without their knowledge. This objection could be met by a concession which would further reduce the accounting, that is, by allowing member banks to use all checks on members of the same district as reserve the day forwarded to the Federal reserve bank, as is now permitted in making remittances to reserve agents.

It is desirable that drafts on Federal Reserve banks should be acceptable without question in all districts. It may be suggested, therefore, that such drafts be deposited in a separate total together with drafts payable by the Reserve bank where deposited to be counted as reserve by the member bank at once, or if the alternative plan outlined in the preceding paragraph is adopted,

drafts on all Federal reserve banks could be included in the totals of checks on other members of the same district.

The Federal reserve bank will credit the account of the member banks on day of receipt of the items, such account to be subject to draft. The reserve bank in turn will use a time schedule corresponding to the one used by member banks and similarly the reserve bank will charge transit account, crediting such account and charging other reserve banks as hereafter provided. If any member bank should draw below its collected funds, such draft should be subject to a charge based upon, but higher than, the current discount rate of interest.

In Section 19 the Act provides that member banks may check against their reserve balances with Reserve banks "subject to such penalties as may be prescribed by the Federal Reserve Board," but it would be better banking to induce them to restore their reserves through re-discounts.

The Federal reserve banks will receive items on deposit until 2 P. M. each day. After 2 P. M. and until 3 P. M. items of \$1,000, and over only, and after 3 P. M. until 3:30 P. M. items over \$10,000 only, after which all items received will be held over until the following day and the member bank so notified.

The time of day and amounts here specified need not be uniform for each Reserve bank, but should be regulated by each such bank in accordance with local customs and geographical position with respect to transportation and mail facilities.

At the close of the day's business all checks on member banks will be forwarded to the member banks, the letter bearing opposite each amount the endorsement record of the depositing bank. These remittances will be charged by the reserve banks in "transit account." On the following day, or the day of receipt by the member banks, the accounts of the member banks will be charged and "transit account" will be credited.

Attached to each letter from the reserve bank will be a perforated slip bearing the total of the enclosure, to be used as an acknowledgment of receipt. The slip will read: "We credit you \$..... checks on this bank received to-day

(Signed).....
Cashier."

If items are unpaid they are to be returned direct by the member upon whom drawn to the member making the deposit with the Federal reserve bank first receiving them, and upon receipt of advice the Federal reserve bank will credit the member bank the amounts of such checks returned direct and charge the accounts of members to whom the items have been returned. If such unpaid items have been received by the reserve banks from other reserve banks they will be returned direct in the same way and adjustment made between the reserve banks as hereafter provided. Unpaid items which have been deposited by the

U. S. Government or any of its agents will, however, be returned in every case to the reserve banks by the member banks.

Member banks should be encouraged to make use of the Federal reserve banks to effect settlement with one another through book transfers. The reserve banks should perform such service as between its own members at par since it avoids the use of drafts and also does not reduce the loanable funds of the reserve bank. Transfer of funds by members for the credit of members of other districts may also be easily arranged and the charges therefor will be discussed under a separate heading in this report.

Reserve banks will also send to member banks for collection notes, acceptances and such paper as is usually classified as "time items," representing the matured loans and discounts of the Federal reserve banks, such items, if unpaid, to be returned by member banks to the Federal reserve bank owner, with proper advices.

At the close of each day's business the Federal reserve banks will mail a statement of the day's transactions to each member bank other than which no acknowledgment of receipt of items, etc., will be required. At regular intervals the balance shown by such statement as of a certain day will be reconciled by the member bank and a report made to the reserve bank.

RELATIONS BETWEEN THE FEDERAL RESERVE BANKS.

" . . . or solely for exchange purposes, (any Federal reserve bank) may receive from other Federal reserve banks deposits of current funds in lawful money, national-bank notes, or checks and drafts upon solvent member or other Federal reserve banks, payable upon presentation."

"Every Federal reserve bank shall receive on deposit at par from member banks or from Federal reserve banks checks and drafts drawn upon any of its depositors, and when remitted by a Federal reserve bank, checks and drafts drawn by any depositor in any other Federal reserve bank or member bank upon funds to the credit of said depositor in said reserve bank or member bank."

As between the Reserve Banks, there will be five different kinds of transactions. (1), the exchange of checks for collection payable in their respective districts, and also the exchange of checks and drafts on one another. (2), the transfer of funds deposited by the member of one Bank to the credit of a member of another Bank. (3), the deposit of Federal Reserve notes for redemption or credit as provided in the Act.

"Whenever Federal reserve notes issued through one Federal reserve bank shall be received by another Federal reserve bank they shall be promptly returned for credit or redemption to the Federal

reserve bank through which they were originally issued."

(4), the deposit of other funds, such as national bank notes, or lawful money which the Federal reserve banks are permitted to deposit with one another for exchange purposes. Such shipments should be subject to the request of the Federal reserve bank receiving the deposit. (5), the collection of notes, drafts and acceptances for rediscount, as provided in Section 13, which may be payable in a district other than where rediscounted.

Checks remitted by one Federal reserve bank to another should be divided as to inside and outside items, the outside items being further divided as to states, or such other division as has been provided for the member banks depositing with Federal reserve banks. They need not be endorsed by the Federal reserve bank remitting or by the reserve bank receiving them.

Each Federal reserve bank will carry a single account with every other reserve bank. Using the time schedule mentioned previously, charges and credits of check remittances will be made simultaneously.

Remittances of Federal reserve notes will not be charged in transit account, but will be carried in the General ledger item "Notes of other Federal reserve banks" until the date of receipt by the bank to whom sent. Remittances of lawful money, national bank notes, etc., to be sent only upon request, will be charged to the reserve bank to whom sent on the date of shipment and will be carried as an asset of such bank among its other cash items.

Time items will be forwarded a sufficient time before maturity and will be charged and credited on date due.

Transfers for member banks, if made by mail, should be charged and credited on day of receipt of notice. If made by wire the entries should be made on day of such advice. No such transfers should be made by wire or mail after 3 P. M., and in the event of differences of time between banks, the time used by the bank that is the farthest east should govern.

The original figures of every transaction of whatever nature between Federal reserve banks should be considered to be correct, and the original entries should not be changed by either the bank charging or the bank crediting. Allowances for errors, returned items, etc., and all changes in the account between any two banks should be adjusted by mail. The accounts between any two Federal reserve banks will thus automatically reconcile, provided there has been no delay in the mails. To provide against such a contingency, it is proposed that if any reserve bank fails to receive the regular daily letter from any other reserve bank by 2 P. M., a telegraphic advice be sent to the forwarding bank, which would then defer the usual charge until the following day.

FEDERAL RESERVE CLEARING HOUSE.

To settle the balances between reserve banks, growing out of these various transactions, a clearing house is suggested, as provided in the act, in the clause which specifies that: "The Federal Reserve Board . . . may at its discretion exercise the functions of a clearing house for such Federal reserve banks, or may designate a Federal reserve bank to exercise such functions. . . ."

If one of the Federal reserve banks should be chosen as a clearing house, for convenience of location it might be the Chicago bank; but this function of clearing would be better assumed by the Federal Reserve Board. For many reasons it would be well to establish the clearing house at the national capital. Since each reserve bank will carry a single account with every other reserve bank, subject to simultaneous debit and credit, the bulk of the interchange of business will clear itself. Balances will arise partly on account of the seasonal changes which will alter the debit and credit relationship between the districts, and partly on account of the fact that membership in the system will not be proportionately equal as between national and State banks in different regions.

The plan herewith proposed is based upon the requirement that each Federal reserve bank deposit with the Federal Reserve Board clearing house all of its gold beyond that which will be sufficient to take care of local needs. This gold deposit, carried on the books of each reserve bank in a separate item as a part of its reserve funds, can be used in either of two ways or in a combination of them to effect settlement which will be explained later. Settlement need not be made between reserve banks oftener than weekly, since to require daily settlement might prevent the operation of the natural clearing effected by the interchange of ordinary business transactions. Therefore, at the close of business on each Thursday, each reserve bank should wire the clearing house the amount of the balance and should state whether debit or credit relations exist between it and other reserve banks. Allowing one day, Friday, for adjustment of any differences in the advices received, the clearing would be effected on Saturday. How this shall be done depends upon a consideration of the following possibilities:

The gold deposited with the clearing house may be credited upon a simple set of books to each bank so depositing. Clearing would then be effected by a charge and credit on the books, and advice would be made to the reserve banks. This is the simple plan, but it has one apparent disadvantage in that the banks would have no tangible evidence of the ownership of the gold other than a book credit. Consideration might, therefore, be given a plan of issuing certificates in large denominations against the proposed gold deposits as clearing house currency certificates are now issued. Upon the direction of the Federal Clearing House, the debtor reserve banks would mail these certificates to the creditor banks to pay balances. These two plans might be combined so that, al-

though the clearing of balances would be effected by book transfers of gold at the Federal Clearing house, the debtor banks could anticipate this settlement by mailing certificates to creditor banks prior to the day of settlement. Both these plans, however, seem less effective and more cumbersome than the first plan. Very little (if any) gold would ever need to be transferred between the reserve banks, and such operations would be limited to transactions between the banks and the clearing house. The banks, in turn, would be able to loan or borrow, buy or sell gold in dealing with each other, and the transactions would be arranged through book transfers at Washington.

It is recommended that the official who may act for the Federal Reserve Board as supervisor of the clearing functions of the system act also as the manager of the Federal Reserve Clearing House, and bear the same relation to the reserve banks that the manager of any clearing house does to the members of a city clearing house. In addition to the supervision and control over the entire machinery of domestic exchange, he should provide for its development along lines hereafter suggested.

CHARGES FOR COLLECTION.

The Federal Reserve Act provides in Section 16 that:

The Federal Reserve Board shall, by rule, fix the charges to be collected by the member banks from its patrons whose checks are cleared through the Federal reserve bank and the charge which may be imposed for the service of clearing or collection rendered by the Federal reserve bank.

The Federal Reserve Board shall make and promulgate from time to time regulations governing the transfer of funds and charges therefor among Federal reserve banks and their branches.

It must be borne in mind that the banking power of the United States will divide more sharply than it has ever done before into two groups—members and non-members. It is the intent of the Act itself to bring non-members into the system. But so long as there is any considerable body of non-member banks, the two groups will of necessity be in competition with one another, producing two parallel clearing systems. The organization of the domestic exchange machinery of the new system thus takes on a double aspect. On the one hand, Federal reserve banks and their members must be prepared to meet a competition on the part of non-members. But on the other hand the domestic exchange business of the Federal reserve system must be so arranged as to offer constant inducements to non-members to enter the system. At the same time, members must find it more profitable to use the Federal reserve system than to make collections as at present. The situation is more complex when it is taken into consideration that member banks are in a position to

deal on favorable terms either with the Federal reserve banks and their members or with non-members.

All charges contemplated in the act should be based on actual costs, and it should not be the policy of the Federal Reserve Board, nor of the reserve banks, to assess these charges against member banks upon a basis that would yield a profit. All costs should be placed against members for whom service is rendered as hereafter provided. The costs would include overhead charges, clerical hire, including that of department management, stationery, postage and equipment depreciation. In addition, all similar expense incidental to the maintenance and operation of the Federal Clearing House will be assessed against the reserve banks, which charge will, in turn, be added by each reserve bank as a part of its clearing expense.

It should be the duty of the compilation department of each reserve bank to keep an accurate monthly record of the costs herein mentioned incidental to the clearing of all checks. A record of the amount and number of checks and drafts charged against the account of each member should be kept by each reserve bank, and an additional record of the amount of the items payable in other districts deposited for credit and clearing by member banks. The total monthly cost should then be divided between these two amounts in proper proportion, the number of items making up the amount payable outside the district being estimated upon the basis of the figures of the number of checks divided into the total amount charged against members' balances. The cost of handling checks charged against members' balances should then be charged monthly to the accounts of such members, and should be based one-half per hundred of items and one-half per thousand dollars. The cost of handling checks on other districts should be similarly pro-rated and charged against members depositing such checks.

Each reserve bank should be required to send a monthly statement to the Federal Reserve Clearing House, showing total amount that has been charged against it by all other reserve banks during the previous month. The clearing house would then assess the costs of operation upon reserve banks in proportion to such amounts. Each reserve bank should calculate the proportion of this clearing house cost chargeable to check and transfer-for-members debits, and this cost should then be apportioned and charged to members per thousand dollars of checks charged to their accounts or transfers made for them. Similarly the proportion of the cost of shipping gold to the clearing house chargeable to check and member transfer debits should be added by each reserve bank to the clearing house cost which is to be charged to members. Except for the charge for telegraphing when such transfers are requested, there should be no further charge against members for the transfer of funds. Accounts of the United States Government or any of its disbursing agents should be subject to the same basis and method of clearing charges as applied to member banks.

In addition to the charges above provided, a scale of fines should be arranged applicable to members making errors in their deposits. The purpose of such fines is to place the cost of locating errors against the member making the error, and the income, if any, derived from this source should be deducted from the total operating cost. The scale should cover the following:

Error in listing or addition.....	\$1.00
Error in recapitulation sheet.....	1.00
Items missorted, including items not receivable, each.....	.50
Checks listed but not enclosed, or enclosed but not listed, each.....	2.00
Items not endorsed, each.....	.50

CHARGES BY MEMBER BANKS.

The policy of limiting charges by member banks against their patrons to actual expenses incurred is clearly indicated in the bill. Therefore the rate which the Federal Reserve Board is to fix for the member banks to charge for their patron's checks which are cleared through the reserve banks, should be based on the costs as outlined and hereinbefore provided. Checks payable outside the district may be made subject to a charge by the member banks against the endorsers.

Checks drawn by depositors and charged against the member banks' accounts by the reserve banks may be made subject to a charge against the makers of the checks. In each case the Federal Reserve Board should base the rate on charges made by the reserve banks, both for district and other items, and an additional amount to cover a similar cost entailed by the member bank as to overhead charges, stationery, etc. This rate, which may be made dependent on the amount of the checks only, shall be considered to be the maximum rate which the member bank may be permitted to charge under the act, but it is recommended that the words in Section 16, page 19, line 46, "to be collected," be, by rule, construed to mean "may be collected." Otherwise depositors in member banks would withdraw their deposits and place them with non-members not required to make such charges.

Charges should be made by the reserve banks against member banks as near as possible to the first of each month covering the costs of the preceding month. The charges that are to be made by member banks against their patrons should be based, as provided, on the original costs; but they should be at rates fixed annually to cover such charges with sufficient margin only to allow for slight monthly variations. Every member bank should be permitted to make its own charges against depositors who draw against uncollected funds, or against non-depositors for cashing or collecting checks and drafts. Charges provided in the act should not be construed to cover notes, sight drafts, coupons, or other paper commonly known as "collections," but should cover checks and bank drafts only.

OTHER RULES AND REGULATIONS.

One provision in the Federal Reserve Act specifies that:

The Federal reserve bank . . . shall have power—

Third: To make contracts.

Sixth. To prescribe by its board of directors, by-laws not inconsistent with law, regulating the manner in which its general business may be conducted, and the privileges granted to it by law may be exercised and enjoyed.

Seventh. To exercise by its board of directors, or duly authorized officers or agents, all powers specifically granted by the provisions of this act and such incidental powers as shall be necessary to carry on the business of banking within the limitations prescribed by this act.

In accordance with these powers, it is recommended that as soon as the recommendations herein contained, or similar recommendations, have been officially adopted by the Federal Reserve Board, each Federal reserve bank shall send to each member bank a printed agreement which each member shall sign by its president and cashier. This agreement (subject to change in the details of the clearing plan finally adopted) should be somewhat as follows:

In order that the provisions of the Federal Reserve Act affecting the deposit of funds by member banks, the collection and clearing of checks and drafts, and the fixing of charges therefor may be efficiently and economically administered, the National Bank, member of the reserve bank of, herewith agrees to be bound by the following rules:

1. All items shall be deposited on such forms and in such manner as shall be prescribed by the Federal reserve bank, and failure to do so, or any errors made in such deposits shall subject the member bank to a reasonable fine.

2. Members agree not to deposit with the Federal reserve bank checks on other member banks within twenty-five miles of such member bank, except where specifically permitted by the reserve bank, or except that this rule shall not be construed to apply to members which are within twenty-five miles of the reserve bank. Members situated in the same city with the reserve bank shall not deposit checks and drafts on other member banks in that city, unless such members are not members of the clearing house. (This rule is inserted as a result of the belief that it will be found expedient to give to the reserve bank the power to refuse to accept such items as would better be collected through local clearing houses or branch banks.)

3. It is agreed that the Federal reserve bank may

send all items direct to the member bank on which they are drawn.

4. Items received after the time fixed for the receipt of such items shall be held over until the following day, and notice sent to the member bank.

5. The accounts of members will be charged, upon notice, with items lost in the mails or otherwise, and upon request members shall secure duplicates.

6. Items accompanied by special instructions, such as "no protest," "wire non-payment," etc., shall have firmly affixed a slip bearing such instructions, and in addition each item shall be plainly stamped with a mark indicating such instructions. Other than this, no confirmation of instructions shall be required on the letter.

7. The member bank undersigned hereby agrees that the clearing endorsement stamp used by it on all checks deposited with the reserve bank guarantees all prior endorsements.

8. Items unpaid are to be returned direct to the member bank which originally deposited such items with any Federal reserve bank, and proper notice is to be sent to the reserve bank from which such items were received.

9. The member bank undersigned agrees that all checks and drafts payable at such bank shall be charged against the balance standing to its credit with the reserve bank on the day of receipt of such items by the member bank.

10. The reserve bank shall charge interest at . . . % above the current discount rates for all drafts or debits against member banks' balances when such balances are below the net amount of collected funds standing to the credit of such members.

11. A daily statement of charges and credits will be sufficient advice and acknowledgment of all transactions.

GENERAL SUGGESTIONS.

The plans and forms prepared for the clearing functions of the Federal reserve system have been so shaped that no change in principle will be necessary after branch reserve banks are established. It has been thought wise not to arrange clearing plans for branch banks at this time, since such banks will not be in operation for some time following the organization of the reserve banks, and a short experience with the system will demonstrate to what extent branch banks will undertake the clearing and collection of checks. It is probable that they will receive checks on deposit from members in the same city only, and will receive checks on members from other reserve banks only when such members are farther distant than one night's mail from the Federal reserve bank of

the district. Again, there may be branches established which may clear a limited territory not easily accessible to or from the reserve bank. Such clearing, however, should be strictly local, and these branch banks should not receive items on deposit payable in other districts, nor should other Federal reserve banks send them items except (perhaps) those payable in the city where the branch bank is located.

Whatever may be the business transactions to be developed between a Federal reserve bank and branch banks of another district, the clearing relations between the reserve banks will not be altered, since all such transactions will be credited or debited on the books of the main banks, proper advices forwarded, and adjustment made between the reserve bank and its branch affected.

If that plan be deemed expedient the work of clearing may be developed gradually. At first the Federal reserve banks might limit the items received for collection to those payable in the larger cities in the district, extending the service until the entire district is covered. Drafts on all Federal reserve banks should be accepted from the first, but no items payable in other districts should be accepted until the machinery is working smoothly, and this service should then be extended in the same manner that is suggested for each individual district. Member banks on which checks might be accepted at the beginning should be permitted to deposit items payable in other districts. This would enable them to meet the checks drawn against them, and would make it possible to develop the exchange relations between the Federal reserve banks at the outset.

On account of geographical and railroad limitations situations will arise in every district where it will not be feasible for member banks to send checks on other member banks to the Federal reserve banks. Each such case will need to be adjusted according to conditions, either through branch banks or by reciprocal relations established between the member banks, settlement being arranged by a system of transfers. There are sections, as for example the state of Mississippi, where the non-member banks will so far outnumber the member banks that a hardship will be imposed upon members unless they find relief through the assistance of the Federal reserve bank of the district, which might establish local offices at many centres and accept and collect checks on non-member banks.

A list of member State banks and trust companies should be sent to each member bank, and a monthly supplement showing additions furnished. A list of non-member national banks may also for a time be required. A large map should be furnished all members at cost, showing the district limits, mail time between Federal reserve banks, variation in time used, expressage and telegraphic rates, and such other information as may be found expedient.

It is recommended that a standard form of draft be required for use by each member bank in drawing on its reserve bank, and

if each reserve bank should adopt a different color of paper upon which the drafts are to be printed, it would promote convenience in assorting these items and would tend to prevent misrouting. It would also serve as an example to the banks and make it easier later to provide a color system applying to all checks.

Arrangements could be made with the Bureau of Engraving and Printing to prepare the drafts on the Federal reserve banks for members at cost. Uniformity would thus be assured.

A large item of expense and a great source of annoyance and delay to all large banks is the daily weighing and stamping of letters containing checks and drafts sent out each night. This work will be greatly increased in the reserve banks, and will constitute quite an item of expense as to labor. The Post Office Department should be consulted and arrangements made whereby the Federal reserve banks would be authorized to send out letters containing checks and other remittances at first-class rates, the payment to be made by bulk weight. This would also be a convenience to the Post Office Department, since it would not be necessary to test the letters as to the correct amount of postage used, and some economy would be effected in the preparation and sale of postage stamps.

CHECKS ON NON-MEMBER BANKS.

There is nothing in the act that prohibits the acceptance by Federal reserve banks from members of deposits of checks payable by non-member institutions. By accepting such items to a limited extent clearings could be equalized at times between the reserve banks, thus avoiding the transfer of gold to the clearing house. Also, exorbitant exchange rates on the part of non-members could be checked wherever there is a member bank in the same town, by having such member collect checks on the non-member bank or banks for other members through the Federal reserve banks.

AN ALTERNATIVE PLAN.

Many suggestions have been presented with reference to the matter of handling the clearings of the Federal Reserve Banks. It has been found that probably the greatest difference of opinion concerns the manner of dealing with the Transit problem. In view of the fact that the precise scope of the Banks' operations has not been determined, it is therefore considered worth while to offer for consideration an alternative plan for the clearance of transit items, differing from the one set forth above. The main feature to be considered in this connection will be found to relate to the time at which the items are to be credited to Reserves by the several Banks.

In support of this alternative plan it is argued that if the purpose is to shape the operations of the Federal Reserve Banks so that the growth of the Member Banks will reflect itself in the Federal Reserve Banks, it would appear advisable to afford special advantages to the Member Banks which would encourage their main-

taining larger balances than required by law with the reserve banks.

Any plan which would assist in placing Member Banks in a more favorable position than non-Member Banks, in the clearance of transit items at par, and at the same time extend the privilege to the Member Banks of an immediate settlement for such items, should receive careful consideration, inasmuch as it would without question stimulate more widespread interest in the Federal Reserve System and make its membership more attractive.

The essential point of the plan is:

Clearance at par, with immediate credit in the Reserve Accounts of Member Banks for such items as they may forward for collection to the Federal Reserve Bank of their district and which are drawn upon

- (a) Member Banks of their own district;
- (b) Federal Reserve Banks of other districts;
- (c) Member Banks of other districts.

In order that this may be effected, an immediate settlement for such items would be obtained by the Federal Reserve Banks in the following manner:

MEMBER BANKS OF THEIR OWN DISTRICT.

Items drawn upon Member Banks located within the district in which the Federal Reserve Bank is situated, will be charged against their accounts upon the day of forwarding.

FEDERAL RESERVE BANKS AND MEMBER BANKS OF OTHER DISTRICTS.

1. A certain portion of the gold reserve of the Federal Reserve Banks would be concentrated at Washington, preferably with the Secretary of the Treasury, as Chairman of the Board, who would maintain a ledger record of the balance of gold reserve belonging to each Bank.

2. The Federal Reserve Agents would authenticate, each day, the transit operations of the Federal Reserve Banks, and forward a descriptive statement to the Secretary of the Treasury, which would enable him to record the debits and credits in the gold reserve of the different Federal Reserve Banks. This would place the Secretary of the Treasury in a position to assemble the entries of all the Federal Reserve Agents, with the result that the Federal Reserve Board would maintain the gold reserves in twelve accounts, so that the transfers of gold would be by book entries and shipments would be reduced to a minimum.

3. Each Federal Reserve Bank would carry an account upon its books known as "Transit Account," the account being upon a daily liquidating basis, as the balance resulting from the transactions would mean either a credit or a debit to the Reserve Account of "Gold Reserve with Secretary of the Treasury." The credits to Transit Account would consist of remittance letters received from other Federal Reserve Banks, while the debits would be the total of the cash letters in process of being forwarded for collection to

other Federal Reserve Banks. The result of this would be, say in the event that the Federal Reserve Bank of Chicago received remittance letters for collection greater in amount than the total of the cash letters forwarded by it, that the credit balance in the account would be liquidated by passing its equivalent to the credit of "Gold Reserve with Secretary of the Treasury," thereby reducing the gold reserve to cover the transit transactions of the day.

From this brief outline, it will be noted that an immediate settlement has been obtained for the transit items and that "Outstanding Time" has been eliminated by the expedient of book entries in the gold reserve, such entries having been authenticated by the Federal Reserve Agent.

Further details of the plan would be:

(a) The ledger record of the Secretary of the Treasury would be so designed that a carbon copy would constitute a daily statement to the Federal Reserve Banks of the debits and credits entering their balances of gold reserve. This would also enable the Federal Reserve Banks to check such entries, and likewise place them in close touch with the condition of the account.

(b) The credit and debit entries which would appear upon the daily statement of the Federal Reserve Agent to the Secretary of the Treasury, would be obtained by means of a form prepared in quadruplicate for use of the Bookkeeping Department of the Federal Reserve Banks.

(c) Federal Reserve Notes would be listed upon a separate letter and included in the total of the outgoing remittances.

(d) Unpaid cash items would be charged to the Transit Department, where they would be listed upon a separate letter and included in the total of the outgoing remittances for the day.

(e) Cash letters from Federal Reserve Banks or Member Banks would be credited only when received in time for use the same day.

(f) Checks received by Member Banks, which are payable within a certain radius to be determined by the Federal Reserve Board, would not be forwarded for credit to the Federal Reserve Bank of their district.

(g) The usual Reciprocal accounts, subject to check, would be maintained by the different Federal Reserve Banks, for the purpose of collection of drafts, notes, coupons, and etc.

(h) Telegraphic transfers up to a certain amount may be made through the Reciprocal accounts, while for larger amounts it would be advisable to use the existing sub-treasuries or the medium of book transfers in the gold reserve at Washington.

(i) Errors in listing, etc., would be adjusted by means of claim tickets to be drawn and approved by the Auditor and signed by an officer of the Bank.

(j) To defray the expense of labor, stationery, postage, depreciation of equipment, etc., it would appear advisable to assess the Member Banks upon the basis of the volume of business handled as compared with the expense involved.

(k) In view of the special advantages afforded Member Banks under the proposed plan, and to confine such advantages to Banks in the Federal Reserve System, Member Banks should be prohibited from depositing transit items which in turn have been deposited with them by non-Member Banks.

The endorsement stamp of the Member Banks would be:

Pay to the Order of
Federal Reserve Bank, Chicago, Illinois,
May 28, 1914,
Endorsements Guaranteed
(Name of Member Bank)

while the endorsement stamps of the Federal Reserve Banks would be:

Pay to the Order of
Any Member Bank District No. 2
May 28, 1914,
Endorsements Guaranteed
Federal Reserve Bank
New York, N. Y.

Pay to the Order of
Any Federal Reserve Bank
May 28, 1914,
Endorsements Guaranteed
Federal Reserve Bank
New York, N. Y.

The accounting forms necessary to facilitate the prompt and efficient handling of this alternative plan will be found in Portfolio of forms No II, accompanying Appendix II, with which this plan is correlated.

QUESTION OF TIME IN COLLECTION.

The usual method employed at the present time in the collection of transit items, contains as a most important factor the matter of "Outstanding Time," inasmuch as the Banks are obliged to await the receipt of returns covering the settlement of such items as may have been forwarded to correspondents for collection. Theoretically speaking, this burden should be borne by the depositors of the Banks, as it would not be sound banking to permit the withdrawal of funds in the course of collection, but from a practical standpoint it would be difficult to educate depositors not to check against outstanding items and must so regulate their books that they may know at all times what their checking balance really is.

Under the first plan discussed above, namely, that of withholding outstanding transit items from reserve balances of Member Banks until such time as the checks are theoretically collected, the problem of outstanding time is admitted, but only partially solved by the decision that in order to lessen the burden upon the Member Banks the outstanding time be cut in two; that is, the checks will be permitted to enter the reserve balances of the Member Banks upon the theoretical day of collection.

The first plan proposes as an offset to the deduction of transit items from the reserve balances, to defer charging items drawn upon Member Banks until such time as they have been received, thereby establishing a basis of equality.

For the purpose of carrying out the project, each Member Bank, in addition to the Federal Reserve Banks, must as already explained, be equipped with time schedules indicative of the days necessary for the collection of checks, and upon the days of maturity, when the items are supposed to be paid, entries would be made upon both the books of the Member Banks and the Federal Reserve Banks, a plan which would enable the collected items to serve as reserve for the Member Banks; while in like manner the checks which are forwarded by the Federal Reserve Banks to the Member Banks, in accordance with the pre-arranged schedule, would be charged against the balances of the Member Banks upon the day they are supposed to have been received.

The Committee has been at pains to secure criticisms upon the transit problem and finds that the idea of withholding credit until items are collected is thought by many to have the following disadvantages:

1. It places a discount upon such inland exchange as may require the Federal Reserve Banks one day or more to collect.
2. It similarly places a comparative premium upon such exchange as may be drawn upon Member Banks located within the cities in which the Federal Reserve Banks are situated.
3. It might tend to discourage Member Banks from using the facilities of the Federal Reserve Banks, with the result that they might either withdraw from the System or maintain the exact amount of reserve required by the Act.
4. It might render the Transit System of the Federal Reserve Banks more complex and to result in confusion, if not skilfully conducted.
5. It might entail additional labor.
6. It might mean the maintenance of subsidiary records, both in the Federal Reserve Banks and in the Member Banks.
7. It might be difficult of proof.
8. The most carefully planned Time Schedule would be only approximate.
9. The return of unpaid items from one Member Bank direct to another, when the items were originally forwarded by the Federal Reserve Bank for credit, might result in error.

VIEWS OF A TRANSIT EXPERT.

By way of further elucidating the main points at issue in this matter the committee, without expressing final opinion, thinks best to include in this report the following letter from an eminent clearing and transit expert to whom this subject was referred with a request for an opinion.

"In compliance with your request I have gone over the plan submitted to me regarding the method of handling items through the Federal reserve banks, and beg to submit the following suggestions:

(1) **REGARDING THE RELATIONS BETWEEN THE
FEDERAL RESERVE BANKS AND THEIR MEMBERS
IN THE SAME CITY.**

"As Federal reserve banks will not handle items on non-member banks, or receive any items from non-member banks, there does not appear to be any necessity for a Federal reserve bank joining the clearing house in the city in which it is located. Items which the Federal reserve bank will have on member banks in its own city can be charged to their accounts with the Federal reserve bank and a time allowance made the member bank for the redemption of unpaid items.

"Items on member banks which fall into the hands of non-member banks can be collected through the clearing house as at present. The only service which would be rendered by the Federal reserve bank through the clearing house would be the facility of member banks settling their balances with each other by checks on the Federal reserve bank.

"Checks on the Federal reserve bank which may fall into the hands of non-member banks can be deposited in the member banks and it is probable that non-member banks in the Federal reserve cities will carry accounts with member banks. They will either have to do this to get the items cleared or will have to become members of the Federal reserve system themselves.

"If the Federal reserve banks should allow clearings between non-member banks and themselves, this would remove a strong reason for non-member banks becoming members.

"Checks on member banks which are not members of the clearing house in the Federal reserve cities, should be received on deposit by Federal reserve banks. This would provide a place of redemption for items on outlying member banks, many of which are located several miles from the downtown district and whose items have to be collected either by mail or messenger, and would also provide a place of payment for the downtown member banks which are not members of the clearing house. This would be a great accommodation to the member banks, as considerable difficulty is experienced in handling the items of outlying banks.

"When Clearing House balances are settled through the Federal reserve bank, payment should be made by checks on the Federal reserve bank rather than by memorandum showing debtor and creditor balances, as then no dispute would arise in making settlement.

(2) **RELATIONS BETWEEN THE FEDERAL RESERVE
BANKS AND THEIR MEMBERS OUTSIDE OF THE FEDERAL
RESERVE CITIES.**

"In assorting the items for deposit in the Federal reserve banks there does not seem to be any necessity to sort the items according to the states, as state lines have not been used in outlining the districts.

"With reference to 'No protest' and 'Wire non-payment' instructions, besides having the items so marked, these instructions should also be written on the letter accompanying the items, as

otherwise the receiving bank would claim the instructions were not given and the sending bank would not have the item to prove they had been given.

"With regard to the clearing system to be used in each Federal reserve bank, if we are going to have a clearing system, why not make it complete instead of going only half way? All items received by a Federal reserve bank drawn on members in its own district should be credited when deposited to the reserve account of the depositing member bank and charged at the same time to the reserve account of the member banks upon which the checks are drawn, thus doing away with a lot of unnecessary work for the member banks, as well as the Federal reserve banks, in figuring the time taken for the items to reach their destination.

"The system for clearing these items should be as simple as possible, with a minimum amount of clerical work, otherwise the member banks will clear their items through outside banks and will not put them in the Federal reserve bank. The items going through the Federal reserve bank on points in its own district will not change the deposits of the Federal reserve bank. They will only increase the balances of member banks on one side and decrease them on the other.

"The reserve balances of member banks will increase in the Federal reserve bank just as much as they will decrease, and it is quite likely in the course of business that the reserve banks will carry more than the required amount of reserve with the Federal reserve banks, and, instead of having to continually make up their reserve, there will be just as much necessity for reducing the accumulations in the reserve account.

"Items on member banks outside of the depositing member bank's district should not count as reserve, as the reserve bank will have no account to reimburse itself from when the items are deposited. A separate account should be carried for each member bank which deposits items on member banks outside of its own district, as these items will be paid by a method described under the heading, 'Relations Between Federal Reserve Banks Themselves' and the transit account of the member bank will be charged and the reserve account credited.

"The transit accounts should be used only for items which are deposited on member banks outside of the district and on other Federal Reserve Banks.

"Member banks should not draw checks on the transit account, but should draw all checks on the reserve account. This would do away with any necessity for figuring a discount rate of interest if the transit accounts should be drawn below the amount of collected funds.

"As the member bank itself is the only one which knows the amount its reserve should be, the Federal reserve banks cannot ascertain whether a bank is drawing below its reserve or not, except when reports are received from the national bank examiner. It is up to the member banks to control their own reserves and to the bank examiner to see that they live up to the law in this respect.

RELATIONS BETWEEN THE FEDERAL RESERVE BANKS THEMSELVES.

"Items sent from the one Federal reserve bank to another should bear the endorsements of Federal reserve banks which handle, so that it may be known from the check how it has been routed. This is particularly necessary if items are missent.

"With regard to clearing items between the Federal reserve banks, a system is suggested under which no Federal reserve bank will have to open an account with another. Instead each Federal reserve bank will carry an account with the Federal reserve bank to be selected as the central clearing bank.

"The Federal Reserve Bank of Chicago is well situated to act as the clearing bank on account of its central location and the excellent transportation facilities between all the Federal reserve cities.

"The suggested plan of carrying a portion of the gold reserve of the Federal reserve banks in Washington would require the shipment of an enormous amount of gold from all the Federal reserve cities, which, besides being a great expense, as some of the gold would have to come from as far away as San Francisco, would also take away the gold from the west where it is needed for circulation. On the Pacific Coast probably less than 10 per cent. of the circulation is in paper money.

"Under the present United States Sub-Treasury system gold is divided among nine cities from New York to San Francisco, and it would seem advisable to leave it where it is, so that when it has to be shipped to member banks it will not have to go far and the express rate will be reduced to a minimum.

"It is also desirable to hold the expense of the Federal reserve bank down as far as possible, in view of the fact that there are twelve banks, each with a separate organization which will create a large overhead expense.

"The Federal reserve bank which will act as the clearing bank will have little or no expense attached to this part of its business and it would only make an unnecessary additional expense by depositing the reserves in Washington.

"Under the attached plan proposed reserve banks could make up the deficiencies in their balances carried with the clearing reserve bank by purchasing exchange, and gold shipments would be less necessary under this plan than they would be if the plan is adopted of carrying the reserves in Washington.

"Under the plan of clearing through a Federal reserve bank each Federal reserve bank would know how it stood at the end of each day's business, as the items would be cleared and settled for every day. The cost of buying exchange to increase balances with the clearing Federal reserve bank could be assessed on the member banks which deposited the items in each Federal reserve bank and could be added by the Federal reserve bank to the cost of handling the checks for the member banks, and in turn charged to the drawers of the checks by the member banks, provided they saw fit to charge the drawers.

"It is, however, likely that a member bank would absorb this cost itself, except where the drawers do not carry satisfactory accounts.

"With regard to the incidental rules, regulations, etc., it does not seem desirable to fix a limit of twenty-five miles from each member bank, thus denying the member bank the privileges of the Federal reserve bank for the collection of items on banks located within twenty-five miles of the member bank. Inasmuch as the items can be charged up to the account of the bank upon which they are drawn when they are deposited, checks will reach the Federal reserve bank for presentation in nearly all cases just as quickly as they would reach the bank upon which drawn if sent direct by the member bank.

"Members situated in the Federal reserve cities should be permitted to deposit items on other member banks in the same city provided the depositing bank or the member bank upon which the checks are drawn is not a member of the local clearing house.

"Referring to items bearing 'No protest' and 'Wire non-payment' instructions, the instructions should appear on the letters accompanying the items.

"Provisions regarding charging interest when balances are below the net amount of collected funds, should be omitted, as previously explained.

"It would be very unsatisfactory to the member banks if the Federal reserve banks when they first start business receive items on only certain banks in the larger cities in the districts. These banks would be compelled to ship currency or buy exchange to settle for the items charged to their account by the Federal reserve bank, as they would not in turn be able to deposit items which they would have on all the other member banks in the district. Instead of picking out a number of the larger cities to start with, the Federal reserve banks could take a certain number of counties in each state and gradually increase the number until the whole district was covered. In this way there would be very little burden upon member banks, as the items would be cleared in certain zones in which the members would have items drawn on each other.

"With regard to checks on non-member banks, I can find nothing in the Act which permits the acceptance by Federal reserve banks of items for deposit drawn on non-member banks. If the Act can be construed to permit Federal reserve banks to receive such items, I do not think it would be good policy, as there would be a much greater chance for non-member banks becoming members if the checks were not handled by the Federal reserve banks than if these facilities were extended.

"Checks on non-member banks will circulate at a discount and it is quite probable that non-member banks will arrange for a place of redemption for their checks through the clearing houses in the Federal reserve cities in the effort to make their checks circulate on a par with the items on member banks of the Federal reserve system."

BUSINESS OF FEDERAL RESERVE BANKS.

The business operations of the Federal reserve banks will be fundamentally of two distinct kinds:

1. Rediscounting for member banks.
2. Purchasing specified kinds of paper in the open market under the conditions provided by the act itself.

From another point of view the business operations may be divided as follows:

1. Domestic transactions.
2. Foreign exchange transactions.

The subject may first be considered under the latter division and then inquiry may be made as to how the business should be viewed from the point of view of the division or classification first suggested.

DOMESTIC BUSINESS.

The domestic business of the reserve banks will, as stated, consist primarily in the rediscounting of paper for member banks and in the purchase of paper in the open market. In either case the question is raised how the act must be regarded as applying to the nature of the paper dealt in. As will be seen from a survey of its provisions, the framers of the measure attempted to throw about the rediscount and open market transactions a series of very careful and detailed restrictions intended to assure the liquidity and unquestionable commercial character of the obligations which were thus taken over by the reserve banks.

COMMERCIAL PAPER.

It is recognized that the question what should be accepted as commercial paper eligible for rediscount under the act is one of great difficulty, as well as one which must inevitably affect in a very profound way the operations of the reserve banks from the beginning.

"Upon the endorsement of any of its member banks, any Federal Reserve Bank may discount notes, drafts and bills of exchange arising out of actual transactions; that is, notes, drafts and bills of exchange issued or drawn for agricultural, industrial, or commercial purposes, or the proceeds of which have been used or are to be used for such purposes, the Federal Reserve Board to have the right to determine or define the character of the paper thus eligible for discount within the meaning of this act."

Later, (in section 14) Federal Reserve Banks are given power to

"Purchase and sell in the open market at home or abroad either from or to domestic or foreign banks, firms, corporations or individuals, cable transfers and bankers' acceptances and bills of exchange of the kinds and maturities by this act made eligible for rediscount, with or without the endorsement of a member bank."

There are other provisions in the act which limit or modify these fundamental clauses but consideration of them may be deferred for the present.

According as the "character of the paper thus eligible for discount" is defined, the scope of the business to be granted to the banks and to be undertaken by them will be greater or less and the volume of their operations, and consequently the extent of their aid to the community will be greater or less. Various questions of a specific nature, therefore, arise at once of which the following may be mentioned:

1. What is commercial paper in the sense in which the term is used to-day?
2. Is this popular definition correct, and should it be accepted by the Reserve Board?
3. If not correct can an immediate change in definition safely be made?
4. Is there any need for different treatment of the paper made available for rediscount with the endorsement of a member bank, and that to be purchased in the open market?
5. What is a commercial, agricultural or industrial transaction?
6. To what classes of paper does it normally give rise, and how can a banker assure himself that a given piece of paper had arisen from such a transaction?
7. What distinction if any should be drawn between paper that grows out of such a transaction, and paper whose proceeds are to be used in such a transaction?

By answering these questions the basis will have been provided for a thorough analysis of the provisions of the Federal reserve act in regard to the use of commercial paper as a basis for rediscount.

The language used in the section of the Federal reserve act with reference to commercial paper is modelled upon language used in many proposals of legislation which preceded the reserve act and whose purpose was that of sufficiently limiting the types of paper presented for rediscount so as to avoid the use of bank funds in two general classes of transactions. The language was intended to be negative rather than positive and the two types of transactions which were regarded with disfavor were the following:

- (a) Those growing out of speculative transactions or involving the use of funds for promotion of speculation.
- (b) Those involving the regular, steady, provision of capital for investment purposes with the idea of supplying to different enterprises an additional element of business support quite different from the mere use of banking as an aid to the financing of current transactions.

Of course in addition to these negative limitations it was intended by the language employed to prevent the banks from

rediscounting paper that necessitated a too remote maturity and naturally to avoid the rediscounting of paper whose soundness was not altogether assured.

At the present time commercial paper as employed by credit institutions and banks generally includes the following types:

(a) Ordinary notes signed by an individual, firm or corporation and promising to pay a specified amount either on demand or at a stated time.

(b) Drafts secured by documents (bills of lading, etc.) which are discounted by banks and which bear two commercial names.

(c) Ordinary notes signed by individuals, firms or corporations either on demand or on time and protected by stock, bonds or other collateral with a collateral loan agreement.

(d) Ordinary notes of the kind already specified protected by a chattel mortgage on crops and the like.

Investigation shows that of these types of what is ordinarily called commercial paper today the ordinary single-name paper constitutes a substantial proportion. Opinions differ as to the relative amount of this paper as compared with other classes, but there is general agreement as to its importance. Some large concerns estimate that fully 90% of their business is transacted on the basis of such single-name paper. The commercial transactions growing out of or represented by such paper are in general as shown in the following hypothetical case:

A purchases goods for his fall trade amounting to, say, \$1,000,000 from the X. Y. Z. Co. of New York City. These are bought on open account with, say, ninety days' credit. A gives no paper in exchange for them, the seller having simply his general knowledge of A's credit to protect him. The X. Y. Z. Co., however, offers A a discount for cash within a specified time (say, thirty days), and an additional discount for immediate cash (say within ten days). In order to get this cash, A applies to his bank, making a full statement of his transactions and is granted a loan for which he gives ordinary promissory notes. With the funds thus obtained he pays off the X. Y. Z. Co., getting the advantage of the discount, then settles with the bank as the goods are taken up by consumers and paid for. The transaction is distinctly a "commercial" one and the paper growing out of it is commercial paper in the ordinary sense. In Europe, however, the X. Y. Z. corporation would have insisted upon being paid by a note signed by A and would then have sold this paper or discounted it. Or A might have induced his bank to accept drafts from the X. Y. Z. Co. (properly protecting the institution) in which case the paper would have been an acceptance bearing the name of the bank and the X. Y. Z. Co. It is desirable to stimulate the growth of true commercial paper of the latter class as rapidly as possible for several reasons. The closing up of the transaction by the giving of the paper is in itself a good thing, leading to conservatism and caution in the busi-

ness. The tendency of this method is also to distribute loans much more widely, thereby creating a much better and more even division of business among banks. The paper thus created can be sold and traded in, and thereby a wider market with much greater competition and consequently lower rates of interest, can be secured. Furthermore such paper bears on its face, ordinarily, the certification that it grows out of a real "commercial transaction." The effort should undoubtedly be to work steadily toward a situation which would encourage the development of this kind of paper and would eliminate or reduce as rapidly as possible the present method of trading on the basis of one-name paper.

SINGLE NAME PAPER PROVIDED FOR.

The conclusion that seems to be necessarily reached in connection with this subject, however, is that the Federal Reserve Act distinctly contemplates and provides for the use not only of two-name but also of single name commercial paper. This is seen in the fact that the act in the sections already referred to provides for the rediscounting not only of paper whose proceeds have been used in the particular classes of transactions referred to but also of that whose proceeds are "to be used" in that connection. At one time during the progress of the bill through Congress, the provision was even broadened by the insertion of words including for rediscount such paper as might give rise to funds which "may be used" for the purposes referred to in the act. It is believed, therefore, that Congress clearly and unequivocally intended to recognize under the provisions of the law both classes of paper. This, however, was upon the distinct understanding that such paper, whether it bore one or more names, was not to be admitted to rediscount unless it evidently arose from the classes of transactions referred to or was so clearly for the purpose of providing funds for such transaction as to admit of no doubt.

In the second place, however, it is believed that paper carrying two names bears on the face of it the evidence of a strictly commercial origin which single-name paper never can, without collateral evidence, supply. There is, therefore, a prima facie case in favor of two-name paper which does not exist in that of single-name, and the question is suggested how single-name paper, when admitted to rediscount as it evidently must be under the terms of the law, shall be prevented from being used as a means to obtain current capital or to furnish the basis for speculative operations. Various methods have been currently suggested, among them the plan of requiring each piece of paper thus presented for rediscount to be accompanied by a certificate on the part of its maker, or of the endorsing bank, or both, that it has originated in connection with a transaction of the permitted kind. Another method that has been put forward is to require such a general certificate on the part of each borrower, insisting that such certificate be made once and for all, or per-

haps at periodical intervals. Still another suggested plan is that of employing a form of note which shall incorporate into its own text a statement that it represents funds whose use is desired for a transaction of the permitted class. Of these various suggestions, the latter is perhaps the best and there may be no harm in putting it into effect, but neither it nor any of its predecessors would be likely to meet the requirements of the case completely. It is believed that this end can be accomplished only by some process that will give absolute assurance of the use of the funds advanced by the reserve banks in the way contemplated by the law. Clearly, however, the absolute assurance that the particular sum of money advanced by the banks on rediscounted paper has been used in the way prescribed cannot be obtained in practice, nor is there any use in obtaining it, if there be certainty that an equal sum drawn from the liquid resources of the concern receiving the advance is so applied. The purpose of the Federal Reserve Act is thus fundamentally satisfied if evidence be given that the advances made are made for a commercial purpose as shown by the fact that the person or concern in whose favor they are made is engaged in actual business of the kind referred to and is in a liquid condition. This fact can be ascertained only by a direct audit of the affairs of the concern, repeated as frequently as circumstances may require, in order to renew the assurance of liquidity which is regarded as the fundamental and essential test of the good faith of the concern in making application for funds, not to furnish capital for new enterprises or to take the place of capital that has been sunk, but to carry through short period transactions.

A suggestion to which very considerable attention has been granted in responsible quarters is that of establishing through action on the part of the Reserve Board a so-called "differential rate" on commercial paper of the classes referred to, the rate required to be charged by Federal reserve banks for the rediscount of single name paper, being fixed at, say, $\frac{1}{4}$ of 1% or perhaps at $\frac{1}{2}\%$ higher than that to be charged for two name paper, the paper of the two classes being supposed to be of equal safety, and the difference in rate being designed merely to discriminate in favor of two-name paper. This would probably be as effective a means as any for accelerating the movement of the business community towards the substitution of double-name for single-name paper. Precisely how great the discrimination in rate would have to be, and precisely how far it would need to be varied between the several Federal reserve districts is a question that cannot positively be answered pending the definite organization of the districts and the creation of the banks as working units in each of them. The idea is merely suggested here as indicating a feasible and desirable mode of bringing about the end in view, assuming of course that the application of the method is care-

ful so that no injustice may be done through the charging of the higher rate to the paper which is less favorably regarded.

Still another plan is that of restricting the total amount of single name paper admitted to rediscount to a given percentage of the gross rediscounts of the reserve bank in question. This plan has been carefully considered and is believed to be desirable. The estimates that have been made by authoritative persons concerning the proper amount of single name paper in relation to two-name vary considerably, some taking the ground that not to exceed 25% of the total rediscounts should consist of single-name and others that not less than 50% might safely be allowed to consist of that kind of paper. It is believed that no definite percentage of this kind, applicable to the whole country could be fairly established. Inquiry has shown quite conclusively that in some parts of the country there is much more two-name paper than elsewhere, business habits having developed somewhat differently in different communities. The restriction of the relative proportions of two-name and single-name paper, through rules to be issued by the Federal reserve board and to be applied by the boards of directors of the several Federal reserve banks can be scientifically developed when it is seen through the early experience of the banks in about what proportions the two classes of paper are presented for rediscount. It may easily appear that the proportions in which the paper is offered to the Federal reserve banks will vary quite materially from those in which it has heretofore been offered to individual or member banks. No definite relationship can be laid down with certainty in advance. It can only be stated that wherever possible, the proportion of single-name paper allowed to figure in the rediscounts of a Federal reserve bank should be confined to the lowest basis consistent with the welfare and convenience of the business community.

A proposal worthy of mention in this same connection but requiring care in its consideration is that note brokers who sell single-name paper to banks of the Federal reserve system shall be required personally to endorse the paper they thus dispose of. In support of this proposition it is urged that the custom prevailed in Europe and has been found effective there. This is only partially true, conditions being quite different abroad from what they are here, but it is probably the case that everything possible should be done to stimulate a greater degree of responsibility on the part of note brokers. At present there are many individuals and concerns in the note-broking business whose financial responsibility may be a matter of some doubt and whose principal effort is to dispose of as much paper as they can, thereby securing for themselves the largest possible amount of commissions. On the other hand, it seems hardly desirable to take a step that would tend to produce a condition of monopoly or semi-monopoly in the note business. To

require endorsements of the kind referred to would undoubtedly tend to drive the smaller concerns out of business and would likewise tend to promote the formation of very large corporations organized for the purpose of lending their signatures to commercial paper, thus making it available for use by reserve banks. In this same group of suggestions, is the recommendation that the note broker whose paper is purchased by the reserve banks through member banks shall be required to be regularly examined and audited by a satisfactory accountant. There is no objection to this requirement provided that it be properly applied and that the audit or examination be made under conditions that will not be unreasonably onerous or of a nature to entail unnecessary or excessive expense upon the broker.

GENERAL SUMMARY.

Summarizing these suggestions, therefore, we may first enumerate the recommendations which it is believed are at all events not feasible at the present time.

1. Exclusion of single-name paper whose proceeds are "to be used" for commercial purposes.

2. Narrow definition of the words "agricultural, commercial or industrial purposes" or transactions.

The purposes which should undoubtedly be sought and the recommendations corresponding thereto are as follows:

1. Exclusion of all paper of every kind from rediscount unless those responsible for it are able to make good the contention that its proceeds are intended for facilitating or carrying out a genuine current business transaction of a kind that shall be self-liquidating within the period set by the language of the act.

2. Requirement of all possible classes of information on the part of bankers, notebrokers and others bearing upon the origin of the paper offered for rediscount and the purposes to which its proceeds are to be applied.

The detailed methods that have been suggested for the attainment of these objects and which it is believed will prove more or less useful are as follows:

1. Regular audit of firms or corporations placing single-name paper on the market in order to assure their absolute liquidity and solvency and the liquidity of its assets.

2. Regular audit of note brokers in order to insure absolute knowledge of broker's responsibility.

3. Endorsement by note broker of all paper passing through his hands and ultimately presented for rediscount.

4. Restriction of single-name paper to specified percentage, say, 25 to 50%, of total paper rediscounted by a reserve bank.

5. Establishment of differential rate of rediscount for single-name and two-name paper in order to favor the latter type of security.

6. Use of specified form of note or certificate intended to indicate type of transaction giving rise to paper.

The following points at least are, however, deemed essential in determining the practice to be followed by reserve banks:

1. Commercial paper must be broadly defined as including two-name paper given in lieu of cash for goods sold and bearing the name of maker and endorser, if discounted, and single-name paper which is largely discounted or sold to provide cash in anticipation of future purchases and sales. Where the price of the commodity involved has been fixed, two-name paper, so far as the seller is concerned, represents a closed transaction, whereas in the use of single-name paper, representing as it does principally money borrowed for future transactions, the price remains to be fixed by seasonal demand and trade limitations.

2. From an economic standpoint, two-name paper may be regarded as having no inherent quality that will develop inflation, while single-name paper involving, as previously stated, future transactions, may (though not necessarily) promote speculation and thus develop price inflation. Member banks, therefore, should carefully analyze the business on which single-name paper is to be predicated, differentiating sharply, for purposes of rediscount, between that which is to be used to finance accounts receivable or strictly seasonal requirements, and that which is to finance a floating debt or be used for the extension of business that cannot be readily liquidated.

3. Single-name paper, secured or unsecured, must bear the name of a solvent party whose responsibility is secured by the filing of a satisfactory statement made within one year prior to the date of the discount, or by the filing of a certified copy of such a statement by a responsible person who is in possession of the original.

4. Such paper must bear the endorsement of a member bank and be accompanied by a statement attached to its schedule of application for rediscounts, signed by an officer of said bank, to the effect that to said officer's best knowledge and belief the proceeds of the notes discounted have been or are to be used for commercial, industrial or agricultural purposes of a **current nature**. Such schedule of application must be classified (on a standard form), giving the kinds of business supported by individual items.

5. Such paper must have a maturity at the time of discount of not more than ninety days, except in the case of notes, drafts and bills drawn or issued for agricultural purposes or based on live stock, which may have a maturity of not exceeding six months. The total amount of such six months' paper to be taken by any one Federal Reserve Bank, however, shall not exceed per cent. of the capital of said bank.

6. Any Federal Reserve Bank may discount acceptances (bank or other than consignee) based upon the importation or

exportation of goods and which have at the time of discount a maturity of not more than three months and are endorsed by at least one member bank. The amount of acceptances so discounted shall at no time exceed one-half the paid up capital and surplus of the bank for which the rediscounts are made.

7. Two-name paper must bear the names of two solvent parties, the maker and the endorser. The responsibility of one being reasonably assured by customary credit statements, or the opinion of an officer or director of a member bank formally stated and filed.

8. Such paper must bear the endorsement of the member bank and be submitted on a schedule separate and apart from that used for single-name paper, but similarly classified as to the kinds of business involved.

9. Such paper must have a maturity at the time of discount of not more than ninety days, except as provided by the act for six months' paper based upon agricultural products or live stock.

10. It is recommended as a general practise that at least one party involved in the discount of two-name paper be required to file a statement with the member bank.

FUNCTION OF OPEN MARKET OPERATIONS.

At this point some attention may be given to the question of open market operations. Section 14 of the Federal Reserve Act grants the Federal Reserve Bank power to deal in gold coin and bullion to buy and sell bonds and notes of a public character, to purchase and sell bills of exchange with or without its endorsement and to establish such agencies as it may deem best for the purpose of dealing in bills of this kind. It calls for the formation of certain rules and regulations by the Federal Reserve Board, involving—

- (a) Open-market purchases of commercial paper and exchange;
- (b) Government bonds and short-time Government, State, municipal, and other bonds, notes, and bills.

With reference to these classes of business the following points are noted:

(a) The scope of open-market operations, so far as the question of individual and corporate credit is concerned, must rest largely with the purchasing bank, subject to suggestions based upon analyses by the credit department of the Federal Reserve Board. It will be necessary, however, for the Federal Reserve Board from time to time to make regulations involving—

1. The amount of any particular paper permitted to be held by any one bank and the aggregate amount of such paper to be held by all the Federal Reserve banks;
2. The total amount of all open-market purchases held by all Federal Reserve banks.

The necessity for such regulations is apparent. The open-market section of the bill was primarily provided to give the Federal Reserve Board the necessary economic control of the domestic money market and to preserve a proper equilibrium in international relations. Specific rules formulated in advance on this general subject are, of course, impracticable. The rules when established will, moreover, have to be varied somewhat from time to time.

(b) The Federal Reserve Board should from time to time formulate rules and regulations covering purchases and sales involved in subdivision (b) of Article 14, limiting the volume of securities which it would be appropriate for any one Federal Reserve bank to purchase, and also in contemplation of the aggregate volume held by all such Federal Reserve banks. The intent of the act is to have such securities purchased, with the exception of Government bonds, somewhat approximate the fluid quality of commercial paper. It will therefore be inadvisable for banks to purchase any revenue bills or bonds that are issued in the aggregate in excess of the amount of revenues received by the respective States, districts, or municipalities beyond the amount which experience shows was received on the annual average of the last preceding two years. No bills or bonds should be purchased which are not issued in anticipation of specific levies or revenues. Federal Reserve banks should file with the Federal Reserve Board comprehensive statements involving the experience of all districts and municipalities in relation to taxes and revenues received, and amounts borrowed for the last preceding two years, when purchases are contemplated.

Banks desirous of purchasing irrigation, drainage, and reclamation district obligations maturing within six months shall, prior to making such purchases, file with the Federal Reserve Board a statement of revenues, expenditures, and borrowings of such districts for the last preceding three years. In all cases both as to State, municipal, or irrigation, drainage or reclamation short-time instruments, where any question is involved not herein covered, specific action will be taken by the Federal Reserve Board based upon the facts presented.

The open market provisions of the act are of very large importance in two ways:

(a) In permitting Federal reserve banks to place their resources at the disposal of constituent or member banks even when such constituent or member banks do not apply for rediscounts, inasmuch as the law allows the reserve banks to buy the paper directly in the open market and thereby to insure the placing of its funds in active use should occasion demand.

(b) In permitting a reserve bank in one district which has surplus funds to relieve the strain upon reserve banks in other districts by buying such surplus of paper as may have come upon the market in those districts, thereby preventing banks in these places from being compelled to refuse to grant rediscounts in cases where the supply of paper is in excess of the

capacity of the banks to take care of at the seasons of the year when an exceptional degree of strain has made itself felt.

Much has been said of the effect of the open market transaction in enabling the reserve bank to get funds out into active use at times when they would otherwise be out of use. There are some limitations upon this idea that have probably not been sufficiently considered. Under ordinary circumstances, the reserve banks will not compete with their own members and while they may be expected to compete with certain individual banks even among their own stockholders under special or peculiar circumstances they will naturally do so only when such action is rather urgently demanded. A quite different condition of affairs will exist with reference to the open market transactions, relating to paper put out in other districts. In so far as this represents a field of activity which is not occupied, or occupied only in a limited degree by individual banks, the reserve banks may be expected to become active buyers of paper originating in such other districts.

FOREIGN EXCHANGE OPERATIONS.

The second principal element in the business of the Federal reserve banks will be that of dealing in foreign exchange and of transmitting funds abroad. Precisely what relation this business will bear to the general business of the reserve banks themselves, cannot be predicted, and will undoubtedly vary considerably from bank to bank, according to the particular type of business developed in each of the several institutions. At some of the banks the foreign exchange service may at times be of preponderating importance while at others it is entirely possible that the work may be sporadic or incidental. In the case of some of the banks, it may be found desirable to conduct the exchange operations entirely through the medium of other reserve banks.

Nevertheless the conduct of the exchange operations for the system as a whole will be of primary importance and will amount to a general control of the foreign financial and monetary relationships of the United States.

The provision of the Federal Reserve Act relating to foreign exchange operations is found in section 14 where it is provided that the banks shall have authority:

"To open and maintain banking accounts in foreign countries appoint correspondents, and establish agencies in such countries wheresoever it may deem best for the purpose of purchasing, selling, and collecting bills of exchange, and to buy and sell, with or without its endorsement, through such correspondents or agencies, bills of exchange arising out of actual commercial transactions which have not more than ninety days to run and which bear the signature of two or more responsible parties."

The banks are also authorized:

"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 the date of purchase of not exceeding six months, issued in anticipation of the collection of taxes or in anticipation of the receipt of assured revenue."

In section 13, it is provided that:

"The rediscount by any Federal Reserve Bank or any bills receivable and of domestic and foreign bills of exchange, and of acceptances authorized by this act, shall be subject to such restrictions, limitations, and regulations as may be imposed by the Federal Reserve Board."

It is thus seen that the Federal Reserve Act makes express provision not only for dealing in foreign exchange and securities, but also for the mechanism necessary for such exchange transactions and finally for the regulation and control both of the foreign agencies and of the transactions themselves by the Federal Reserve Board through its regulations.

It is therefore necessary to indicate first of all the conditions under which the reserve banks should operate abroad and their relations to the member banks engaged in similar business as well as to one another.

It is recommended that above all in dealing in foreign exchange the Federal Reserve Banks should act together as a unit. While this is not necessary, and while the reserve banks could undoubtedly do a successful foreign exchange business independently of one another, each establishing its own agencies as it saw fit, it is believed that better results would be obtained if the reserve banks at least had general knowledge of one another's transactions and were required to act together so far as conditions would permit. It is, therefore, recommended that the policy to be prescribed with reference to foreign exchange by the Federal Reserve Board shall be uniform and that there shall be as little opportunity as possible for the development of conflicting or unnecessarily duplicating orders and policies. Moreover, it is believed that the establishment of agencies by each and every one of the banks would be an unnecessary expense. It is, therefore, suggested that in selecting agents or in establishing offices abroad, the reserve banks shall be required to act jointly. Joint offices for all the reserve banks will ultimately need to be established in each of the principal financial centers in foreign countries and pending the time that such joint office is established, it is recommended that consent be given only to the establishment of agencies which shall jointly act for all of the Federal Reserve Banks. The details of this proposal will be fully considered in connection with the question of establishing branches in general.

GENERAL SCOPE OF FOREIGN OPERATIONS.

It is possible that the Foreign operations of the Federal Reserve Bank will not be large at first. The ordinary clearance operations of commerce are handled eagerly and adequately by banks already engaged in foreign exchange. Except in cases of stress all exchange is easily absorbed at the current price. It will be necessary, however, for the Reserve Bank to stand ready to negotiate all bills of exchange that may come to it from member banks in outlying communities or from other Reserve Banks. Rather should the position of the Reserve Bank in this field be that of an overflow reservoir, recouping its balances from the credits created abroad by other Banks engaged in such business and making such advances from time to time as may be necessary to facilitate absorption of exchange or protect gold reserves, that is to say, not interfering with member banks but operating rather from a broad economic standpoint. The Reserve Bank can act as the medium through which the necessities of the Post Office for Foreign Exchange to meet the requirements of the Foreign Money Order Division may be liquidated and otherwise as foreign Fiscal Agent of the Government, but must give due consideration to the development of offsetting business. It may be needless for many of the Reserve Banks to enter the foreign field, much depending upon their co-operation through a common agency. It is a matter of grave doubt as to whether it will be necessary for more than one to do so at the start as even under present conditions the Foreign Exchange market for all banks engaged in Foreign Exchange wheresoever located is in New York City. However this may be, the relations of the Federal Reserve Banks and either member or non-member banks in the Foreign Exchange field should be sympathetic. The Federal Reserve Bank should have perfected all the machinery to make it a dominant leader to marshal the collective forces of the exchanges in times of stress.

FOREIGN REPRESENTATIVES.

Arrangements will necessarily be made as soon as feasible to secure banking connections in all of the principal banking centres of the world. It will be unnecessary to establish actual branches in all those places where there are already good banking facilities unless the Federal Reserve Board should deem it wise to do so after a general survey of the whole field. The existing facilities afforded by foreign banks or even by branches of American banks will afford all that would be supplied by an independent branch. Whether it will be deemed best in spite of this fact to create actual branches with independent banking houses and assigned capital in all places where good banking facilities already exist is a matter of policy as to which no definite statement can here be made. The general question of branches and the creation of such branches abroad will be given special attention at a later point to which attention is accordingly directed. It will at all

events be found that in not a few places the appointment of representatives will probably be necessary, owing to the fact that adequate banking facilities for the promotion of American commerce are not available there.

CONDUCT OF BUSINESS.

It is recommended that the services of a foreign exchange expert of known ability who is at the same time familiar with banking in its broadest sense shall be secured. This expert should probably be given the rank of an officer corresponding to that of a vice president in an ordinary bank. Under his direction and through the medium of a deputy acting as his assistant, the foreign operations of the bank should be carried on. This foreign exchange expert will find it desirable at the outset to secure without delay connections, whether through the creation of branches or not as may later be decided, with the principal European centres particularly including London, Paris, Berlin, Hamburg, Frankfort, Antwerp, Amsterdam, Rome, Naples, Vienna, St. Petersburg and Zurich. Exchange should be acquired by him with prudence and judgment as to money market conditions at all points, the major portion of resulting balances being of course held in London. His funds thus obtained should be employed in the purchase of short-term paper and bills of exchange as specified under the law according as business requirements demand. The rule to be observed, however, should be that of having the holdings of exchange in the most liquid form. Dealings in exchange should be carried on both at home and abroad, but it would probably be inadvisable to enter the field as an aggressive operator. The policy to be constantly observed is, unquestionably, that of providing a secondary reserve for the reserve bank. Precisely how much should be regularly invested in exchange with this object in view, cannot be laid down in any definite manner, and, as will be later indicated, could at most be limited to a given percentage of the operations of the reserve bank, although even that is not in this discussion definitely fixed. The funds invested in exchange will of course return an income, but the principal object should be as already stated, that of providing the secondary reserve referred to. It is probable that ultimately a considerable quantity of ordinary exchange operations will be undertaken by the reserve banks engaged in this branch of business, but no steps should be taken to force such a growth, it being permitted rather to gain a natural development incident to the regular progress of the institution carrying on the operations.

For the purpose of making clear the details of policy which must be observed in carrying on the foreign exchange business of the reserve banks upon the basis already described a complete set of regulations designed to govern the management of the foreign exchange department of the reserve bank has been worked out as an element in this discussion.

They are as follows:

I.

Manager.

(a) There shall be in charge of the Foreign Exchange Department of each Federal Reserve Bank, if such a department be developed, an official to be known as the "Manager of the Foreign Exchange Department," selected by the Board of Directors, who shall receive an annual remuneration to be decided by the Board.

(b) This official shall have been actively engaged and be experienced in Foreign Exchange operations.

(c) Upon appointment, the official mentioned shall furnish bond of good and sufficient surety in amount of \$.....

(d) The duties of the manager of the exchange department shall be to control the funds of the Reserve Bank carried in Foreign Exchange. He shall have entire charge of the buying and selling of all checks, drafts, demand or time, cable transfers, Bills of Exchange, gold coin, bullion, and any other instruments, securities, properties and commodities that the Reserve Bank is authorized to buy or sell under the Law subject to the Regulations hereinafter provided.

(e) The manager shall have the power to employ, through the channels provided in the Regulations, such assistants as he may deem necessary to carry on the business of his Department. He shall make such recommendations as he may deem advisable for the expansion or improvement of the Bank's Foreign Exchange operations to the President.

(f) He or his assistants shall through the usual clerical channels submit daily to the President a report of his operations, showing purchases and sales of exchange, prices at which such purchases and sales were made and the disposition of the Reserve Bank's foreign balances. It shall be his duty or that of his designated assistants to authorize all transactions, approving all purchases, sales and other operations, subject to the rules and regulations of the Board of Directors. There shall also be submitted to the Board of Directors and to the Federal Reserve Board a monthly report and such other reports as the Federal Reserve Board may deem advisable or necessary.

(g) He shall have general supervision under the direction of the President of the exchange operations of all of the bank's foreign agencies and branches. The Board of Directors shall arrange for systematic reports from all Foreign Agents and Managers of Foreign Branches.

(h) There shall also be selected by the Board of Directors an Assistant Manager, who shall act as general assistant. Before receiving appointment he shall comply with the requirements of paragraphs B and C. He shall receive a compensation to be decided by the Board.

II.

Funds to Be Invested in Foreign Exchange.

(a) Unless at the express direction of the Board of Directors or the Federal Reserve Board, there shall at no time be invested in Foreign Exchange an amount exceeding . . . percentum of the Reserve Bank's demand liabilities after deducting from the total of such demand liabilities the total of gold and lawful money on hand or in transit to the Bank, such sum invested, however, not to include the working capital of any branch that may be established in accordance with the law. Any Federal Reserve Bank not regularly engaged in Foreign Exchange operations may at the discretion of its Board of Directors, invest in Foreign Exchange or transact any and all Foreign business eligible under the law and clear such transactions with foreign countries through the medium of the Foreign Department of any other Reserve Bank that may be actively engaged in Foreign operations, and such other Federal Reserve Bank shall separately record any and all Foreign transactions it may perform for any Reserve Bank independent of its own operations, and shall render a separate and distinct accounting therefor, and may receive a compensation from such other Federal Reserve Bank for so acting, such compensation to be fixed by the Federal Reserve Board on the basis of the periodical turnover.

(b) When gold coin, or bullion is purchased in foreign countries, out of the amount invested by a Reserve Bank in foreign exchange, for the purpose of importation into the United States, such amount shall immediately be deducted from the total carried as Foreign Exchange, and shall be regarded as part of the gold reserve of the Bank.

(c) When importations of Gold are desired, at the discretion of the Board of Directors or at the direction of the Federal Reserve Board, Banks or Bankers may be employed to import Gold for the account of a Federal Reserve Bank. In such cases the gold coin or bullion must be consigned to the Federal Reserve Bank making the advance and shall be regarded as part of the Gold Reserve of the Federal Reserve Bank, when in transit.

(d) No clean Bill of Exchange drawn on parties other than Banks or Bankers shall be negotiated by a Federal Reserve Bank without the endorsement of a member Bank.

(e) Clean Bills of Exchange drawn on Banks or Bankers at longer time than sight, (such maturities, however, not to exceed ninety days sight) may be negotiated by a Federal Reserve Bank upon the guarantee of acceptance of a member Bank.

(f) Documentary Bills of Exchange drawn on parties other than Banks or Bankers at longer time than sight, provided, however, at not longer than ninety days sight, and where the documents are deliverable upon acceptance may be purchased by a Federal Reserve Bank only with the endorsement of a member Bank.

(g) All documentary Bills of Exchange drawn on Banks or

Bankers of whatsoever tenor in accordance with Section 13 of the Federal Reserve Act may be negotiated by the Federal Reserve Bank with the guarantee of acceptance of a member Bank.

(h) Cable transfers, checks, drafts, and bills of exchange drawn by responsible Banks or Bankers, at the discretion of the Manager, may be purchased by the Federal Reserve Bank, subject to regulations of the Board of Directors.

(i) The liability, direct or contingent, unless secured, of any Bank or Banker member or non-member shall at no time exceed . . . percentum of the capital, surplus and undivided profits of such Bank or Banker where the amount of capital, surplus and undivided profits is published by requirement of law. Where such capital, surplus and undivided profits is not so determinable, to not exceed an amount to be fixed as a line by the Board of Directors subject to review by the Federal Reserve Board.

(j) The outstanding liability of any foreign individual, firm, corporation, Bank or Banker, by reason of acceptance on unmatured Bills of Exchange held or re-discounted by the Reserve Bank shall at no time exceed . . . percentum of the capital, surplus and undivided profits of such Bank or corporation, and where the capital, surplus or undivided profits are not so determinable, to not exceed an amount to be fixed by the Board of Directors, subject to review by the Federal Reserve Board.

(k) The liability of any individual, firm or corporation as drawer or endorser of any check, draft, bill of exchange, or other instrument negotiated by a Federal Reserve Bank in its foreign operations shall not exceed a line to be fixed by the Board of Directors, subject to review by the Federal Reserve Board, and a record shall be kept of the total liabilities of each individual, firm, or corporation.

(l) A Federal Reserve Bank shall not purchase and have outstanding at any time in unmatured drafts drawn on Foreign points, where the documents underlying such drafts are to be surrendered against payment only, an amount in excess of . . . percentum of the total amount available for use in Foreign Exchange operations by such Federal Reserve Bank.

(m) A Federal Reserve Bank shall purchase Foreign gold coins of fineness fixed under the laws of the country where such coins were minted at the mint price of \$20.6718+ per fine ounce whenever such coins are presented to it, and such coins whensoever and howsoever acquired shall constitute a part of the Gold Reserve of the Bank; providing, however, that at no time does such amount of Foreign Gold coins exceed in amount . . . percentum of the amount of Gold the Bank is obliged to maintain by law.

(n) Whenever a Federal Reserve Bank purchases cable transfers from member or nonmember Banks or Bankers, or any other parties whatsoever, payment for the equivalent shall not be made until the Reserve Bank is advised by telegraph of the receipt of such payment by its Foreign Agent or Branch unless otherwise guaranteed.

(o) Whenever the Federal Reserve Bank sells cable transfers, it shall be in receipt of payment before it may direct such transfer.

(p) On all purchases or sales of Bills of Exchange and other instruments except cable transfers by a Reserve Bank, payment shall be made in the case of purchase to, and in the case of sale by, a Federal Reserve Bank immediately upon delivery of the Bills of Exchange or other instruments purchased or sold.

(q) Any or all of the restrictions imposed by these regulations may be temporarily suspended by the Federal Reserve Agent subject to review by the Federal Reserve Board.

III.

Correspondents.

(a) There may be selected as required in each principal banking centre of the world at least one bank or banker as correspondent subject to the consent of the Federal Reserve Board. From time to time or as the requirements of increased business may direct, and subject to the consent of the Federal Reserve Board, the number of correspondents in any banking centre may be increased to two, except as provided in the following paragraph.

(b) Wherever possible, all correspondents of the Federal Reserve Banks shall be branches of American banks established in such foreign banking centres, and where there may be more than one branch of an American Bank the business of the Federal Reserve Bank shall be distributed among such Branches in the approximate ratio that the several banks' capital and surplus shall bear to each other.

(c) Such correspondent shall render a daily report of receipts, disbursements, discounts, and any and all operations undertaken at the direction of or for the account of a Federal Reserve Bank.

(d) Such correspondent shall render a monthly statement of the account of each Federal Reserve Bank showing in detail all entries to its account and a memorandum of all interest accrued and charges, showing such charges in detail. It shall further send a monthly schedule of all Bills of Exchange, drafts or other instruments, or other property that it may hold on behalf of a Federal Reserve Bank, indicating amount, drawee or acceptor, maturity, and collateral to such instrument, if any.

(e) Such correspondent shall once each week provide each Reserve Bank with a statement of the contingent liabilities of the Reserve Bank by virtue of endorsement on Bills of Exchange or other instruments which have been discounted or sold on behalf of and for the account of the Reserve Bank.

(f) There shall exist between the Reserve Banks and correspondents a secret code suitable to the transaction of their operations and messages under such code shall be protected by a cipher in the possession of the senior officers of the Reserve Banks, the managers and their immediate assistants.

IV.

Branches.

(a) The Board of Directors of each Federal Reserve Bank may from time to time, subject to the consent of the Federal Reserve Board, establish such foreign branches as may be deemed necessary or expedient, and unless at the express direction of the Board of Directors or the Federal Reserve Board each Branch shall use (as fixed working capital) an amount not in excess of . . . percentum of such Reserve Bank's demand liabilities after deducting from such liabilities the amount of gold and lawful money on hand or in transit to the Bank.

(b) All Foreign branches shall be officered by the following, seniority in the order given:

- 1 — Manager.
- 2 — Assistant Manager.
- 3 — Accountant.

(c) These Officers shall receive remuneration to be fixed by the Board of Directors.

(d) The Manager shall have entire charge of the Branch, subject to the direction of the Federal Reserve Bank or banks creating such Branch. His duties shall consist of selecting the Branch's investments, developing new business, buying and selling Bills of Exchange, gold coin, bullion, obligations of the United States, or any other security eligible by law to be negotiated, subject to the Regulations of the Home Office. He and his assistant shall be responsible for all monies, securities and any and all assets of the Branch and shall make such provision for their safe guarding as may be deemed necessary.

(e) The Assistant Manager shall have charge of the staff and the office, and shall assume charge in the absence of the Manager.

(f) The Accountant shall have entire charge of the accounts and records of the Branch. He and his assistant or assistants shall make such examinations from time to time as they may deem necessary or as they may be directed. He shall render a daily balance sheet to the Manager and shall submit to the Reserve Bank such statements of the affairs of the Branch as are required by the Regulations. In the absence or disability of both the Manager and Assistant Manager, the Accountant shall assume charge of the Branch.

(g) A Branch shall make a daily report by mail of its operations to the Reserve Bank, accompanying which shall appear the copy of the balance sheet of such Branch as of the close of business the preceding day, and shall submit a weekly report of all contingent liabilities by endorsement of Bills, etc., sold or discounted, and shall further submit a list of all liability or individuals, firms or corporations to the Branch whether as drawer, endorser, guarantor or acceptor.

(h) On the last day of each calendar month the books of a branch shall take up in its Profit and Loss Accounts and Expense Accounts, all interest, commissions, expenses and all other determinable incomes or expenditures, and an analysis thereof shall be submitted over the Manager's signature to the Reserve Bank, in duplicate—one copy to the President of the Reserve Bank, and the other to the manager of the foreign exchange department.

(i) A schedule of all Bills of Exchange, drafts, checks, notes, or other securities and properties held by the Branch shall be submitted once each month; such schedule shall indicate amount, drawee, acceptor or payor, tenor, maturity, and collateral, if any.

(j) As of the close of business the last days of February, May, August, and November, the books of each branch shall be closed, clearing into Profit and Loss all amounts standing or accrued as income, or expense, and after charging off all bad debts, the balance in Profit and Loss shall be transferred to the Reserve Bank.

(k) All losses shall be reported to the Reserve Bank over the signatures of at least two officers. Assets of questionable value shall be reported to the Reserve Bank, and upon confirmation from the Reserve Bank, may be written off.

(l) No clean bill of exchange, unless drawn by a bank or banker, shall be purchased by any branch except with the consent of at least two of the three officers of the Branch or a line on any name may be fixed by at least two Officers of the Branch, within which line the clean bills of any individual, firm or corporation, may be bought. All matters of credit and responsibility of parties shall be subject to the concurrence of at least two Officers and further subject to approval by the Home Office.

(m) No draft drawn under a Letter of Credit may be purchased by any Branch unless a specimen of Letter of Credit and signature of the party who issued it are on file, or unless confirmation has been received direct that such a credit is open and that drafts thereunder may be negotiated.

(n) The Manager may at his discretion deal in or make loans on gold coin or bullion, and shall cause to be rendered to the Reserve Bank a detailed statement of such operations. The statement to indicate face value, weight, fineness, and specie value.

V.

Accounting of Foreign Exchange Department.

(a) The regulations covering the accounting system of the Federal Reserve Bank shall apply to the Branches.

(b) The books of the Foreign Exchange Department shall be, as follows: 1. General Ledger; 2. General Balance Sheet; 3. Journal; 4. Cash Receipts Book; 5. Cash Disbursements Book; 6. Agency Ledger; 7. Branch Ledger; 8. Liability Ledger; 9. Remittance Records; 10. Draft Records, and any other books that may become necessary from time to time in the opinion of the Auditor.

(c) All books shall be bound books, except in cases where expediency requires it, the books may be loose leaf, to which exceptions, however, the Auditor must concur, and such provisions that he may make in the use of loose leaf records shall be complied with.

(d) The General Ledger of the department shall carry the control on all accounts in the department, showing each account separately, except in such cases as the liabilities (see paragraph N) wherein one amount may be shown to control all accounts. The General Ledger shall be posted daily in ink and each page footed in ink and carried forward.

(e) The General Balance sheet shall be a columnar book showing the daily balances in each account on the General Ledger.

(f) The Journal shall take up all entries not properly handled in the Cash Receipts or Disbursements Books, Remittance or Draft Records. It shall be a columnar book and after proof, a recapitulation thereof shall be taken off and handed to the General Bookkeeper.

(g) The Cash Receipts Book shall record all receipts of cash or checks from whatsoever sources. All receipts of cash unless controlled by preceding entries, shall be acknowledged, a copy of which receipt shall be taken up by the Officer signing the original, and handed to the Auditor. After proof each night a recapitulation shall be taken off and handed to the General Bookkeeper of the Department.

(h) The Cash Disbursements book shall record all cash paid or checks drawn. Unless such payment is controlled by previous entry no disbursement may be made without an order, initialed by the Chief Deputy, his assistant, or, in their absence, some temporary authority conferred by the President. After proof each night, a recapitulation shall be taken off and handed to the General Bookkeeper of the Department.

(i) The Agency Ledger shall record the transactions between the Bank and its Foreign Agents. It shall be posted each day from the books of original entry, proved to the control on the General Ledger at least once a week, reconciled and closed quarterly. As statements are received monthly, they shall be verified to the postings made from returns indicated by the Daily Advices of the Foreign Agents. All charges incidental to the agent's operations must be recorded in a book provided for the purpose and verified and initialed by the Deputy or his assistant, and subsequently checked and approved by the Auditor.

(j) The Branch Ledger shall show the accounts of the Branches with the Head Office, this Ledger shall be posted from books of original entry, proved once a week to the general control and reconciled to the Branches' monthly statement.

(k) The Liability Ledger shall indicate the names of all parties upon whose endorsements or guarantees of acceptance Exchange has been bought. The total of the line allowed, whether . . . percentum of the capital and surplus or the line approved by

the Board (see Sec. II, Paragraph i.). As drafts mature or are accepted, and as the responsibilities of the parties terminate, the amount of such draft shall be deducted from the outstanding line. It shall also show the liability of all parties by acceptance on unmatured Bill of Exchange (see Section II, Paragraph J). The balances appearing against any and all parties shall be reported to the Board of Directors each week.

(l) The Remittance Records shall contain the detail of all drafts, cable transfers, Bills of Exchange, etc., purchased and charged to agents or Branches. This record may be loose leaf if expediency so demands and the Auditor approves. No bill may be entered without an authorization of purchase signed by the Deputy or his assistant. A recapitulation shall be given to the General Bookkeeper at the close of each day.

(m) The Draft Book shall record all sales of checks, drafts, cable transfers and other instruments drawn on and to be credited to any agent or Branch. There shall be kept therein all the detail of such transaction and no draft, check, cable transfer, etc., may be drawn or consummated without an authorization signed by the Deputy or his assistant. After proof, a recapitulation shall be handed to the General Bookkeeper of the Department.

(n) Among the control accounts on the General Ledger shall appear an account Liability by Endorsement—per contra. Customers' Liability on Discounted Paper. This figure shall be altered from time to time by means of a Journal entry. As reports are received from the agents and Branches (See Sec. III, paragraph F and Sec. IV, paragraph G) the entries herein ordered shall be made.

(o) All expenses of the Foreign Exchange Department, except those involved in the operation of accounts such as commissions, charges, Foreign Revenue stamps, etc. (See Section V, Paragraph i), shall be charged to Expense Account maintained on the General books of the Bank and supported by a detail book.

(p) All interest receivable or payable, commissions and other determinable income shall be accrued monthly; all profits on exchange operations shall be determined and set up in Profit and Loss account quarterly, and all Branch returns shall be carried to Profit and Loss and an estimate of the Profit for the overlapping month shall be made and passed, based on the return on the average capital used the quarter just received.

(q) All Profits and Losses shall be cleared into the General Profit and Loss accounts of the Bank on the last days of June and December.*

*This sketch of the accounting for the foreign exchange department is correlated directly with the accounting plan presented in Appendix I. A different set of records, embodying the same principles, is presented in Appendix II and accompanying forms.

ORGANIZATION OF FEDERAL RESERVE BOARD.

It is now necessary to devote some attention to the central controlling mechanism of the system. The organization of the Federal Reserve Board is partly prescribed by the Federal Reserve act, and is partly left to be determined by the Board itself under the general authority assigned to it by that act. In so far as its organization is prescribed, no discussion needs to be offered. In so far as its organization is left optional with itself it will presumably determine the lines to be followed, when it is created. There is no intention in this report of anticipating what the Board will do with reference to its own internal organization. In discussing the organization of the Federal reserve banks which are under the direct oversight of the Federal Reserve Board, it is, however, necessary to indicate in general terms such elements of the organization of the Federal Reserve Board as will undoubtedly be required for the proper control of the type of organization contemplated for the several banks. In this report, therefore, effort is made simply to suggest those features of Federal Reserve Board organization which necessarily must be indicated as complementary to the organization of the reserve banks.

The outlines of what is believed to be desirable in organizing the Federal Reserve Board may be best set forth in the form of by-laws, as follows:

BY-LAWS OF THE FEDERAL RESERVE BOARD (Organized in 1914 under the Federal Reserve Act).

ARTICLE I.

The Chairman.

The Secretary of the Treasury shall be chairman of the Board. In the absence or disability of the chairman, the Comptroller of the Currency shall be vice-chairman. In the event of the absence or disability of both the chairman and the vice-chairman, the Governor, and in his absence or disability, the Vice-Governor shall be chairman pro tem.

ARTICLE II.

The Governor.

Section 1. The Governor of the Federal Reserve Board shall be the active executive officer thereof; subject, however to such rules and regulations as may be incorporated herein or may from time to time, by resolution, be established.

Section 2. The Governor shall have custody of such funds as may be in possession of the Board. He shall open and maintain bank accounts in such institutions as the Board may by resolution designate, and shall sign checks drawn on such accounts.

Section 3. The Governor shall keep or cause to be kept a continuing record of all receipts and disbursements of the Board.

Section 4. The Governor shall have general charge of all business of the Board not specifically assigned by resolution to any individual member thereof, or to the committee of the whole. He shall submit a summary of such business at each succeeding meeting of the Board.

Section 5. The Governor shall have custody of the seal of the Board and shall have power to affix the same to all instruments requiring it under the authority of the Board. Such instruments shall be attested by the Secretary.

ARTICLE III.

The Vice-Governor.

Section 1. In the absence or disability of the Governor, his powers shall be exercised and his duties discharged by the Vice-Governor, and in the absence or disability of both of these officers, such powers shall be exercised and such duties discharged by such member of the Board as it may, by resolution, designate chairman pro tem.

Section 2. It shall be the duty of the Vice-Governor to cooperate with the Governor in the administration of the general business of the Board.

ARTICLE IV.

The Secretary.

Section 1. The Board shall appoint a Secretary, whose duty it shall be to attend all meetings of the Board, and keep a record of its proceedings.

Section 2. The Secretary shall assist the Governor and the Vice-Governor in the administration of the general business of the Board. He shall have general supervision of scientific and expert divisions, devoting himself particularly to supplying the Board with detailed information regarding domestic and international business and banking relations, and such other data as the Board may from time to time require.

Section 3. In the absence or disability of the Secretary, his duties shall be performed by such member of the Board or the general staff as said Board may, by resolution, appoint Secretary pro tem.

ARTICLE V.

The Seal.

The following is an impression of the seal adopted by the Board.
(Seal.)

ARTICLE VI.

Meetings.

Section 1. There shall be a stated meeting of the Board each week day except Saturdays and legal holidays, at such hour of the day as may from time to time be determined by resolution of said Board.

Section 2. A majority of the members present shall constitute a quorum, except that the affirmative vote of at least five members of the Board shall be necessary to require Federal reserve banks to rediscount the discounted paper of other Federal reserve banks.

Section 3. At least once during each quarter there shall be a joint conference in Washington of members of the Federal Reserve Board and the Federal Advisory Council, at such time as may be mutually agreed upon by said Board and said Council.

Section 4. At all meetings of the Board the following shall be the order of business:

- (1) Reading or inspection of the minutes of the last regular meeting.
- (2) Report of the Governor.
- (3) Report of the Secretary.
- (4) Reports of members on assigned business, or relative to their particular divisions or bureaus.
- (5) Unfinished business.
- (6) Joint conference with officers or members of Federal Advisory Council, when scheduled or otherwise arranged.
- (7) New business.

ARTICLE VII.

Budget and Audit.

Prior to June and December first of each year, the chairman shall appoint a committee consisting of two members of the Board, whose duty it shall be to audit the accounts thereof for the six months' period for which they shall have been appointed, and report to the Board a tentative budget of expenses for the next succeeding six months.

ARTICLE VIII.

General Business.

Section 1. There shall be established by the Board the following divisions or bureaus:

- Bureau of Currency and Coin.
- Bureau of Foreign Exchange.
- Bureau of Clearings and Domestic Exchange.
- Bureau of Examination and Audit.
- Bureau of Reports and Statistics.
- Bureau of Credit and Discounts.

Section 2. It shall be the duty of the Federal Reserve Board to provide for a periodical audit of the accounts of, and the securities and currency held by, the various Federal reserve agents.

Section 3. The chairman shall once in each six months designate one member of the Board whose duty it shall be to cooperate with its officers in the general supervision of one of its bureaus or divisions.

ARTICLE IX.

Information.

Section 1. All persons employed by the Board shall keep inviolate its business, affairs, and concerns, and shall not disclose or divulge the same to any unauthorized person whomsoever, and any employee who shall give information contrary to this by-law shall be liable to immediate dismissal.

Section 2. The action or policy of the board shall not be expressed through any individual member, but by its duly constituted officers, after formal action by the Board.

ARTICLE X.

Amendments.

These by-laws may be amended at any regular meeting of the Board by a majority vote of the entire Board, provided that a copy of such amendment shall have been delivered to each member at least three days prior to such meeting.

ARTICLE XI.

Rules and Regulations.

Such rules and regulations as may from time to time be adopted by the Board, either in relation to the continuity of its own business, or to the Federal reserve system, shall be appended to and form a part of these by-laws.

FEDERAL ADVISORY COUNCIL.

Section 12 of the Federal Reserve Act provides for a Federal advisory council to consist of as many members as there are Federal Reserve districts. It is required that each Federal Reserve bank shall by its Board of Directors annually select one member of the council, and that the said council shall meet at Washington at least four times a year, as well as oftener if called by the Reserve Board. The council is given power to select its own officers and adopt its own methods of procedure, and it is further given authority:

“By itself or through its officers (1) to confer directly with the Federal Reserve Board on general business conditions; (2) to make oral or written representations concerning matters within the jurisdiction of said Board. ”

A review of the provisions of Section 12 as thus set forth shows that the power of the Organization Committee and of the Federal Reserve Board in regard to the organization of the Advisory Council is only of a very broad general kind probably extending no further than the mere making of suggestions. It is, however, recommended that the organization committee shall in organizing Federal Reserve banks make some general recommendations to the said banks with reference to their participation in the task of

creating this council. The following points are considered to be desirable in the organization of the council:

1. Appointment of members of the council who shall at least at the beginning be active operating officers, preferably the presidents of the several Federal reserve banks.

2. Establishment of general headquarters in Washington with suitable representative in charge as agent, through whom requests and suggestions may be transmitted to the Federal Reserve Board and who shall transmit information to the Federal Reserve banks at his discretion or as may be asked by them.

3. Provision of reasonable allowances for this resident agent or officer of the Advisory Council. This point is specifically made subject to the approval of the Federal Reserve Board in the early part of Section 12, and undoubtedly the recommendations made by the Board at the beginning will be largely influential in determining the practice of the several reserve banks. The provision of a suitable mechanism at the outset will do a good deal toward starting the system upon right lines in the beginning, and it is believed that the general suggestions or recommendations already indicated ought to be applied.

Consideration should be given to the incorporation in the By-Laws of the Council of the following points:

- (1) Designation of Offices and Election of Officers;
- (2) Powers and Duties of Officers;
- (3) Stated Quarterly Conference at Washington between Federal Reserve Board and Federal Advisory Council;
- (4) Audit of Expenses and Plan for Semi-annual Budget.

Referring more specifically to the intent of the act in providing for conferences with the members of the Federal Reserve Board regarding all matters relative to the Federal Reserve system, it would seem that the best results would obtain if the active executive officers of the banks of the system participated. The provision that the Federal Advisory Council "shall have power, by itself or through its officers," implies the necessity of continuity of action at Washington in the performance of its duties. The executive officers of the Federal Reserve banks manifestly would not be available as officers of the Council. It is therefore suggested that it be deemed appropriate for the Council to choose a paid officer or officers, who shall reside in Washington and maintain an office in the general interests of the Federal Reserve banks. They should, of course, cooperate with the Federal Reserve Board in the general interests of the Federal Reserve system.

If the paid officers of the Federal Reserve banks are chosen as members of the Federal Advisory Council, as herein suggested, there would be no need for their further compensation, other than travelling expenses and maintenance charges during the period of their meetings.

The compensation of the officers of the Federal Advisory Council, the office rent (unless otherwise provided by the Secretary of the

Treasury), the maintenance of the clerical force, and other expenses, should be assessed upon the various Federal Reserve Banks in the same manner as is provided in the act for the payment of expenses of the Federal Reserve Board.

CODE BOOK.

The Federal reserve banks should be provided with a private code for use in the cable and telegraphic transmission of advices relative to their business. Such codes are in use in the more important existing banks, each such bank developing its own code, adapted to its own uses and employed for the purpose of transmission of cipher messages. It is recommended that such a code be developed for the joint use of the Federal reserve banks and of the Federal reserve board and that this be done at an early date, the work being placed in the hands of one of the recognized code experts who are familiar with existing methods of doing this work and who are trustworthy. In the system of clearing and transferring credits which has been worked out in the present report, there is a large field for the constant use of telegraphic advices; and the Federal reserve board will find that such advices will be largely relied upon in its own communications with the reserve banks. That such communication will in many instances be of a necessarily confidential nature is obvious and provision for a suitable means of guarding the messages during transmission, while reducing their length to a minimum should be promptly made.

ACCOUNTING SYSTEM.

Reference has already been briefly made to the question of accounting. It is now necessary to consider that topic in detail.

In dealing with accounting it has been found that there would be a necessary difficulty in determining the precise form to be given to the books and records of the Federal reserve banks in the absence of positive knowledge as to the policy to be finally adopted with reference to their clearing, exchange, and other functions. If the banks are to be confined to comparatively limited operations at the outset the form of records then to be employed would naturally take a certain shape; if the banks are to be given a broad scope either at the beginning or shortly thereafter, with large clearing functions, the extent of their operations, and the speed with which their daily transactions would require to be recorded would call for a different method of treatment. Differences of opinion naturally prevail among accounting authorities with respect to various details in the recording of bank transactions, and some of these details are of a nature which unavoidably alters in a material degree the framing of the accounting system. Again there is difference of view with respect to the extent to which the transactions could be recorded by hand with pen and ink and the extent to which machines could and should be employed.

It has therefore been deemed wise to present two distinct

sets of forms for the use of the Federal reserve banks. Of these, the first has been prepared under the immediate direction of the firm of Marwick, Mitchell, Peat & Co., Chartered and Certified Accountants, of New York City, and is herewith presented as Appendix I; the second—a system of mechanical accounting—has been prepared under the direction of Messrs. Harry E. Ward, Cashier of the Irving National Bank of New York City, and C. C. Robinson, Auditor of the Irving National Bank, and is herewith presented as Appendix II. Very sincere expressions of appreciation are offered with respect to the work of Messrs. Ward and Robinson, who in response to the invitation of the committee have designed this system of mechanical accounting, and have been animated solely by a high sense of public service in so doing.

Close study and coöperation in the preparation of the accounting systems have, of course, been given throughout by the members of this committee. At the outset a sub-committee on accounting consisting of Messrs. Benton, Wolfe, and Dawson and another on mechanical accounting consisting of Messrs. Farnham, Fisher and Willis were named.

DATE OF INSTALLATION.

It is earnestly recommended:

1. That all Federal Reserve Banks be simultaneously opened and that they be throughout operated upon a uniform basis.
2. That the Federal Reserve Banks be opened with their functions as nearly complete and fully developed as may be, and that they shall not be opened until the main features of their methods can be prescribed.
3. That before they begin business there shall be called in Washington a general council of operating officers, that all may be consulted in connection with the prescribed technique.

Respectfully submitted,

H. PARKER WILLIS, *Chairman*,
EDMUND D. FISHER,
ANDREW A. BENTON,
JOSEPH A. BRODERICK,
O. HOWARD WOLFE,
RALPH DAWSON,
STEPHEN H. FARNHAM,

} *Preliminary
Committee on
Organization*

APPENDIX I.

(Accompanied by Portfolio of Forms No. I.)

In furtherance of the plan to develop a complete scheme for the organization of the Federal reserve banks, the committee determined to present methods whereby every element in its system could be suitably recorded in a proper accounting plan. To this end the aid of the firm of Marwick, Mitchell, Peat & Co., chartered and certified accountants, of New York city, was obtained, and Mr. Andrew A. Benton of that firm was invited to become a member of the committee. Mr. Benton, with the coöperation of the staff of the firm referred to, and in conjunction with a sub-committee including Messrs. Wolfe, Broderick, and Dawson, planned an accounting system designed to afford the basis for the records of the work of the Federal reserve banks.

The matter prepared as above indicated is presented in the form of a report from Messrs. Marwick, Mitchell, Peat & Co., and is as follows:

*The Preliminary Committee on Organization,
New York City:*

GENTLEMEN:

In accordance with your instructions, we have designed a system of accounting suitable for the requirements of the regional banks to be organized under the Federal Reserve Act of December 23, 1913.

We herewith submit a report descriptive of the proposed system, accompanied by copies of the forms necessary for its operation.

INTRODUCTION.

Our constant endeavor in devising the system of accounting for the Regional Banks has been to combine simplicity and directness of records and procedure with that comprehensiveness of control so essential in bank accounting. In the development of the system, therefore, every effort has been made to simplify and abridge the clerical routine by the use of manifold forms where initial entries could be utilized for a number of purposes; to organize the departments and procedure so that needless duplication of work and records would be avoided; and finally, by the introduction of special Departmental Settlement forms which would serve both for the departmental proof and the Auditor's control, to centralize in the Audit Division complete control over the daily operations.

A few typical examples will serve to illustrate the extent to which reentry of transactions has been avoided by the use of manifold forms. In the Loan Department there will be prepared at one writing the Loan Register entry and the Liability Ledger Voucher from which the debit entries in the Liability Ledgers will be checked and the credit entries posted upon maturity of the loan. The form devised for use in connection with transfers to banks in other districts will permit of the preparation at one writing of the

credit or charge to the Regional Bank, the office record, and the advice to be sent to the Member Bank affected. The Member Banks' form for returning items unpaid provides for the preparation at one writing of the letter of enclosure to the Member Bank to which the item is returned, authorization to recipient to credit its Regional Bank; advice to the Regional Bank of the charge to its account for the item; authorization of the transfer of such charge to the Regional Bank in whose district the item originated, and finally, the Member Bank's record of the return of the item and of its charge to the Regional Bank from which received. In the Bookkeeping Department there will be prepared at one writing the Regional Bank's Ledger record of its transactions with the Member Banks and the statements of account and advices to be sent the Member Banks. While special attention has been given to arranging these and all other forms accompanying this report so that they can be used with any of the standard adding and type-writing machines now on the market, no radical changes in the accounting system should be necessary were special machines utilized.

In the planning of the departments, the aim has been to restrict them to the smallest number required for the expeditious and correct handling of the work, to group the departments and operations so that conflict of duties and consequent duplication of work would be avoided, and finally, by compelling departments handling funds to account to another department for such funds, to have the departments themselves automatically check each other's work. The extent to which duplication of work and records has been overcome by planning the procedure so that the items will go direct from the department in which they originate to the final recording department, is illustrated by the following:

Upon receipt, checks drawn by Member Banks on their Regional Banks will be sorted and listed on proof sheets, the number of the Member Bank inserted, and both the proof sheets and the checks forwarded to the Bookkeeping Department. The proof sheets will be delivered to the Journal clerks, who will post the totals shown thereon to the proper accounts in the Member Banks Journal. The checks themselves will be utilized by the ledger clerks for preparing the Ledger record and the Daily Statement to be sent to the Member Banks. As the entries in the Journal will be compiled from the proof sheets and those on the Ledger direct from the items, and a daily comparison made of the two sets of balances, it is obvious that this procedure affords every possible protection against errors—and moreover with only two entries of the item.

The following is a brief description of the proof system by means of which the Audit Division will be able to maintain complete control over the work of the various departments whose transactions affect the figures in the Daily Statement of Condition. Departmental Settlement Sheets (Form A-2) have been provided on which the various departments—or subdivisions of departments, in the case of the Clearings and Transit Departments—

will be required to balance their work independently but along uniform lines. The upper section of this form is ruled for entry of the debits and credits of the departments to the Member Banks, Government Deposits, General, and other accounts, and the lower section for entry of the inter-departmental debits and credits in respect of items delivered to or received from them, and such other departmental transactions as may arise. Each department receiving items from another department being required to enter them on its settlement sheet to the credit of the department charging them, it is apparent that for each debit and credit in a certain department there should be a corresponding credit or debit in some other department. At the close of business each day the totals of the Departmental Settlement Sheets are to be assembled by the Auditor on the General Proof Sheet. This General Proof Sheet will at once reveal any errors in the work of the different departments and will serve to centralize in the Audit Division complete control over the daily operations of the bank by furnishing the means for tracing and verifying all inter-departmental entries. Furthermore, this control will be obtained without unnecessary re-listing, for the items will go direct from the various Tellers' Departments to the Bookkeeping Department.

EXECUTIVE AND CLERICAL ORGANIZATION.

On Exhibit "A" accompanying this report, we show in graphic form the executive and clerical organization and the proposed distribution of duties. It will be seen by reference to this Exhibit that the clerical organization consists of a Banking Division, which will include the Loan and Investment Securities, Tellers, Transit, Foreign Exchange, and Bookkeeping Departments; an Audit Division which will be responsible for the verification of the departmental proofs, records and securities; and a Credit Division to which will be entrusted all matters relative to the securing and compiling of data in regard to loans, investments, etc.

CHIEF CLERK.

The Chief Clerk will be the intermediary between the officers and the clerks engaged in the Banking Division. All instructions of the officers affecting the clerks in this Division are to be issued through the Chief Clerk, who should be held responsible for the fulfilment of such instructions, and also for the prompt and efficient conduct of the routine work of the Division and for the general discipline of the clerks under his jurisdiction.

Subject to the approval of the officer in charge, the Chief Clerk should arrange for the filling of temporary vacancies occasioned by illness, vacations, etc., and for the purchase of stationery and supplies.

LOAN AND INVESTMENT SECURITIES DEPARTMENTS.

The Loan and Investment Securities Departments will comprise the Rediscounts Department, the Open Market Purchases Depart-

ment, and the Investment Securities Department. Explanatory of the functions of these Departments and the records to be maintained therein, we submit the following:

Rediscounts and Open Market Purchases Department.

The Rediscounts and Open Market Purchases Departments will be responsible for the proper handling and custody of the notes rediscounted for Member Banks and the paper purchased in the open market, and also for the maintenance of the books and forms required for recording the transactions and collecting such of the loans as are payable out-of-town. Briefly, the duties of these departments will include the examination, as to their regularity, of the notes, drafts, etc., received; the calculation of the interest, discount, and maturities; the entering of the paper in the Discount Registers, Maturity Records, and Liability Ledgers; the filing of the paper pending collection, which is to be effected through Member Banks in the event of the paper being payable out-of-town, or through the Note Teller's Department if payable in the city in which the Regional Bank is situated; and the posting of the credits for payments in the Liability Ledgers.

The forms to be used in the Rediscounts and Open Market Purchases Departments being either similar or common to both, the two departments will be dealt with as a unit in the ensuing description of the forms required.

Authority to Rediscount (B-1). This form when executed will be a certificate reciting that the Board of Directors of the Member Bank has authorized certain of the officers to rediscount with, sell to, or borrow from their Regional Bank. A copy of this form is to be executed by each Member Bank.

Application for Loan (B-2). An application is to be executed on this form by the Member Bank and submitted to the Regional Bank with each schedule of notes, drafts, and bills of exchange offered for rediscount.

Schedule of Notes, Drafts, and Bills of Exchange offered for Rediscount (B-3). This form, after completion by the Member Bank, is to be forwarded to the Regional Bank together with the Application for Loan, Form B-2.

In order that the Regional Bank may have sufficient details of the paper offered for rediscount, provision has been made for inclusion in this schedule of the number, name, and location of the offering bank; the name, address, and business of the maker or drawer; the acceptor, endorser, or collateral; where payable; date of note; due date; discount rate, and face amount of note.

Register of Rediscounts (B-4); Register of Open Market Purchases (B-5). As the notes, drafts, or bills are received from the Member Banks for rediscount, or purchased in the open market, they are to be entered directly from the notes in the respective Registers. These Registers are arranged so as to show for each item, the consecutive index number; the date rediscounted or purchased; date of note; due date; time; rate of discount; amount of note;

discount; proceeds; for whom rediscounted or from whom purchased; the maker or drawer; the acceptor, endorser, or collateral, and where payable. The "a" sections of these forms will be classified as to City and Country items, and thereafter filed in chronological order according to due dates, while the "b" sections will be placed in binders and will constitute the Discount Registers proper.

Credit tickets for the proceeds of the notes, etc., rediscounted or purchased in the open market will be prepared at intervals during the day and forwarded to the Bookkeeping Department.

At the close of business, tickets covering the day's totals of the rediscounts and open market purchases, and the discount received on each class of paper, as shown by the respective Registers, are to be prepared and forwarded to the Bookkeeping Department.

City Maturity Record (B-6); Country Maturity Record (B-7). After the notes, drafts, etc., have been recorded in the Discount Registers, they are to be classified as to "City" and "Country" items and entered in the proper Maturity Record under the respective due dates. As the tickets prepared at the time the entries are made in the Discount Registers will be filed in chronological order according to due dates and will be available for reference, it will be necessary to enter in the City Maturity Record only the index number and the amount of the note, and in the Country Maturity Record only the index number, the amount of the note, and where payable. For such of the items as are sent to Member Banks for collection, the date on which the receipt of the item is acknowledged by the collecting bank is to be subsequently added from Form B-13.

At the close of business each day, tickets for the totals of the respective maturities are to be prepared and forwarded to the general bookkeeper for credit to the controlling accounts.

The Maturity Records are to be footed weekly, and from the footings so obtained will be compiled the totals for the 30-day, 60-day, and 90-day paper rediscounted or purchased by the Regional Bank.

Notes or other items rediscounted for Member Banks and not paid at maturity are to be charged to the account of the Member Bank for which rediscounted, and returned. Paper bought in the open market not paid at maturity is to be charged to an account entitled "Past Due Paper," pending payment or other disposition.

Member Banks' Liability Ledger (B-8). This form is designed to provide a detailed record of the contingent liabilities of each Member Bank to the Regional Bank.

A separate sheet will be opened for each Member Bank on which will be recorded in the "Rediscounts" section, the date on which the item was rediscounted; its index number; the maker or drawer; the acceptor or endorser; the due date; the discount rate, and the rediscount amount. When paid, the date and amount of the payment will be entered in the "Credits" columns and the amount in the "Balance" column reduced accordingly. In the section designated "Other Liability" will be entered the details of the contingent

liability of the Member Banks as acceptors or endorsers on paper purchased in the open market.

The debit entries are to be posted direct from the notes and proved by comparison with the tickets prepared at the time the entries are made in the Discount Registers.

Liability Ledger—Rediscounts and Open Market Purchases (B-9). In this record will be entered under the names of the makers or acceptors, their liability to the Regional Bank in respect of notes rediscounted by member banks and paper purchased in the open market.

In addition to the name, address, business, and rating of the borrower, there will be entered in this Ledger the date on which the note, draft, etc., was rediscounted or purchased; the index number; from whom received; the endorsers; the due date, and the amount of the liability, subdivided as to rediscounts and open market purchases. When paid, the date and amount of the payment will be entered in the "Credits" column and the amount in the "Balance" column reduced accordingly.

Should the notes, drafts, etc., be later hypothecated with the Federal Reserve Agent, this information is to be entered in the "Deposited" column on the line containing the description of the paper. When returned by the Federal Reserve Agent, the date is to be entered in the "Withdrawn" column and the amount in the "Balance" column reduced accordingly. This balance can be very readily proved by listing the open items.

From the foregoing it will be seen that this Ledger will show both the extent of the borrowers' liability and the location of the paper—that is, whether it is in the possession of the Regional Bank or whether it is held by the Federal Reserve Agent as collateral.

In the event of paper being sold by the Regional Bank prior to maturity, the date and amount would be posted in the "Credits" column and the name of the purchaser recorded in the "Sold to" column.

The debit entries are to be posted direct from the notes and proved by comparison with the tickets prepared at the time the entries are made in the Discount Registers.

Contingent Liability Record—Rediscounts and Open Market Purchases (B-10). Separate sheets of this form are to be used for each endorser on paper rediscounted or purchased in the open market. The form will be headed with the name of the endorser, his address, business, and financial rating, and will show for each item the date on which it was rediscounted or purchased; the index number; the maker or acceptor; the liability amount; the credits for payments, and the balance—representing the net contingent liability.

The debit entries are to be posted direct from the notes and proved by comparison with the tickets prepared at the time the entries are made in the Discount Registers.

Weekly Report of Borrower's Liability (B-11). It is through the medium of this form, which is to be prepared weekly by the

Regional Banks from the Liability Ledgers, that the Federal Reserve Board will obtain the data it requires as to the extent and nature of the liabilities of the customers of the Member Banks to the Regional Banks and the amount of the paper hypothecated by the Regional Banks with the Federal Reserve Agent. Two copies are to be made, one of which is to be forwarded to the Board and the other retained by the Regional Bank. So as to minimize the amount of work involved in the preparation of this report, it is suggested that lines of less than say \$10,000.00 be excluded.

Being designed on the unit plan, it will only be necessary for the Federal Reserve Board to assemble in alphabetical order, according to makers or acceptors, the reports received from the various Regional Banks in order to ascertain the aggregate liability of each individual borrower for notes rediscounted or purchased by the Regional Banks.

Weekly Report of Member Banks' Credit Balances and Rediscounts (B-12). This form is somewhat similar to Form B-11, except that it is intended to show, for each Member Bank, its average credit balance with the Regional Bank, the amount of notes rediscounted by it with the Regional Bank, and the contingent liability of the Member Bank in respect of acceptances or endorsements on paper purchased by the Regional Bank in the open market.

The data required for the completion of this form will be obtained from the Member Banks' Liability Ledger, Form B-8, and from the Member Banks' Ledger, Form "G-4a."

Collection Form for Notes Owned Payable in Discounting Bank's District (B-13). The several copies of this form will serve respectively as a letter of enclosure, receiving bank's acknowledgment, charge ticket, and office record, of notes owned which are sent to a Member Bank for collection. It is to be prepared in quadruplicate, and the following disposition made of the various copies:

- Original—To be sent to collecting bank with item, as a letter of enclosure.
- Duplicate—To be sent with item to collecting bank, by which it will be signed and returned to Regional Bank. Upon receipt by Regional Bank, the date of acknowledgment is to be entered on the Country Maturity Record, Form B-7, and duplicate filed in correspondence file.
- Triplicate—To be filed by Regional Bank in Note File until maturity, then turned over to the Note Teller's Department. Thereafter the collecting bank will be charged with the amount of the item and triplicate sent forward as an advice of such charge.
- Quadruplicate—To be retained by the Regional Bank in numerical order as a permanent record.

Collection Form for Notes Owned Payable in Other Districts (B-14). This form is to be used in forwarding to other Regional Banks, notes owned which are payable outside the district of the forwarding Regional Bank; it consists of an original to be sent to the collecting Regional Bank with the items and a duplicate to be retained by the forwarding bank.

On the due date of the items, the duplicate, or debit sheet, is to be turned over to the Note Teller's Department and used as a charge against the collecting Regional Bank.

Record of Notes Hypothecated with Federal Reserve Agent (B-15). This form, which is to be prepared in duplicate, and is to accompany each lot of notes turned over to the Federal Reserve Agent as collateral for Federal Reserve Notes issued, provides for the recording of the serial numbers given the notes by the Federal Reserve Agent and by the Regional Bank, and the amounts of the notes hypothecated.

Upon delivery of the notes, the original of this form is to be signed by a representative of the Federal Reserve Agent as an acknowledgment of the receipt of the notes, and then returned to the Regional Bank. The duplicate is to be retained by the Federal Reserve Agent as his record of the transaction.

When the notes are returned to the Regional Bank by the Federal Reserve Agent, the date on which they are so returned is to be inserted on both copies; consequently both the Federal Reserve Agent and the Regional Bank will be in possession of a complete record of the notes pledged as collateral with the Agent and the disposition made of the notes.

Record of Collateral Withdrawn from Federal Reserve Agent (B-16). Aside from the fact that it is to be used in withdrawing notes deposited as collateral, this form is somewhat similar to Form B-15. In the case of Form B-16, however, the original is to be retained by the Regional Bank, while the duplicate is to be signed by the Regional Bank as an acknowledgment of the receipt of the notes, and thereafter returned to the Federal Reserve Agent.

Collateral Card (B-17). The particulars to be recorded on this form will include the name and address of the borrower; the serial number, amount, date, and other details of the loan; and the quantity, description, and market value of the collateral. Upon payment of the loan and surrender of the collateral, the borrower or his representative is to sign the collateral card in acknowledgment of the receipt of the securities described thereon.

Record of Securities Held as Collateral (B-18). This form will be used for classifying according to issues, the securities pledged as collateral. A sheet will be reserved for each issue on which will be entered the name and description of the security, the date pledged or surrendered, the number and name of the loan upon which pledged, the number of bonds or shares pledged or surrendered, and the total par value of the securities pledged, surrendered and on hand.

Accruals. To ensure the accuracy of the published statements of condition and facilitate the verification of the interest earned on

rediscounts and paper purchased in the open market, it is essential that the Regional Banks should have an accrual system which will permit of the ascertainment of the actual earnings from this source at daily or weekly intervals. By the adoption of the following procedure the amount of interest earned on loans outstanding could be determined daily with very little difficulty.

At the close of business each day the total of the interest collected as shown by the "Discount" column in the Register of Rediscounts, Form B-4, and the Register of Open Market Purchases, Form B-5, should be credited to the General Ledger account entitled "Unearned Interest." Simultaneously, a charge should be made to this account—the proper earnings account being concurrently credited—for one day's interest on the total of the loans outstanding. To facilitate the computation of this charge, a columnar book containing debit, credit and balance columns for the loans at each interest rate should be provided, in which should be entered the net increases or decreases in the loans made or paid each day and the revised totals of the loans outstanding at the various interest rates.

Twice a year the balance in the Unearned Interest Account should be proved by listing in a columnar book, under the respective interest rates, the amount and unexpired days for each loan outstanding, and computing therefrom the total interest unearned.

Investment Securities Department.

To this department will be assigned the custody of the bonds and other securities in which the Regional Bank has invested and all matters relating to the recording of the purchases, sales, and maturities of such securities, the receiving of securities purchased, and the delivery or redemption of securities sold or matured.

Investment Register (B-19). Separate sheets of this register are to be used for each issue of securities acquired. These sheets will be headed with the name and description of the security, the date of maturity, the rate of interest, and where such interest is payable. For the recording of the individual transactions, columns are provided in which will be entered the date purchased or sold, the basis and percentage prices; the number, par value and cost of the bonds, notes, etc., purchased; the number, par value, and selling price or redemption value of the securities sold or redeemed, the balance on hand, and the profit or loss on sales. The reverse of this form is to be utilized for recording the serial numbers of the securities purchased, sold, and redeemed.

TELLERS' DEPARTMENTS.

The following is a list of the Tellers' Departments:

- Paying Teller's Department.
- Receiving Teller's Department.
- Note Teller's Department.
- Transfer Department.
- Clearings Department.
- Collection Department.

The activities of these departments will be confined almost entirely to the receiving and disbursing of cash and the collection or transmittal of items turned over to them. They will, in consequence, require no permanent records of importance except the Proof and Settlement Sheets on which will be listed, in amounts only, the items passing through the departments.

Paying Teller's Department.

The Paying Teller will attend to all payments made over the counter, the certifying of checks, Clearing House settlements, and other duties of a similar nature. He will also be required to pass on the authenticity of the signatures on the drafts, checks, etc., received in his department.

It is proposed also that the Paying Teller shall supervise the shipping of currency to Member Banks and the forwarding of mutilated currency for redemption. Should the shipments of currency to Member Banks prove to be very numerous, however, a special department might be created to take charge of such shipments.

The Paying Teller should be responsible only for the counter cash, as it is suggested that the reserve cash be placed under the joint control of two officers.

Stop Payment Notice (C-1). This form will be used by the Paying Teller in acknowledging receipt of a Member Bank's request to stop payment of a draft drawn by it on the Regional Bank and in advising the Bookkeeping Department of such stop payment. The three copies to be prepared will be utilized as follows:

Original—To be sent to Member Bank at whose request payment was stopped as an acknowledgment of the receipt of its instructions.

Duplicate—To be delivered to the Bookkeeping Department and held there pending presentation of draft. Should the request to stop payment be cancelled later on, the duplicate is to be so marked and then filed.

Triplicate—After receipt of duplicate has been acknowledged, this copy is to be filed in the Paying Teller's Department.

Certification Record (C-2). This form is designed to provide a suitable record of checks certified for account of Member Banks.

The original, or Certification Débit, is to be sent to the Member Bank, together with the Daily Statement. The duplicate, which will constitute the Regional Bank's record of the transaction, will be stamped "Paid" as the originals are redeemed. This record could be prepared in either pad or book form.

At the close of business a credit ticket for the total of the day's certifications is to be prepared and forwarded to the General Bookkeeper. The certified checks paid each day will be listed on Bookkeeping Department Form G-6, which is intended to support the debits to the controlling account. The total of the checks issued

but not paid should equal the balance in the General Ledger controlling account for certified checks.

It may be explained at this point that the certifications would probably be few in number, and in most cases would be for the purpose of establishing the genuineness of the signatures on drafts.

Notice of Currency Shipments (C-3). The original of this form will be used both as a charge ticket and as an advice to the Member Bank that the shipment has gone forward; the duplicate will be retained by the Regional Bank and filed with the Member Bank's requisition for the currency.

Receiving Teller's Department.

The chief duties of the Receiving Teller will be to accept the deposits made by local Member Banks and to receive shipments of currency forwarded by out-of-town Member Banks. He will, in addition, maintain the Cashier's Check Register, and attend to such other duties as may be assigned him.

All cash on hand in this department at the close of business each day is to be surrendered to the Paying Teller.

Deposit Ticket (C-4). A form similar to this is to be used by the Member Banks when depositing currency or coin in their Regional Bank.

Cashier's Checks Register (C-5). This form is intended to provide a detailed record of the Cashier's checks issued in settlement of balances, notes and bills purchased, and other necessary transactions.

The checks are to be recorded in the Register in numerical order, the date, payee, and amount being entered, as well as the account for which the payment was made.

At the close of business the total of the day's entries in the "Amount" column is to be extended in the "Daily Total" column and the General Bookkeeper supplied with a credit ticket for the amount of the checks issued during the day. The Cashier's checks paid each day will be listed on Bookkeeping Department Form G-7, which will support the debits to the controlling account.

When the checks are paid, the date is to be entered in the last column. The total of the checks issued but not paid as shown by the Register should equal the balance in the General Ledger controlling account for Cashier's checks.

Note Teller's Department.

This department will be the medium through which all payments made on account of loans, interest, etc., will be received. From the Loan and Collection Departments will be received the daily maturities, and from the other departments, returns and other items payable within the City. The proceeds of the items collected by this Department are to be distributed and charged to the proper departments, all cash being turned over to the Paying Teller's Department. The messengers will be under the jurisdiction of the Note Teller.

Member Banks' Form for Returning Items Unpaid (C-6). This form will be used by the Member Banks in returning unpaid items direct to the Member Banks in which they were deposited and in charging back such items to the Regional Bank from which they were received. The four copies to be made of this form are to be disposed of as follows:

Original—To be enclosed with the item, which is to be returned direct to the Member Bank in which it was deposited.

Duplicate—To be sent to the Regional Bank from which the Member Bank received the item, as advice that item has been returned direct and charged to the account of the Regional Bank to which advice is sent. The Regional Bank will utilize this ticket as a credit to the account of the Member Bank returning the item.

Triplicate—To accompany the duplicate. If the item originated in another district, the triplicate will be utilized by the Regional Bank to which it is sent in preparing Form C-7, Statement of Returned Items.

Quadruplicate—To be retained by the Member Bank returning the item as authority for its charge to the account of the Regional Bank from which the item was received.

Regional Bank's Statement of Returned Items (C-7). The data required to complete this form, which is to be used in charging back to other Regional Banks items returned to their Member Banks, will be obtained from Form C-6. The original is to be sent to the Regional Bank from which the items were received as an advice of the charge to its account. It will be used by the recipient as authority for crediting the account of the Regional Bank from which received, and charging the accounts of the Member Banks to which the items have been returned. The duplicate will be retained as an office record.

Debit Ticket for Returned Items (C-8). The data required to complete this form will be obtained from the Member Banks' Form for Returning Items Unpaid (C-6), or from the Regional Bank's Statement of Returned Items (C-7), depending on whether the Member Bank to which the item was returned is situated in the same or in another district.

After the account of the Member Bank has been charged, this form is to be sent to the Member Bank as an advice of such charge.

Transfer Department.

It is intended that this department shall handle all matters relating to the transfer of funds from one Member Bank to another Member Bank.

Transfer Ticket (C-9). This form will be used only when both banks are situated in the same district. The three copies to be prepared are to be utilized as follows:

Original—To be used as a credit ticket and then sent to the Member Bank to which the transfer is made, as an advice.

Duplicate—To be used as a debit ticket and then sent to the Member Bank requesting the transfer, as an advice.

Triplicate—To be retained and filed after confirmation has been received from the Member Bank requesting the transfer.

Statement and Debit Ticket for Telegraphic Transfers to Banks in Other Districts (C-10). The several sections of this form will be used respectively as a confirmation of telegraphic transfers to Member Banks in other districts and as a charge to the Member Bank requesting the transfer.

The original of the statement section (b) is to be sent to the Regional Bank to which the transfers are made as a confirmation of the transfers and advice of credit; the duplicate is to be retained as an office record. The debit ticket section (a) is to be sent to the Member Bank requesting the transfer, as an advice of the charge.

Statement and Credit Ticket for Telegraphic Transfers from Banks in Other Districts (C-11). Except that it will be completed by the Regional Bank to which the transfers were made, this form will be used in somewhat the same manner as Form C-10.

The original of the statement section of this form (b) is to be sent to the Regional Bank at whose request the transfers were made as a confirmation of the transfers and advice of charge; the duplicate is to be retained as an office record. The credit ticket section (a) is to be sent to the Member Bank to which the transfer was made, as an advice of the credit.

Statement and Debit Ticket for Correspondence Transfers to Banks in Other Districts (C-12). As indicated by its title, this form is to be used only when the transfers are to be effected by correspondence.

The original of the statement section (b) is to be sent to the Regional Bank to which the transfers are made as authorization of transfer and advice of credit for the amount of such transfers; the duplicate is to be retained as an office record. The debit ticket section (a) is to be sent to the Member Bank requesting the transfer, as an advice of the charge.

Correspondence Transfer Credit Ticket (C-13). This form will be used by the Regional Bank when crediting its Member Banks for transfers made to them by banks situated in other districts. It will be prepared from the Statement of Correspondence Transfers, Form C-12, and is intended to serve both as a credit ticket and as an advice to the Member Bank to which the transfer is made.

Clearings Department.

The In-Clearings and Out-Clearings Divisions of this department will handle, respectively, the checks received from the Clearing House and the checks sent to the Clearing House.

The records of this department will be limited to Proof and Settlement Sheets containing a record of the amounts of the checks received from and sent to the various banks.

It is intended that the Clearings Department shall sort the checks received according to the ledgers to which they apply, and so far as possible, according to the accounts in these ledgers. Thereafter the Proof Sheets are to be delivered to the Bookkeeping Department where they will be utilized in posting the debits to the accounts of the Member Banks and Government Departments. The items also are to be sent to the Bookkeeping Department for entry in the Ledger and Daily Statement. As totals only will be posted in the Journals and the items themselves will be utilized in preparing the Regional Bank's record of the charge and the Daily Statements, all relisting and other duplication of work will be avoided.

Collection Department.

In addition to being the custodian of all notes received from other Regional Banks for collection, this department will have charge of the recording and transmitting of country items collectible through Member Banks. Items payable locally are to be delivered to the Note Teller's Department at maturity for collection.

Collection Form for Notes sent out by Collection Department (C-14). The several copies of this form will serve respectively as a letter of enclosure, receiving bank's acknowledgment, charge ticket and office record. Four copies are to be made and disposition made of them, as follows:

Original—To be sent with item, as a letter of enclosure, to collecting bank.

Duplicate—To be sent with item and original to collecting bank, by which it is to be signed and returned to Regional Bank.

Triplicate—To be filed by Regional Bank in note file until maturity, and then turned over to the Note Teller's Department, where it will be utilized as a debit ticket for the charge to the account of the collecting bank and then sent forward with the daily statement as an advice of such charge.

Quadruplicate—To be retained by the Regional Bank in numerical order as a permanent record.

TRANSIT DEPARTMENT.

The duties of the Transit Department will be confined to the receiving and transmitting of checks, drafts, etc., for Member Banks. It is intended that the incoming and outgoing mail shall be handled by separate sub-departments and that the work of each shall be proved independently.

Aside from the charge letter for outgoing items, the records originating in this department will be limited to Proof and Settlement Sheets.

Member Banks Remittance Letter (D-1). While it is highly desirable that the member banks use a standard form for listing the checks deposited with their Regional Bank, their regular stock can be utilized if it allows for the entering of the place where the checks are payable. Whatever form is used, however, two copies are to be prepared—one of which will be forwarded with the items to the Regional Bank and the other retained by the Member Bank.

The items are to be assorted and thereafter listed on separate letters according to the following classification:

Items drawn on the Regional Bank in which they are deposited.
Items payable in the city in which the depositing bank's Regional Bank is situated.

Items payable in the same reserve district, but outside the city in which the Regional Bank is situated—one letter for each state or other subdivision adopted.

Items payable in other reserve districts—one letter for "inside" items and another for "outside" items. The "outside" items, however, are to be classified and listed according to the states in which they are payable, or other subdivisions adopted.

Member Banks' Recapitulation of Deposits with Regional Bank (D-2). This form is to be used by the member banks for summarizing and classifying the items deposited according to the Transit Time Schedule.

On the books of the Member Banks, the total amount of the deposits will be charged immediately to a Transit Account, to which credits will be made daily for the amounts due to be collected on that day, the account with the Regional Bank being correspondingly charged.

Upon receipt of the items by the Regional Bank, the account of the Member Bank will be credited immediately with the total amount of the deposit, regardless of the time required for the collection of such of the items as are payable out-of-town. In order, however, that the Regional Bank may know the actual free balances, a memorandum column has been provided in the Member Banks' Journal, Form G-1, in which the credits will be analyzed under the dates on which they are due to be collected.

For further information relative to the handling of the transit items reference is made to the section of the Committee's detailed report devoted to Transit Department matters.

Regional Bank's List of Items drawn on Member Banks (D-3). This form will be used by the Regional Banks when transmitting checks to their Member Banks. The original is to accompany the items and the duplicate retained as an office record.

FOREIGN EXCHANGE DEPARTMENT.

Under the terms of the Federal Reserve Act, the Foreign Exchange Department will be empowered to purchase and sell bills of exchange, demand and time drafts, cable transfers, and other classes of commercial paper and securities; also gold coin, bullion, etc. To provide for the proper recording of these transactions, books and forms will be required as follows: Cash Books, Draft and Remittance Registers, Liability Records, a Journal, a Correspondent's Ledger, and a General Ledger in which will be carried the controlling accounts of the Department and from which the Daily Statement of Condition will be compiled.

Cash Receipts Book (F-1). This book will be kept by the Receiving Clerk of the Department, and is intended to contain a complete record of all transactions involving the receipt of cash or checks.

In the columns reserved for the "date," "particulars" and "debits" will be entered, respectively, the date and a brief explanation of the transaction and the amount of cash received. The "credits" columns are to be utilized for classifying the entries in the "debits" section according to the accounts to which such receipts should be credited.

At the close of business each day the columns in both the "debits" and "credits" sections are to be totalled and proved, tickets being prepared thereafter for the day's receipts of each currency, and for the total credits applicable to each of the accounts enumerated in the "credits" section. These tickets, after approval by the proper officer, are to be delivered to the General Bookkeeper of the Department for entry.

Cash Disbursements Book (F-2). In this book, which is to be kept by the Disbursing Clerk of the Department, will be entered the details of the cash disbursed and the checks issued for bills of exchange and cable transfers purchased, and for other purposes.

All entries are to be supported by properly approved memoranda. In every case, such memoranda should bear the initials of the clerks responsible for the calculation and verification of the rates and conversions, as well as the initials of the approving officer.

Except as regards the nature of the transactions to be recorded therein, the Cash Disbursements Book is to be used in precisely the same manner as the Cash Receipts Book.

Draft Advice and Record (F-3). The record of drafts drawn consists of four sections, which are to be prepared at one writing and utilized as follows:

Section "a"—Original advice—To be sent by first steamer to the bank on which the draft is drawn.

"b"—Duplicate advice—To be sent by second steamer to the bank on which the draft is drawn.

"c"—To be filed with the correspondence relating to the bank on which the draft is drawn.

"d"—To be inserted in a suitable binder and preserved as the Department's record of drafts drawn.

All four sections, when completed, will show the name and address of the bank on which the draft is drawn; the date and number of the draft; to whose order it is drawn; the tenor; the amount; and the names of the steamers by which the drafts and advices are being forwarded. On Sections "c" and "d" will be entered, in addition, the rate, the amount in United States currency, and to whom the draft was sold.

At the close of business each day tickets are to be prepared for the daily totals of the drafts drawn, which tickets, after approval, are to be delivered to the General Bookkeeper of the Department for entry.

Remittance Advice and Record (F4). This also is a manifold form consisting of four sections, which are to be utilized as follows:

Section "a"—Original advice—To be sent by first steamer to the correspondent.

"b"—Duplicate advice—To be sent by second steamer to correspondent.

"c"—To be used as a voucher for the debit postings to the liability records, and then filed in chronological order.

"d"—To be inserted in a suitable binder and preserved as the Department's record of remittances to its correspondents.

Upon completion, all four sections will show the name and address of the correspondent to which the bill is remitted; the names of the steamers by which the bills and advices will be forwarded; the date; index number; the names of the drawer, endorser and drawee; the tenor and amount of the bill; a description of documents accompanying it, and the terms under which such documents are to be surrendered. The office copies—Sections "c" and "d"—will contain, in addition to the foregoing data, the rate, amount in United States currency, date of credits, and remarks if necessary.

At the close of business each day tickets are to be prepared for the daily totals of the remittances, which tickets, after approval, are to be delivered to the General Bookkeeper of the Department for entry.

Customers' Liability Record (F-5). In this record will be entered under the names of the customers their contingent liability to the Department as drawers, endorsers, and guarantors.

The particulars to be entered will include the name, address, business, and rating of the customer, the date and number of the item, the names of the drawer and drawee, the tenor, the approximate due date, and the liability amount. Provision being made for entry in separate columns of the liability of the customer as drawer, as endorser, and as guarantor, this record will of course show the nature of the customer's liability, as well as the aggregate amount.

The debit entries will be posted from Section "c" of the Remittance Advice and Record, Form F-4.

As the items mature and are paid or otherwise disposed of, the customer should be credited in the proper columns, and the amounts in the "Balance" columns reduced accordingly.

Payers' Liability Ledger (F-6). This ledger will contain the details of the payers' liability to the Department, both as drawees and as acceptors.

The ledger sheets will be headed with the name, address, business, and rating of the payer, and will show for each item the date, the index number, the name of the customer, the tenor, the approximate due date, and the liability amount. Separate columns being provided for the entry of the liability as drawee and as acceptor, the extent of the payers' liability under each of these classifications is already ascertainable.

The debit entries will be posted from Section "c" of the Remittance Advice and Record, Form F-4.

As the items mature and are paid, the payments should be posted in the proper credit column and the amount in the "Balance" columns reduced accordingly.

Journal (F-7). Transfers from one account to another, adjustments occasioned by interest charges, and other transactions not originating in the Cash Books and the Draft and Remittance Registers, are to be entered in the Journal. Being columnar in arrangement, the posting of individual items to the ledgers will be necessary only in connection with the miscellaneous items appearing in the column head "Sundry Accounts."

All entries are to be supported by properly approved tickets.

Correspondents' Ledger (F-8). In this ledger will be carried the accounts of the foreign banks selected as correspondents or agents.

All entries other than those posted direct from the draft and remittance records are to be supported by self-explanatory and properly approved tickets.

The particulars to be recorded include the date and a brief description of the transaction, the index number assigned the item, the value date, and the amount. Both the foreign amount and its equivalent in dollars are to be entered. The balance is to be carried in the dollar amount only, as the foreign currency balance would not be needed except when the account is to be reconciled. As advices for charges are received from the foreign correspondents, the amounts of such charges are to be entered in the "Charges" column opposite the item to which they apply, after which the net amounts are to be extended in the column so headed.

The Auditor will be required to attend to the reconciliation of the statements received from correspondents. Form Y-3 has been provided for use in this connection.

General Ledger (F-9). The General Ledger of the Foreign Exchange Department is to be a bound book and will contain all

of the control accounts relating to the resources and liabilities of the Foreign Exchange Department, and the earnings, expenses, and Profit and Loss Accounts.

All entries are to be supported by properly approved tickets.

Daily Statement Book (F-10). At the close of business each day the General Ledger balances are to be entered in this book, which will thus constitute a daily record of the resources and liabilities of the Department.

BOOKKEEPING DEPARTMENT.

The Bookkeeping Department will have charge of the accounts of the Member Banks and Government departments, also the general accounts. In addition, it will be responsible for the preparation of the Daily Statement of Condition and the Monthly Statement of Earnings and Expenses and for the maintenance of the analytical records of earnings and expenses.

Member Banks' Journal (G-1). This Journal will be used for assembling the daily debits and credits and determining the balances of the Member Banks at the close of each day's business.

In the "Debit" columns will be posted the daily charges to each account as shown by the Proof Sheets prepared by the Clearings, Transit, and other departments. In the column headed "Credits to Ledger," will be posted the total of the Credit Letters received from the Member Banks. At the close of business each day the balances are to be extended and proved.

In order that the free balance in each account may be readily ascertained, we have included under the heading "Credits" a memorandum column entitled "Credits in Transit," in which the sub-totals of the Credit Letters are to be distributed according to the dates on which the items are due to be collected.

While this style of Journal would not be suitable for a bank having a large number of accounts, many of which are inactive, it is especially desirable in the case of the Regional Banks, where there will be a comparatively small number of accounts, all of which will probably be very active.

In addition to serving as a medium for assembling the daily debits and credits, the Member Banks' Journal will furnish a check on the entries in the Member Banks' Ledger—the entries in the Journal being compiled from the Proof Sheets and those in the Ledger direct from the items.

Government Deposits Journal (G-2). Except that it does not contain a column for credits in transit, this form is very similar in arrangement to the Member Banks' Journal and is to be used in the same manner.

General Journal (G-3). By the use of this Journal for assembling the daily debits and credits to the General accounts, the daily statement will be completed simultaneously with the balancing of the accounts. The daily statement could, of course, be prepared direct from the General Ledger, but in that event it would be far more difficult to locate any differences which might arise.

Member Bank's Ledger and Daily Statement (G-4a). This form will be prepared in duplicate direct from the items. After the day's transactions have been entered, the original—the Ledger Sheet—is to be inserted in a suitable binder for use as the Regional Bank's record, and the duplicate forwarded to the Member Bank concerned for use as an account current and advice of the charges and credits made by the Regional Bank.

An explanation of the key letters to be used in the preparation of the Ledger accounts and statements of the Member Banks will be found in a subsequent section of this report.

Federal Reserve Bank's Ledger and Daily Statement (G-4b). Except that it will be reserved for recording transactions with other Regional Banks, this form is very similar to the Member Bank's Ledger and Daily Statement, and is to be used in precisely the same manner.

General Ledger (G-5). This is to be a bound book and will contain an account for each item appearing in the Statement of Condition. All entries must be supported by properly authorized debit and credit tickets.

Record of Certified Checks Paid (G-6). *Record of Cashier's Checks Paid (G-7).* These forms will be used for listing, by numbers and amounts, the Certified Checks and Cashier's Checks paid each day. The daily totals of the checks paid, as recorded on these forms, are intended to support the debits to the General Ledger controlling accounts for Certified Checks and Cashier's Checks.

Expense Voucher (G-8). This consists of a check and statement to be forwarded to the creditor and a carbon duplicate to be attached to and filed with the relative invoice. Before signing the check section, the Cashier should see that the duplicate bears the approval of the proper persons.

Expense Distribution Record (G-9). This form will be used for distributing under appropriate headings the charges to Expense Account. Separate columns are provided for salaries, directors' fees, legal services, postage, printing and stationery, light and water, rent, freight and express, insurance and bonds, telephone and telegraph, taxes, etc. The details of the expenses incurred will be obtained from the debit tickets covering cash disbursed by the Paying Teller or from the Expense Voucher in the event of the payment being made by check.

A somewhat similar form could be used for analyzing the earnings.

Comparative Statement of Earnings and Expenses (G-10). This statement, which is to be prepared monthly, will show in comparative form the details of the earnings and expenses for the current month and the fiscal period to date as well as the increases or decreases over the previous month and period.

Most of the data required for the completion of this statement will be obtainable from the General Ledger and the Expense Distribution Record.

Statement of Condition (G-11). This is to be prepared daily from the General Journal and supporting records.

Suggested Condensed Gross Statement for Report to Federal Reserve Board (G-12); Suggested Condensed Net Statement for Report to Federal Reserve Board (G-13). These are alternative forms. Whichever is adopted will be compiled from the Daily Statement of Condition (Form G-11).

KEY LETTERS TO BE USED IN THE PREPARATION OF THE LEDGER ACCOUNTS AND DAILY STATEMENTS.

In order to minimize the clerical work involved in the preparation of the Ledger accounts and the statements for Member Banks and other Regional Banks, it is proposed that key letters shall be used for describing routine transactions. For convenience, these key letters and their definitions will be printed on the back of the daily statements.

Following is a list of the key letters relating to transactions with the Member Banks, their definitions, and a full description of the transactions where necessary. For illustrative purposes, the transactions are described from the standpoint of the Regional Bank situated in New York.

DEBITS.

A. Items on you forwarded you preceding business day.

Items drawn on Member Banks and forwarded to them by Regional Banks are to be charged to the Member Banks the day on which they will be received by the Member Banks, being carried until that time in a transit account on the Regional Bank's books. Assuming that all Member Banks will be within one day's mail of their Regional Banks, the charges would be for items forwarded the preceding business day.

AT. Deposited with Assistant Treasurer.

For deposits made by Regional Bank with the Assistant Treasurer of the United States for credit of Member Banks.

CA. Charged as per separate advice to-day.

To be used for special charges not covered by other key letters.

CC. Currency or coin shipped as per advice to-day.

CL. Clearing expenses.

For monthly charges to Member Banks for expense incurred in the collection of items.

CN. Note in your hands for our account due to-day.

For Regional Bank's notes or bills sent to Member Bank for collection and charged to it on due date, also for notes and bills received from other Regional Banks and forwarded to a Member Bank for collection, for which a charge will be made on the due date.

HD. Held as per advice to-day.

For item temporarily unpaid and retained for collection.

NT. Handed to Notary as per advice to-day.

For items received from Member Banks, unpaid at close of day, which have been protested and returned to the Member Banks from which received.

PF. Protest Fees as per advice to-day.

For fees charged on protested items returned.

RT. Item returned as per advice to-day.

For items drawn on Member Banks in other districts which were not paid and have been returned direct to our Member Bank.

TC. Transfer by correspondence as per advice.

TT. Transfer by telegraph as per advice.

CREDITS.

A. Cash letter received.

For items drawn on Member Banks in our district and in other districts received from our Member Banks for credit.

CA. Credited as per separate advice to-day.

To be used for special credits not covered by other key letters.

CC. Currency or coin received.

DC. Deposit for your account as per advice to-day.

For deposits made by third party with Regional Bank for credit of Member Bank.

DI. Dividend payable to-day.

For dividends payable to Members Banks, which are to be credited direct to their accounts.

IR. Interest rebated.

For unearned interest or discount on loans or discounts taken up prior to due date.

RD. Proceeds of Loan or Rediscount.

PF. Protest Fees.

For fees on unpaid items returned by our Member Banks.

RT. Item returned as per your advice.

For unpaid collection items returned.

TC. Transfer by correspondence as per advice.

TT. Transfer by telegraph as per advice.

The key letters to be used in describing the transactions arising among the Regional Banks are similar to those prescribed for transactions between the Regional Banks and their Member Banks, except for such changes as are necessary on account of the altered character of the transactions. The following is a list of the key letters to be used for Regional Bank transactions, with explanations:

DEBITS.

A. Items on Member Banks in your district forwarded you.

For items drawn on Member Banks in other districts forwarded their Regional Bank for credit.

CA. Charged as per separate advice to-day.

To be used for special charges not covered by other key letters.

CC. Currency or coin shipped as per advice to-day.

CN. Notes due to-day as per our list.

For notes or bills sent to other Regional Banks for collection, which are to be charged on due date.

EC. Entered for collection as per advice to-day.

For items received from other Regional Banks temporarily unpaid and retained for collection.

NT. Handed to Notary as per advice to-day.

For items received from other Regional Banks unpaid at close of day which have been protested and returned to the Member Banks from which received.

PF. Protest fees as per advice to-day.

For fees charged on protested items returned.

RT. Items returned as per our list.

For unpaid collection items.

TC. Transfer by correspondence as per advice.

TT. Transfer by telegraph as per advice.

CREDITS.

A. Items on Member Banks in our district received from you.

For items drawn on Member Banks in our district, forwarded us for credit.

CA. Credited as per separate advice to-day.

To be used for special credits not covered by other key letters.

CC. Currency or coin received.

CN. Notes due to-day as per your list.

For notes or bills received from other Regional Banks for collection, which are to be credited on due date.

EC. Item entered for collection now paid.

For items received from other Regional Banks temporarily unpaid as described under *EC.* in "Debits," now paid and credited.

IR. Interest rebated.

For unearned interest or discount on loans or discounts taken up prior to due date.

PF. Protest Fees.

For fees charged on protested item returned.

RD. Proceeds of rediscount.

RT. Items returned as per your list.

For items returned unpaid to our Member Banks.

TC. Transfer by correspondence as per advice.

TT. Transfer by telegraph as per advice.

MISCELLANEOUS FORMS.

Stock Subscription Ledgers (M-1 and M-2). These forms will be used for recording the subscriptions received from Member Banks and from individuals, and the instalments paid on account of such subscriptions.

The record of Member Banks' subscriptions—Form M-1—is designed to show the number, name and location of the subscribing

bank, its paid up Capital Stock and Surplus, the amount of the subscription required by law, and the instalments paid thereon. As the amount of the subscription, divided by the par value per share (\$100.00) will give the number of shares represented by the subscription, it has not been considered necessary to provide a special column for entry of the number of shares.

For recording subscriptions received from individuals, Form M-2 will be utilized. The front of this form is ruled for entry of the name, address and legal residence of the subscriber, the date and amount of the subscription, and the date and amount of the payments on account of such subscription. The reverse will contain a record of the stock certificates issued to the subscriber and the stock certificates surrendered for transfer.

Stock Subscription Certificate (M-3). This form is designed to serve both as a subscription certificate and as a receipt for the instalment payments. It is intended to be used principally in connection with subscriptions received from individuals.

Stock Subscription Receipt (M-4). The stock allotted to the Member Banks being non-transferable it is recommended that they be given receipts for the individual payments instead of the Stock Subscription Certificate described in the preceding paragraph.

Stock Certificate Receipt (M-5). This form consists of a stub and a detachable receipt on which the subscribers will be required to acknowledge receipt of the stock certificates issued to them.

Stock Transfer Record (M-6). This form will be used for recording transfers for account of stockholders other than the Member Banks. It is ruled for entry of the date of the transfer; the serial number of the certificate surrendered and the number of shares represented thereby; the name of the transferor; the number of the certificate issued in exchange; the number of shares represented by the new certificate, and the name and address of the transferee.

Standing Order to Mail Dividend (M-7). Each stockholder to whom dividend checks will be issued, should be required to complete a copy of this form. If the dividends are to be remitted to some one other than the owner of the stock, the signature of the stockholder should be acknowledged before a notary public.

Dividend Register (M-8). As most of the stockholders of the Regional Banks will be Member Banks, whose holdings are not transferable, a Dividend Register of this type should meet all requirements. It is ruled to show the names and addresses of the stockholders and the dividends applicable to their holdings, also the number, rate and total amount of the dividend, the date on which it was declared, the date paid, and the date credited to the liability account for dividends declared.

Dividends payable to Member Banks are to be credited to their accounts direct from the Dividend Register. For the dividends payable to other stockholders, dividend checks will be issued.

Authority to Open Account with Regional Bank (M-9). Each

Member Bank opening an account with its Regional Bank should be required to furnish the latter with a certified copy of the resolution of the Board of Directors authorizing such action. Form M-9 is recommended for use in this connection.

Signature Card (M-10). Simultaneously with the opening of an account, the Member Bank will be required to file with its Regional Bank, on this form, a list of the signatures to be recognized by the Regional Bank in the payment of funds or the transaction of other business for account of the Member Bank.

Purchase Order (M-11). This form is designed to furnish a suitable record of the orders issued for the purchase of stationery and other supplies. The original of the order is to be forwarded to the supplier and the duplicate retained for office use.

Stock Record for Supplies (M-12). For each article carried in stock separate cards of this form are to be used, on which will be entered the description, the index number and the location of the stock; the purchases; the issues; and the balance.

FEDERAL RESERVE AGENT.

The Act stipulates that the Federal Reserve Agent shall be a person of tested banking experience and that he shall maintain, under regulations to be established by the Federal Reserve Board, a local office of said Board on the premises of the bank with which he is connected. These stipulations will necessitate the Federal Reserve Agent keeping suitable records of the notes received, issued and withdrawn, of the rediscounts and other paper held as collateral to note issues, and such other records as may be prescribed by the Federal Reserve Board.

Record of Federal Reserve Notes Received from the Comptroller of the Currency (X-1). In the respective columns of this record will be entered the date and nature of the transaction, the amount of notes received from the Comptroller, the amount returned to the Comptroller and the balance to be accounted for by the Federal Reserve Agent. This balance should equal the amount of notes on hand as shown by Form X-2 and the notes issued to the Regional Bank as recorded on Form X-3.

Record of Federal Reserve Notes on Hand (X-2). This record will show the details of the notes received from the Comptroller of the Currency or returned by the Regional Bank, the notes issued to the Regional Bank or returned to the Comptroller, and the balance, subdivided as between notes on hand which are fit for circulation and notes which are not fit for circulation and are to be returned to the Comptroller.

Record of Security furnished by Regional Bank and Federal Reserve Notes Issued (X-3). From this record the Federal Reserve Agent will be able to ascertain at any time the amount of rediscounts and other paper hypothecated with him by the Regional Bank and the amount of Federal Reserve Notes issued against such security.

The total amount of each borrower's paper hypothecated with the Federal Reserve Agent being ascertainable from the Loan Department records, it will not be necessary for the Agent to maintain a special record for this purpose.

Application for Federal Reserve Notes (X-4). This form, which will be used by the Regional Bank when applying for Federal Reserve Notes, is to be prepared in duplicate. The original is to be retained by the Regional Bank as authority for the credit to Circulation Account, while the duplicate is to be signed by the Paying Teller of the Regional Bank in acknowledgment of the receipt of the notes and returned to the Federal Reserve Agent for entry on his records.

Retirement of Federal Reserve Notes (X-5). Except that it is to be used in connection with the retirement of Federal Reserve Notes, this form is very similar to X-4.

Record of Notes Hypothecated with Federal Reserve Agent (B-15). Record of Collateral Withdrawn from Federal Reserve Agent (B-16). As explained in a preceding section of this report, the Loan Department will prepare these forms in duplicate in order that the Federal Reserve Agent may be able to retain a copy for his own use.

Advice of Currency Returned to Comptroller (X-6). This form will be used by the Federal Reserve Agent for advising the Comptroller of shipments of mutilated currency.

Each package of currency returned to Washington should be accompanied by a detailed schedule of the contents, showing both the serial numbers of the notes returned and their denomination.

Daily Report on Note Circulation (X-7). The Federal Reserve Agent will report daily to the Federal Reserve Board on this form, the total issues and withdrawals of Federal Reserve Notes, the amount of unfit notes returned to Washington, and the total amount of notes on hand at the close of the day.

AUDIT DIVISION.

The function of the Audit Division will be to audit the records and securities of the various departments comprising the Banking Division, also those of the Federal Reserve Agent.

The Auditor in charge of this division should be thoroughly acquainted with the banking business in all its phases and competent to judge if every part of the work is being properly performed. While not under their jurisdiction, the Auditor should cooperate with the officers conducting the Banking Division so far as is necessary to safeguard the interests of the bank.

Under no circumstances should either the Auditor or his assistants be allowed to prepare or approve tickets of original entry. On the other hand, the Audit Division should be required to prepare all tickets needed for the correction of errors; all error tickets should, however, be referred to an officer in the Banking Division for approval before delivery to the bookkeepers for entry.

A classification and analysis of the duties of the Audit Division follow:

General Proof. At the close of business each day the various departments will deliver their settlement sheets to the Audit Division, where the inter-departmental transactions will be verified and the departmental totals assembled on the Auditor's General Proof Sheet, Form Y-1.

Reconcilements. The reconciliations of the accounts carried with other Regional Banks, with Member Banks and Government Departments, and with correspondents abroad, will be prepared by the Audit Division. The domestic accounts are to be reconciled on Form Y-2 and the foreign accounts on Form Y-3. Reference to these forms will show that in each case the reverse can be utilized for listing the outstandings.

Departmental Audits. Each of the departments comprising the Banking Division should be audited at irregular intervals during the year. These audits should include a verification of the cash, loans, investment securities, and other resources; a comparison of the securities held as collateral with the collateral records; a proof of the liability accounts and a detailed check of the accrual accounts and the accounts relating to earnings and expenses.

The securities and accounts of the Federal Reserve Agent should also be subject to audit at frequent intervals.

Loose Leaf Records. The Audit Division should have charge of all sheets for loose leaf records, furnishing them as required and keeping an accurate record of those in use and in the transfer files.

Cancelled Vouchers. All cancelled vouchers relating to the general accounts, debit and credit tickets, etc., should be promptly delivered to the Audit Division for filing.

GENERAL.

We shall be pleased to furnish any further information or explanations which may be necessary in connection with the matters dealt with in this report.

Yours truly,

MARWICK, MITCHELL, PEAT & Co.

Portfolio III, containing forms relating particularly to the keeping of credit records, the presentation of regular reports by the banks, etc., is also presented and should be studied in connection both with Portfolio I and Portfolio II.

APPENDIX II.

(Accompanied by Portfolio of Forms No. II.)

From the beginning of its work, the Committee determined to present a complete system of mechanical accounting in accord with methods in use in the largest banks, and with this in view Mr. Stephen H. Farnham, an expert on mechanical accounting, was invited to become a member of the Committee. Later the Sub-Committee on Mechanical Accounting secured the co-operation of Mr. Harry E. Ward, Cashier of the Irving National Bank, New York City, and Mr. Charles C. Robinson, Auditor of the Irving National Bank.

The system of accounting to be chosen, and the extent to which machines are used in it, will depend upon the scope and activity which the Reserve Banks are to have from the beginning, and, in the event that they are assigned large clearing functions, it will necessarily be a matter of extreme importance in assuring the smooth working of the system, the accurate and prompt collection of items, and the development of reports and statistics comparable in character and truly reflecting the internal conditions of each of the several institutions. The accounting system as subsequently outlined may be made a fundamental factor in providing the means for a careful estimate of credit conditions throughout the country, as it provides for a daily transmission, if desired, of detailed reports to the Federal Reserve Board at Washington, in order that that Board may be constantly in touch with the operations of each Bank, and the comparative condition of all the Banks. In this way the Board will be enabled to act with full knowledge as to rates of discount and to advise the several Banks concerning the lines of paper that are outstanding throughout the country.

In designing the plan, these points have been observed:

- (A.) Particular care has been taken to introduce the most modern systems, using machinery wherever possible, thereby securing the advantages of mechanical accuracy as compared with the method of maintaining records by hand.
- (B.) The majority of the forms have been constructed to carry their respective items from the time of receipt to final disposition. There is also a system of control throughout, with the result that their use will materially reduce labor and increase efficiency.
- (C.) The entire accounting system has purposely been made elastic, so that it will fulfil the needs of the largest as well as the smallest Federal Reserve Bank, and as the banks grow it will not be necessary to revise the accounting plan.

- (D.) There has been constant recognition of the desirability of keeping the Federal Reserve Board in daily contact with the Federal Reserve Banks.
- (E.) The system is adapted for use with any of the standard typewriting and adding machines now on the market.

MAIL TELLER.

As there will in all probability be a large accumulation of mail from Member Banks, consisting of remittances for credit, collections, etc., between the hours of 2:30 P. M. and 8:30 A. M., this department has been designed as the first operating unit, looking to the avoidance of congestion in the morning.

The work of the Mail Teller will begin, say at midnight, and will consist in handling incoming mail up to 5 A. M., the result being:

1—Preparation for morning clearance of such items as will be payable through the Clearing House (Federal Reserve or otherwise).

2—Delivery to the Transit Department in one total of such items as may have been received, payable out of town.

3—Delivery to the Distributing Desk in one total of such Credits and Debits as relate to the accounts appearing upon the books of the Federal Reserve Bank.

4—Delivery to the Note Teller in one total of such miscellaneous items not covered in the three subdivisions outlined.

The Block System will be used in this, as in all other departments, the sectional proofs of the work being accomplished by means of blocks, with the result that the ultimate proof of the department will consist only of interlocking balances.

FORM M. T. 1.

This will be the Block Sheet of the Department, to be used as previously outlined.

FORM M. T. 2-3-4

These vari-colored slips to be used in correctly routing the different batches of Debits and Credits after they are proved upon each block.

Form Nos. 3 and 4, will cover the majority of the work leaving the department, and consequently are imprinted "Transit Department" and "Note Teller," while form M. T. 2, is to be used for such miscellaneous items as may necessarily be forwarded to other departments.

FORM M. T. 5

This is a Proof Sheet for the department, the figures for which will be obtained from a recapitulation of the Block Sheets.

FORM M. T. 6

This is a suggested envelope which will enclose items intended for presentation to the different Members of the Clearing House.

CLEARING HOUSE DEPARTMENT

This department will be the successor of the Mail Teller, its work consisting in handling incoming mail received subsequent to 5 A. M., the plan of operation of the two departments being identical, except that the supervision and proof of incoming exchanges from the Clearing House will also be handled by this department.

The forms will consist of the following:

FORM CH 1.

This will be the Block Sheet for the department.

FORM CH 2-3-4-5.

These vari-colored slips will be used in correctly routing the batches of items from each Block Sheet, after its proof.

FORM CH 6.

This is the Proof Sheet of the department, the figures for which will be obtained by a recapitulation of all the Blocks.

FORM CH 7.

This is a Block Sheet to be used in effecting the proof of incoming exchanges from the Clearing House.

FORM CH 8.

This is a Proof Sheet for the assembling of an individual proof of the morning Exchanges received from the Clearing House, the figures being subsequently passed through the proof of the Distributing Desk.

FORM CH 9

This is a suggested envelope which will enclose items intended for presentation to the different Members of the Clearing House.

DISTRIBUTING DESK

For the concentration of figures, avoidance of errors, facilitation of work in the Tellers' cages, and simplicity of posting for the General Ledger this department has been instituted in order that the different Tellers after the proof of each block may route to it such items as may have been received, both Debits and Credits, effecting accounts appearing upon the books of the Federal Reserve Bank.

The advantages of the Distributing Desk are many, and it will be found of particular value as to apparent over-drafts, by the quick concentration in the bookkeepers' hands of such Debits and Credits as may affect the accounts, but which under ordinary circumstances would not reach the bookkeeper until the close of the day's business.

The Forms of the department are as follows:

FORM D D 1

This is a Block Sheet to be used in establishing sectional proofs of Debits.

FORM D D 2

This is a Block Sheet to be used in establishing sectional proofs of Credits.

FORM D D 3

This is a Proof Sheet for the department, the figures of which will be obtained from a recapitulation of the Block Sheets.

PAYING TELLER

The principal duties of the Paying Teller will be to make such cash disbursements over the counter as may be necessary, effect the settlement of Clearing House balances, examination of checks for correct signatures, arrange for the shipment of money to Member Banks, provide for the forwarding of mutilated currency for redemption to the Treasurer of the United States at Washington, and likewise provide for the redemption of Federal Reserve Notes with the Federal Reserve Agent.

The Paying Teller will be responsible only for such cash as may be allotted to him, the principal cash reserves of the Bank being under the joint control of other officers or directors.

The Forms of the Department are:

FORM PT-1

This will be used in arranging shipments of money to Member Banks. Its explanation is as follows:

Slip No. 1—Notification to the Member Bank that its account has been charged and that the shipment has gone forward.

Slip No. 2—Carbon copy of original advice, which will be enclosed with the shipment of money.

Slip No. 3—Acknowledgment from Member Bank of receipt of the shipment.

Slip No. 4—Tracing slip to be retained as a follow-up, looking to the receipt of the acknowledgment.

Slip No. 5—Debit to Member Bank's Account.

FORM PT-2

This will be used in forwarding mutilated currency to the Treasurer of the United States at Washington. Its explanation is as follows:

Slip No. 1—Advice to the Treasurer of the United States, descriptive of the forwarding of the currency.

Slip No. 2—Carbon copy of original advice, to accompany the shipment.

Slip No. 3—Debit to "Redemption Account."

Slip No. 4—Credit to "Redemption Account."

All of the above slips will be made use of upon the day the money is shipped, with the exception of Slip No. 4, which will be retained, awaiting the return of the equivalent currency from Washington. The outstanding slips will, of course, prove to the controlling account upon the General Ledger.

FORM PT-3

To be used in forwarding mutilated Federal Reserve Notes to the Federal Reserve Agent, its explanation being:

Slip No. 1—Application to the Federal Reserve Agent for the issuance of new currency.

Slip No. 2—Acknowledgment from the Federal Reserve Bank to the Federal Reserve Agent of receipt of the new currency.

Slip No. 3—Debit to "Federal Reserve Notes."

Slip No. 4—Credit to "Federal Reserve Notes."

Slips Nos. 1, 2, and 3 will be attached and delivered to the Federal Reserve Agent with the mutilated currency, Slip No. 3 being provided upon its reverse side with a form of acknowledgment from the Federal Reserve Agent of the receipt of the mutilated currency. When the new currency is delivered to the Federal Reserve Bank it will be accompanied by an acknowledgment of its receipt by the Federal Reserve Bank. Upon delivery of the new currency to the Bank, Slip No. 4 will be used as a Credit to "Federal Reserve Notes."

FORM PT-4

This will be used by the Federal Reserve Bank in forwarding Federal Reserve Notes for cancellation to the Federal Reserve Agent, its explanation being:

Slip No. 1—Instructions to the Federal Reserve Agent, as to the cancellation of the described Federal Reserve Notes.

Slip No. 2—Debit to "Federal Reserve Notes."

As the notes are delivered to the Federal Reserve Agent they will be accompanied by Slips Nos. 1 and 2, Slip No. 1 being a record of the transaction for the Federal Reserve Agent, while Slip No. 2 is for use in reducing the outstanding Federal Reserve Notes, provision having been made upon its reverse side for a form of acknowledgment of the receipts of the notes by the Federal Reserve Agent.

FORM PT-5

This is a form to be used in effecting the "Stop Payment" of checks.

FORM PT-6

This will be used when the notification for stopping payment has not been received upon the form provided for the purpose.

FORM PT-7

This is for use in acknowledging receipt of the regular form of "Stop Payment" notice.

FORM PT-8

A loose-leaf record, upon which will be inscribed under the name of the Member Bank, a complete description of the checks upon which it is desired to stop payment.

FORMS PT -9-10-11-12-13

Vari-colored slips to be used in routing the different batches of items to the several Departments.

FORM PT-14

Proof Sheet for the Department, upon which will be assembled the total figures of the day. Upon the reverse side of the sheet, provision has been made for the accumulation of the different Debits and Credits to the several Departments.

FORM PT-15

This will be used for the occasional necessity of certifying checks of Member Banks, its explanation being:

Slip No. 1—Notification to Member Bank of the fact that its account has been charged, covering the certification of a specific check.

Slip No. 2—Debit to the Member Bank's Account.

Slip No. 3—Credit to Certified Checks.

FORM PT-16

When the certified checks are returned to the Bank for redemption, they will pass through the controlling account upon the General Ledger and then be forwarded to the Auditing Department in order that their control may be in agreement with the General Ledger. The Auditing Department will then affix this form to the checks and deliver them to the Bookkeeping Department to be enclosed with the daily statement.

This is a proposed sheet which will be prepared by the Paying Teller each morning and will be delivered to the Secretary-Treasurer for examination, its purpose being to place the officials of the Bank in touch with the condition of the cash of the Bank.

RECEIVING TELLER

This Department will receive deposits from Member Banks located within the city in which the Federal Reserve Bank is situated, and will also account for shipments of currency received from other Federal Reserve Banks and Member Banks.

The Forms of the Department are as follows:

FORM RT-1

This is for use in handling shipments of currency received for credit of Member Banks, its explanation being:

Slip No. 1—Advice to the Member Bank descriptive of the receipt of the Currency and the amount placed to their credit.

Slip No. 2—Credit to the Member Bank's Account

FORMS RT-2-3-4-5-6

These are vari-colored slips to be used in routing the different classes of items to the several Departments.

FORM RT-7

A Block Sheet for the sectional proof of the day's work.

FORM RT-8

This is a proof sheet, the figures for which will be obtained from a recapitulation of the Block Sheets.

NOTE TELLER.

The duties of this Department will consist of the presentation and collection of notes, drafts, and checks drawn upon non-members of the Clearing House, all of which are payable within the radius covered by the messengers of the Federal Reserve Bank.

The runners or messengers will be under the control and form a part of this Department.

The forms are as follows:

FORM NT-1

This is a proposed Block Sheet for the proof of the messengers' routes, upon one side of which are listed the individual items comprising the route and upon the reverse side the checks, currency, etc., which have been received in payment. The initial

"N" is indicative of a cash item charged to the Note Teller and which has been returned by the messenger unpaid. The initial "C" is indicative of collection items (not cash), which have been returned unpaid by the messengers.

The total of the items as appearing upon each side of the block must be in agreement and constitute, as previously outlined, a proof of the messengers' routes.

FORM NT-2

A Block Sheet for the distribution to the different Departments, of the checks, currency, etc., which have been received in settlement of items charged to the Note Teller. A recapitulation of these blocks constitutes a proof of the day's work.

FORMS NT-3-4-5-6-7

These are vari-colored slips to be used in routing items to the different Departments, after they are proved upon the Block Sheets.

FORM NT-8

This is for use in charging back and returning cash items, which are unpaid after presentation. Its explanation is as follows:

Slip No. 1—Letter accompanying the item.

Slip No. 2—Debit to the Member Bank.

Slip No. 3—To be placed in a chronological file, awaiting the return of the acknowledgment postal.

Slip No. 4—A postal card to be attached to the item when it is charged back and which will be dated, signed, and returned by the Member Bank as an acknowledgment of receipt.

FORM NT-9

In the event of the postal card as outlined in NT-8 not being regularly returned, FORM NT-9, being a postal tracer, will be used.

FORM NT-10

This is a Proof Sheet for the Department, the figures of which will be obtained from a recapitulation of the Block Sheets as outlined in FORM NT-2.

TRANSIT DEPARTMENT.

The Transit Department should be equipped with steel racks providing suitable compartments for each Member Bank of its district, together with eleven other compartments, larger in size for the other Federal Reserve Banks.

These compartments will be divided into units, for the purpose of evenly distributing the volume of business.

The handling and proof of the Transit items will be obtained in the following manner:

- (a) Items received by the different Departments will be charged to the Transit Department in batches, accompanied by slips designating the Teller forwarding them and the amount of each batch.
- (b) Accumulated batches will be assorted to the different units listed, and proved under the sectional proof of the block system.
- (c) A recapitulation of the block sheets will constitute a proof of the interlocking balances with the Tellers, and produce the figures to which each unit must prove.

- (d) The proof of each unit will be obtained by adding together the totals appearing upon the carbon copies of the remittance letters in process of being forwarded.

The forms of the Department are—

FORM T-1

A form to be used by Member Banks in their relations with Federal Reserve Banks, when forwarding for credit such items as they may receive, drawn upon Member Banks located within the Federal Reserve city. The top sheet will accompany the checks, while the carbon will be retained by the Member Banks to be used as a debit to their reserve account with the Federal Reserve Banks.

It will be noted that this form, as well as FORMS NOS. T-2-3-4-5-6-7-8 and 9, has been equipped with a form of acknowledgment as well as a "follow-up," the acknowledgment to be dated, signed, and returned by the receiving bank, and the "follow-up" to be placed in chronological file under the date upon which the acknowledgment should be received—this will enable the banks to trace intelligently any overdue cash letters.

Attention is called to the fact that the reverse side of Sheet No. 1 of FORMS NOS. T-1-2-3-4-5-6-7-8 and 9, is to be carbonized, consequently it will not be necessary to place the usual carbon paper between the original and duplicate parts of the form.

FORM T-2

To be used by Member Banks in forwarding for credit such items as they may receive which are drawn upon

- (a) Member Banks located within their own district but without the local radius to be determined by the Federal Reserve Board.
- (b) Federal Reserve Banks of other districts.
- (c) Member Banks of other Federal Reserve districts.

FORM T-3

To be used by Federal Reserve Banks in their relations with Member Banks located in their own city, but which because of inaccessibility may not clear through the Clearing House (Federal Reserve or otherwise), necessitating the items being forwarded to them by mail for collection. The top sheet will accompany the checks, while the second sheet, or duplicate, will be the debit to the Member Bank's account.

FORM T-4

This is identical with FORM T-5, except that it is intended to cover instances where there will not be many checks to forward.

FORM T-5

To be used in forwarding items drawn upon Member Banks located without the city in which the Federal Reserve Bank is situated, the top sheet accompanying the checks and the second sheet, or duplicate, being the debit to Member Bank's account.

FORM T-6

This is identical with FORM T-5, except that it is intended

to cover instances where the number of checks to be forwarded are fewer in number.

FORM T-7

For use of the Federal Reserve Banks in forwarding items to each other, the top sheet accompanying the checks while the second sheet, or duplicate, will be a debit to "Transit Account."

FORM T-8

For use of the Federal Reserve Banks in forwarding Federal Reserve Notes to each other. The top sheet will accompany the notes while the duplicate will be a debit to "Transit Account."

FORM T-9

For use of Federal Reserve Banks in returning to each other unpaid cash items, the original sheet accompanying the items while the duplicate sheet is a debit to "Transit Account."

FORM T-10

A claim ticket to be used in adjusting discrepancies in cash letters, such as incorrectness in listing, non-enclosure of items, etc.

FORM T-11

To be used in confirming the action of correspondents, in supplying missing endorsements.

FORM T-12

A form of postal tracer to be used in tracing overdue cash letters. The pink, or duplicate, sheet will be retained in a chronological file, as a follow-up, looking to the receipt of a reply to the tracer.

FORM T-13

For use of Member Banks in returning unpaid cash items to the Federal Reserve Banks.

FORMS T-14-15-16

Vari-colored slips to be used in routing batches of items to the different departments.

FORM T-17

A form of block sheet for use in establishing sectional proofs of the day's work.

FORM T-18

Proof sheet of the Department, the figures for which will be obtained from a recapitulation of the block sheets.

It is quite possible that an electric endorsing machine can be used to good advantage in the Transit Department, and this thought should receive consideration.

COLLECTION DEPARTMENT

The following forms have been designed for Regional Banks, in handling such items as may be forwarded to them for Collection only.

FORM COLL 1

This is intended for notes payable within the radius covered by messengers of the Federal Reserve Banks. Its description follows:

Slip No. 1—Advice of disposition to Member Bank.

Slip No. 2—Credit to Member Bank (if paid).

Slip No. 3—Permanent Record (to be filed chronologically, as to day of receipt, under name of Member Bank).

Slip No. 4—Maturity Slip, serving the same purpose as the ordinary "tickler."

FORM COLL 2

This is designed for notes payable without the district covered by messengers of the Federal Reserve Bank, necessitating the items being forwarded to corresponding banks for collection. Its explanation follows:

Slip No. 1—Letter enclosing item to corresponding bank.

Slip No. 2—Acknowledgment of receipt from corresponding bank.

Slip No. 3—Maturity Slip, to be used in following up returns.

Slip No. 4—Permanent Record, to be filed chronologically, as to day of receipt, under the name of Member Bank.

Slip No. 5—Advice of disposition to Member Bank.

Slip No. 6—Credit to Member Bank (if paid).

Slip No. 7—Debit to corresponding bank (if paid).

FORM COLL 3

This will cover drafts and special items (exclusive of Coupons), requiring specific advice of payment and which are paid upon the day of presentation. Its explanation follows:

Slip No. 1—Advice of credit to Member Bank.

Slip No. 2—Credit to Member Bank.

FORM COLL 4

This will be for items, other than notes, which are payable without the district covered by messengers of the Federal Reserve Bank. Its explanation follows:

Slip No. 1—Letter accompanying item to corresponding bank.

Slip No. 2—Tracing Slip, to be used in following up returns.

Slip No. 3—Permanent Record, to be filed chronologically, as to day of receipt under the name of Member Bank.

Slip No. 4—Advice of disposition to Member Bank.

Slip No. 5—Credit to Member Bank (if paid).

Slip No. 6—Debit to Corresponding Bank (if paid).

FORM COLL 5

This is for use in returning unpaid items, payable within the district covered by messengers of the Federal Reserve Bank. Its explanation follows:

Slip No. 1—Letter to Member Bank returning the item unpaid.

Slip No. 2—Carbon copy for files.

FORM COLL 6

Postal acknowledgment of the receipt of items entered for collection.

FORM COLL 7

This has been constructed for items (documentary or otherwise) requiring special care and which will be held indefinitely awaiting payment. Its explanation follows:

Slip No. 1—Acknowledgment of receipt to Member Bank.

Slip No. 2—Advice of credit to Member Bank.

Slip No. 3—Credit to Member Bank.

It will be noted that on slip No. 3, of the above form, space has been allotted for notations descriptive of the progress being made looking to the ultimate disposition of the items.

FORM COLL 8

This is a postal form of tracer, to be used in tracing the disposition of items forwarded to Corresponding Banks for collection. The pink slip attached, is a carbon of the postal and will be filed chronologically under the approximate day upon which a reply to the Tracer should be received.

FORM COLL 9

This form is to be used in requesting the return of items, forwarded to Corresponding Banks for collection. The yellow sheet attached is a carbon copy and record of the original.

FORM COLL 10

This is intended to reduce letter-writing to a minimum, the form being designed as a departmental advice to Member Banks concerning their collections.

FORM COLL 11

This is the Block Sheet for the Department, and will be used in accordance with the Block System of proof throughout the Bank.

FORMS COLL 12 and 13

These are slips to be used in routing debits and credits to the different departments and upon which will be inscribed the total amount of each batch. Form No. 12, is for Credits and form No. 13 is for Debits. The difference in color being indicative of the different classes.

FORM COLL 14

This is a Proof Sheet for the Department and upon which will be inscribed a recapitulation of the day's work, obtained from the Block Sheets.

LOANS AND DISCOUNTS

As re-discounting for Member Banks and the proposed purchase of Domestic Bills of Exchange, etc., in the open market, may be extensive, it is thought that the application of forms to machinery will materially facilitate the work of the Department, and with this in view the following plan has been designed:

UNEARNED DISCOUNT

It is suggested that the Federal Reserve Banks, instead of following the usual practice of crediting to Current Earnings such discount as may have been collected, adopt the plan of placing the discount in an account to be known as "Unearned Discount," and each day this balance will be charged with the actual discount earned and the amount thus obtained credited to Current Earnings under the subdivision of "Discount."

This would mean that the statement of the Bank would always appear upon a liquidating basis, and from an analytical point of view would materially assist in showing the true percentage of earnings to Loanable Funds.

LIABILITY

While the usual method of ascertaining the amount of liability is from detailed statistics compiled in book records, it will be noted that such entries in the Liability Ledgers cause a duplication of work, entailing unnecessary labor in keeping them in a state of efficiency, while, under the proposed plan, full details concerning liability are obtained at the same time that the bookkeeping entries, advices, etc., are typewritten by the stenographer.

For the purpose, however, of ready availability of figures, concerning the total liability of concerns, under the classifications of "Payer" and "Endorser," a skeleton Ledger in loose-leaf form will be maintained, the entries in which will be posted in total only, and the entire liability of which must be in proof with the controlling balances on the General Ledger.

As the Federal Reserve Banks will be principally interested in the credit standing of the Payer and the last Endorser, and as it is very desirable to maintain only such figures of liability as may be subject to proof, it is suggested that the liability records of the Federal Reserve Banks consist of Payer and Endorser, instead of Drawer, Acceptor, and Endorser, as the establishment of liability figures under the latter three classifications would not be possible of proof and would result in a lack of confidence as to the accuracy of such figures.

In the event, however, of it being considered necessary to maintain liability figures other than that of Payer and the last Endorser, this may be done by inserting additional sheets in the skeleton loose-leaf Liability Ledger, the postings in the accounts to be executed in red ink, which would be indicative of the fact that such figures are not to be included in the proof of liability.

It is the purpose of this plan to provide the Federal Reserve Board at Washington with a continuous record, in detail, of all notes or bills of exchange discounted for Member Banks or purchased in the open market—these continuous records to be executed at the same time the forms are written, without any additional labor upon the part of the Federal Reserve Banks, such continuous records being mailed to the Federal Reserve Board at the conclusion of each day's business, and which will be used by the Credit Bureau at Washington for the accumulation of such credit information as they may desire. This will enable the Federal Reserve Board at Washington to be in close touch with that portion of the business of the Federal Reserve Banks and place it in a position to accumulate, automatically, from twelve different sources, most valuable statistics, concerning the credit standing of the borrowers from the Federal Reserve System.

In FORMS BD-2-3-5 and 6 it will be seen that two of the last vari-colored slips have been allotted for liabilities, the thought being that the slips in question, after being posted in total in the skeleton Liability Ledger, will be filed in a steel cabinet, under an alphabetical arrangement of the names of the debtors.

The result of this would be an accumulation into one compartment, properly indexed, of the entire concentrated liability (except

foreign exchange) of any concern, the controlling figures of which would be in the skeleton Liability Ledger, which, as previously outlined, would be posted in totals only.

As fast as the liabilities, represented by the slips, are liquidated, either at or before maturity, the slips are taken from the steel cabinet and filed in usual course by the Filing Department, so that the retention of the slips in this way furnishes a permanent record which may be consulted at any time.

It will be observed that this method will leave in the Liability files, only "live" matter of a current nature, consequently they will not be cluttered by a mass of records relating to past liabilities, while the easy maintenance of the subsidiary skeleton Liability Ledger will furnish immediate information, in total, as to the past and present liability of any concern.

TICKLER

The last slip of the forms bears the designation of "Maturity Slip" and its use will be that of providing the Department with the information usually contained in a book "tickler." The slips will be filed chronologically under the Maturity of the Notes, with the result that the Maturities of each day are accumulated in one compartment, properly indexed, and in the right-hand corner of which the total amount maturing is immediately available.

As the day of Maturity is reached, the City slips are taken from the Maturity File and checked to the City Notes delivered to the Note Teller, likewise the Country slips are checked to the forms covering Country Notes in possession of the Collection Department. It will, therefore, be seen that the slips have served the purpose of the usual book "tickler" in every possible way, both as to available information and the checking of missorted items.

The Maturity slips then will be used to reduce the liability of the different concerns in the skeleton Liability Ledger, and to retire from the Liability files the Matured liabilities, keeping, as outlined before, only "live" records in the liability files.

STATISTICS

Maturities falling due within thirty, sixty, or ninety days and after, can easily be obtained from the Discount Clerk, who will compute the figures from the totals appearing in the upper right-hand corners of the Indexes, in the Maturity File.

Attention is called to the fact that it is not practical to carry the above statistics upon the General Ledger, inasmuch as daily adjustments would be obligatory. It is, however, feasible to have the Maturities of the items show under the classifications of the different months of the year, such as the Maturities falling due in January, February, etc.

All of the forms have been provided with space which may be used to either place, automatically, upon the General Ledger the month of Maturity, or the industry, etc., affected.

CONTINUOUS RECORDS

As outlined before, it is suggested that the record of all Notes Discounted for or loans made to Member Banks, or paper pur-

chased in the open market, be transcribed upon what is known as a "Continuous Record," this record furnishing an exact description of the Note and being written in the same operation that the manifolded entries are being prepared by the stenographer.

These "Continuous Records" will be made use of in advising the Federal Reserve Board at Washington and in the interrelations between the Federal Reserve Agents and the Federal Reserve Banks.

ACCOUNTS

For the purpose of distinguishing between the classes of Bills Discounted, the following titles have been assigned:

Bills Discounted—Customers

Bills Discounted—Bought

FORM BD-1

For use of Member Banks, in empowering proper officials to re-discount with the Federal Reserve Banks.

FORM BD-2

This is intended to cover Notes Discounted for Member Banks, which are payable within a radius covered by the Federal Reserve Bank's messengers. Its explanation is as follows:

Slip No. 1—Debit to Bills Discounted-Customers.

Slip No. 2—Credit to Bills Discounted-Customers.

Slip No. 3—Advice of Credit to Member Bank.

Slip No. 4—Credit to Member Bank's Account.

Slip No. 5—Credit to Unearned Discount.

Slip No. 6—Endorser's Liability.

Slip No. 7—Payer's Liability.

Slip No. 8—Maturity Slip.

All of the slips comprising the Form are made use of upon the day of Discount, either in bookkeeping entries, advices, or for the establishment of Liability, with the exception of Slip No. 2, being a Credit to Bills Discounted-Customers, which remains attached to the Note and is filed away with it awaiting Maturity.

FORM BD-3

This is identical with FORM BD-2, with the exception that it is designed to cover Notes Discounted for Member Banks, which would be payable without the radius covered by messengers of the Federal Reserve Banks, consequently it would be necessary to forward them to other institutions for Collection. The explanation of the Form follows:

Slip No. 1—Debit to Bills Discounted-Customers.

Slip No. 2—Letter to Corresponding Bank enclosing the item for Collection.

Slip No. 3—Acknowledgment from Corresponding Bank as to the receipt of the Note.

Slip No. 4—Credit to Bills Discounted-Customers.

Slip No. 5—Debit to the Collecting Bank.

Slip No. 6—Advice of Credit for the Member Bank.

Slip No. 7—Credit to the Member Bank.

Slip No. 8—Credit to Unearned Discount.

Slip No. 9—Endorser's Liability.

Slip No. 10—Payer's Liability.

Slip No. 11—Maturity Slip.

As to Slips Nos. 2-3-4 and 5, Slips Nos. 2 and 3 would be attached to the Note when forwarded to the Corresponding Bank for Collection, while Slips 4 and 5 would be retained by the Collection Department of the Federal Reserve Bank and filed by it in a Maturity File under the Due Date of the item, at which time they would be proved to the controlling slips in the Discount Department, then being separated, would form the Credit to Bills Discounted-Customers and a Debit to the Collecting Bank.

It will be noted that Slips 2-3-4 and 5 were typewritten when the item was first handled by the Discount Department, consequently it was delivered to the Collection Department with the necessary forms to carry it to its final disposition, with the exception of the day of forwarding, together with the name of the Collecting Institution, both of which will be transcribed on the form by the Collection Department.

As the Country Notes will be delivered to the Collection Department the day following their discount, provision has been made upon the reverse side of the Maturity Slips for an acknowledgment of the receipt of the items by the Collection Department.

FORM BD-4

This is a continuous record, in loose-leaf form, forwarding to the Federal Reserve Board at Washington, exact details of the Bills Discounted for Member Banks.

FORM BD-5

This is similar to FORM BD-2, with the exception that it is intended to cover Bills Discounted-Bought, being purchases made in the open market, instead of items Discounted for Member Banks, and which are payable within the district covered by Messengers of the Federal Reserve Banks.

FORM BD-6

This is similar to FORM BD-3, with the exception that it has been designed to cover Country Notes purchased in the open market, rather than Discounted for Member Banks.

FORM BD-7

This is identical with FORM BD-4, except that it is designed to advise the Federal Reserve Board at Washington of the exact description of Bills Purchased in the open market, rather than Discounted for Member Banks.

FORM BD-8

This is a draft of an Alphabetical Index, to be used in separating the Liability of Debtors.

That portion of the Index descriptive of the name of the concern, will be modelled after the usual form of indexes, permitting the changing of names at leisure.

FORM BD-9

This is a draft of an Index to be used in apportioning the Brok-

ers' Slips in the Liability Files, the purpose of placing such Brokers' Slips in the Liability Files being merely to enable a proof of liability to be established, as of course there will be no liability attached to the Brokers unless they be compelled to endorse the commercial paper sold to the Federal Reserve Banks.

FORM BD-10

A Chronological Index, to be used in apportioning the Maturity Slips under the Maturity of the Notes, the upper right-hand corner being glazed with a coating of celluloid, or something of a similar nature.

FORM BD-11

Designed for Collateral Loans supported by Government Bonds, Warehouse Receipts for Merchandise, etc. Its explanation follows:

- Slip No. 1—Debit to Collateral Loans.
- Slip No. 2—Credit to Collateral Loans.
- Slip No. 3—Advice to Member Bank.
- Slip No. 4—Credit to Member Bank.
- Slip No. 5—Credit Unearned Discount.
- Slip No. 6—Endorser's Liability.
- Slip No. 7—Payer's Liability.
- Slip No. 8—Maturity Slip.

While it is assumed the Federal Reserve Banks will in addition to making collateral loans supported by United States Government Bonds, be obliged to make other loans supported by collateral, such as warehouse receipts, etc., covering merchandise, it is thought that loans of this character should be somewhat restricted and, in every case, bear a Maturity.

It may be well to note in addition to the above that there will be instances in which the Federal Reserve Banks will rediscount items supported by collateral, so that the accounts "Collateral Loans secured by United States Government Bonds" and "Collateral Loans—Merchandise" would not be indicative of all the collateral loans made.

FORM BD-12

A continuous record, in loose-leaf form, forwarding to the Federal Reserve Board at Washington, exact details of the Collateral Loans made each day.

FORM BD-13

This is a card record for Collateral Loans supported by Government Bonds, the card being descriptive of the Collateral and allowing space for substitutions, etc.

FORM BD-14

This is a card record of Collateral Loans supported by Warehouse Receipts for Merchandise, etc., the card being descriptive of the Collateral and allowing for payments covering withdrawals.

FORM BD-15

For use in Re-Discounting with other Federal Reserve Banks and supports a controlling balance upon the Liability side of the General Ledger known as "Re-Discounts with other Federal Reserve Banks." Its explanation follows:

Slip No. 1—Credit to "Re-Discounts with other Federal Reserve Banks."

Slip No. 2—Debit to the Discounting Federal Reserve Bank.

Slip No. 3—Letter enclosing item to Discounting Federal Reserve Bank.

Slip No. 4—Acknowledgment of receipt from Discounting Federal Reserve Bank.

Slip No. 5—Maturity Slip.

Slip No. 6—Debit to "Re-Discounts with other Federal Reserve Banks."

Slip No. 7—Credit to Bills Discounted. . . .

All of the above slips are made use of upon the day the items are forwarded for Re-Discount, with the exception of Slips Nos. 5, 6, and 7, being, respectively, a Maturity Slip, and the subsequent liquidating entries. Slip No. 5, descriptive of the Maturity, will be filed chronologically in a separate Maturity File covering items "Re-Discounted with other Federal Reserve Banks," so that the total of the slips in this file will at all times prove the controlling balance upon the General Ledger. Slips Nos. 6 and 7 will be substituted in place of the Note and held awaiting Maturity, at which time they will be separated and the debit to "Re-Discounts with other Federal Reserve Banks" will be charged to the Note Teller and the credit to Bills Discounted forwarded to the General Ledger.

The original Maturity Slip in the regular Maturity File need not be disturbed in this instance, as the reduction of Bills Discounted does not take place until the Maturity of the items, consequently it is necessary that they be left where originally placed, viz., the regular Maturity File, in order that it will be in agreement with the controlling balances.

An adjustment of Unearned Discount would, of course, be necessary upon receipt of the advice of credit.

FORM BD-16

This form is to be used in handling items re-discounted for other Federal Reserve Banks, and which are payable within the district covered by the Messengers of the Federal Reserve Bank discounting the items.

It provides a Controlling Balance upon the "Resources" side of the General Ledger, to be known as "Re-Discounts for other Federal Reserve Banks." An explanation of the Form follows:

Slip No. 1—Debit to "Re-Discounts for other Federal Reserve Banks."

Slip No. 2—Credit to "Re-Discounts for other Federal Reserve Banks."

Slip No. 3—Advice of Credit to Federal Reserve Bank Of .

Slip No. 4—Credit of Federal Reserve Bank Of .

Slip No. 5—Credit to Unearned Discount.

Slip No. 6—Liability Slip of Federal Reserve Bank Of .

Slip No. 7—Maturity Slip.

FORM BD-17

This is identical with FORM BD-16, with the exception that it

is intended to cover Notes re-discounted for other Federal Reserve Banks, which are payable without the district covered by Messengers of the Federal Reserve Bank. Its explanation follows:

Slip No. 1—Debit to "Re-Discounts for other Federal Reserve Banks."

Slip No. 2—Letter forwarding the Item for Collection.

Slip No. 3—Acknowledgment of its Receipt.

Slip No. 4—Credit to "Re-Discounts for other Federal Reserve Banks."

Slip No. 5.—Debit to Collecting Bank.

Slip No. 6—Advice of Credit to the Federal Reserve Bank Of

Slip No. 7—Credit to the Federal Reserve Bank Of .

Slip No. 8—Credit to Unearned Discount.

Slip No. 9—Liability of Federal Reserve Bank Of .

Slip No. 10—Maturity Slip.

FORM BD-18

A continuous loose-leaf record to be forwarded to the Federal Reserve Board at Washington, D. C., by the Federal Reserve Bank discounting items for another Federal Reserve Bank.

FORM BD-19

A sample loose-leaf sheet, to be used in effecting the daily accrual of Earned Discount, the resulting figures to be used in a Debit to "Unearned Discount" and a Credit to "Discount."

FEDERAL RESERVE NOTES

It is proposed that when a Federal Reserve Bank wishes to issue Federal Reserve Notes, it will reduce Bills Discounted and Debit a Controlling Balance in its resources to be known as "With Federal Reserve Agent to secure Federal Reserve Notes." After the Federal Reserve Notes have been received from the Federal Reserve Agent, which it is assumed will be the same day, the Federal Reserve Notes will be placed in the assets of the Bank, their offset being a Credit to "Federal Reserve Notes."

As the hypothecated Notes mature, it will be incumbent upon the Federal Reserve Banks to either notify the Federal Reserve Agent of their desire to cancel the equivalent of Federal Reserve Notes, or, as is most likely, exercise the option of substituting Notes with more distant maturities than those already hypothecated.

FORM BD-20

This has been designed to cover both the hypothecation and possible substitution of discounted Notes, held by the Federal Reserve Agent to secure Federal Reserve Notes. Its explanation follows:

Slip No. 1—Debit "With Federal Reserve Agent to secure Federal Reserve Notes."

Slip No. 2—Credit to "Federal Reserve Notes."

Slip No. 3—Maturity Slip.

Slip No. 4—Credit "With Federal Reserve Agent to secure Federal Reserve Notes."

Slip No. 5—Credit to "Bills Discounted."

In hypothecating the Notes with the Federal Reserve Agent it does not appear advisable to retire the liability slips typewritten at the time of the first handling of the Note, as the hypothecation does not in any way affect liabilities and as the Notes will eventually be returned to the Federal Reserve Banks for collection, but it will be obligatory, however, to remove the Maturity Slip from the regular Maturity File, stamp it "With Federal Reserve Agent to secure Federal Reserve Notes," and then forward it to the Filing Department to be filed in the permanent record.

In substitution of the Maturity Slip described in the foregoing paragraph, slip No. 3 of FORM BD-20 will be used and filed chronologically in a separate Maturity File covering the outstanding Notes with the Federal Reserve Agent, as in this way the Bank will be in a position to know at any time the exact Notes held by the Federal Reserve Agent and also will be placed in position to see upon what days substitution of Notes will be required.

FORM BD-21

A continuous record, in triplicate, will be obtained from FORM BD-20 and delivered with the discounts to the Federal Reserve Agent by the Bank. The First sheet of the Continuous Record will serve as an application of the Federal Reserve Bank to the Federal Reserve Agent, while the Duplicate will be the receipt of the Federal Reserve Agent to the Federal Reserve Bank, acknowledging the Collateral as security, and the Triplicate sheet will be the advice of the Federal Reserve Agent to the Federal Reserve Board at Washington, descriptive of the issuance of Federal Reserve Notes and the supporting collateral.

FORM BD-22

This is a Continuous Record, in triplicate, covering the substitution of Collateral by the Federal Reserve Bank with the Federal Reserve Agent, upon the reverse side of each of which are listed the Notes which it is desired to retire, while upon the face of the sheets will be listed the proffered Collateral in substitution. The first sheet of the Continuous Record will be the application of the Federal Reserve Bank to the Federal Reserve Agent, the Duplicate sheet will be the receipt of the Federal Reserve Agent to the Federal Reserve Bank covering the acknowledgment of the Collateral received in substitution, while the Triplicate will be the Federal Reserve Agent's advice to the Federal Reserve Board at Washington of the substitution of Collateral.

FORM BD-23

This is a draft for the proposed skeleton loose-leaf Liability Ledger, which will be descriptive of the total indebtedness of concerns under the classification of "Payer" and "Endorser."

FORM BD-24

This is a Block Sheet to be used in establishing sectional proofs of the day's work.

FORMS BD-25-26.

Slips to be used in routing the different batches of Debits and Credits to the General Ledger, Note Teller, and Distributing Department.

FORM BD-27

A proof sheet for the Department, the figures for which will be obtained through a recapitulation of the Block Sheets.

FORM BD-28

This is a triplicate record, which will be used in the release of collateral by the Federal Reserve Agent when Federal Reserve Notes have been tendered to him for cancellation, its explanation being:

Sheet No. 1—Application to the Federal Reserve Agent for the release of the Collateral.

Sheet No. 2—Permanent record for the Federal Reserve Agent.

Sheet No. 3—Advice to the Federal Reserve Board of the release of the Collateral by the Federal Reserve Agent.

Sheet No. 1 will serve as a permanent record for the Federal Reserve Bank, while sheet No. 2 will serve the same purpose for the Federal Reserve Agent and, in addition, place him in a position to prove the amount of notes being held as collateral; likewise sheet No. 3 will enable the Federal Reserve Board to prove the correctness of "Re-Discounts to Secure Federal Reserve Notes," as it appears upon the daily statement of the Federal Reserve Agent.

BOOKKEEPING DEPARTMENT

This Department will have charge of the maintenance of the accounts of the depositors of the Federal Reserve Banks.

The usual method of handling such accounts is by means of bound ledgers, supported by monthly statements, descriptive of the different debits and credits entering the accounts, while under the proposed plan the bookkeeper will obtain, by machinery, a daily statement for the depositor, at the same time that he is preparing his loose-leaf ledger sheet, indicative of the day's transactions.

If not too expensive, it is suggested that the cancelled checks of each account be returned with the daily statement, inasmuch as it would place them in the possession of the depositors at the earliest possible moment, and would do away with the necessity of filing and, likewise, the maintenance of steel cabinets in which they must be assorted.

It will be observed that no provision has been made upon the daily statement for a "Key," as this will not be necessary under the general system as outlined in the Bank—that of giving specific advices covering the different debits and credits entering the accounts.

The Forms of the Department will be:

FORM B-1

This is a combined ledger and statement sheet designed for machinery, but which with a slight modification of ruling could be adapted to hand work.

The first duty of the bookkeeper in the morning will be to transcribe upon the top sheet of the Form, the balance brought forward from the day prior, after which he will deliver the pre-

vious day's ledger sheets to the Filing Department to be filed chronologically in a Transfer Binder under the name and style of the depositor's account. He will then prove the total of the assembled balances to his controlling account on the General Ledger.

It may be well to note at this point, that the daily statement to the Member Banks will not contain the balance appearing to their credit at the close of business each day, but instead will simply be a statement giving the balance of the day prior, together with the debits and credits entering the account, inasmuch as it would hardly be advisable to forward a balance, the accuracy of which would not be proved until the following morning. This, however, is a matter of detail, which will best be determined after the first few days of operation, as it is quite possible the nature of the work will enable all the Tellers to forward their figures to the General Ledger in time to have the controlling balances in proof for the bookkeepers before the conclusion of each day.

After the previous day's balances have been transcribed, the routine of the bookkeeper's work will depend largely upon the time of receipt of the morning mail, exchanges, and other departmental entries.

FORM B-2

To be used in reporting overdrafts to the proper official.

FORM B-3

A form of card index, upon which will be accumulated the overdrafts appearing in any particular account.

FORM B-4

A loose-leaf record, upon which will be inscribed, under the name of the Member Bank, a complete description of the checks upon which it is desired to stop payment.

FORM B-5

This is a form, in quadruplicate, which will be used in handling "Transit Account," its explanation being:

Page No. 1—Loose-leaf ledger sheet of "Transit Account" to be retained as a permanent record by the Federal Reserve Bank.

Page No. 2—Loose-leaf ledger sheet of "Transit Account" for the Federal Reserve Agent, to be retained by him as a permanent record.

Page No. 3—Advice from Federal Reserve Agent to the Secretary of the Treasury, which will be signed by the Agent after verification, and which will be the authority to the Secretary of the Treasury to execute the debits and credits in the gold reserve balances of the different Federal Reserve Banks.

Page No. 4—Statement of the account to be forwarded by the Federal Reserve Bank to the Secretary of the Treasury.

Pages 2 and 3 will be delivered to the Federal Reserve Agent, page 2, as previously outlined, being his permanent record, and page 3, his advice to the Secretary. Page 4 has been designed to afford the Secretary the opportunity of checking the correctness of the Federal Reserve Agent's figures and also to remove the possibility of confusion in the event of the Federal Reserve Agent's advice going astray in the mails.

GENERAL BOOKS

It is proposed that the General Ledger, Daily Statement Book, Profit and Loss Ledger, and other ledger records which vitally affect the Bank, be segregated from the regular Bookkeeping Department, in order that the controlling figures of the Bank be under close observation and not open to the casual examination of clerks.

The General Ledger bookkeeper will also prepare any statements of condition (exclusive of statistics) which may be required by the Directors or Officials of the Bank, Federal Reserve Agent, or Federal Reserve Board.

Sample pages of the principal books which he will maintain have been drafted, and are explained as follows:

GB-1

Proposed sheet of a bound book to be styled a "General Ledger" and which will contain the controlling accounts of the Bank.

GB-2

Proposed loose-leaf sheet for the "Daily Statement Book," the figures for which will be obtained from a concentration of General Ledger accounts.

This book will be proved and delivered to the President or Secretary-Treasurer of the Federal Reserve Bank each morning not later than 9:30 A. M., in order that they may know the condition of the Bank prior to the opening of business.

It will be noted that the leaves of the book are in duplicate, the plan being that the duplicate statement of the condition of the Bank will be delivered to the Federal Reserve Agent for examination and that he in turn will forward it, the same day, to the Federal Reserve Board at Washington for their information.

On Friday of each week, if it is desired, the figures may be transmitted by telegraph to the Federal Reserve Board for the compilation at their end, of the concentrated figures of the twelve different banks.

GB-3

Sample sheet of a bound book to be known as "Profit and Loss Ledger."

This will contain the descriptive record of Profit and Loss account and such other accounts as may be deemed advisable.

GB-4

To be used in preparing a Difference record of the several departments, and will be placed upon the desk of the Secretary-Treasurer on Monday morning of each week.

GB-5

A Ledger sheet for a subsidiary record giving the details of the Short and Over-Differences of the several departments, and must be in agreement with the Difference Account upon the General Ledger.

GB-6

This form has been designed for use of the Directors of the Federal Reserve Bank, at their regular weekly meetings, the plan

being that the form will be manifolded so that each Director will receive a copy.

GB-7

This is an Expense Ledger which will be posted daily and must be in agreement with the General Ledger. It will be noted that it has been prepared with the thought of showing every item of Expense, although, of course, conditions will arise which may necessitate modifications.

ACCOUNTING DEPARTMENT

This Department will handle the transfer of funds; redeem unpaid cash items which have been cleared through the Clearing House; issue Letters of Advice; prepare for official signature expense vouchers, and checks drawn upon other Federal Reserve Banks, and arrange for the depositing of funds for the credit of the Five Per Cent Fund of Member Banks.

It likewise will be entrusted with the custody of contracts and will prepare such statistics of earnings and expenses as may be desired.

It will also handle the analysis of accounts, under whatever method may be determined.

The forms of the Department are:

FORM AC-1

This will be used in transferring funds of Member Banks through other Federal Reserve Banks, its explanation being:

Top Slip, Page 1—Advice to Federal Reserve Bank, requesting the transfer to be made.

Slip 2, Page 1—Advice to Member Bank that their account has been charged and the transfer arranged.

Top Slip, Page 2—Credit to Federal Reserve Bank of ...

Slip 2, Page 2—Debit to Member Bank's Account.

FORM AC-2

This is identical with FORM AC-1, with the exception that it is intended to cover a telegraphic transfer of funds, its explanation being:

Top Slip, Page 1—Advice to Federal Reserve Bank, requesting the transfer to be made.

Slip 2, Page 1—Advice to Member Bank, descriptive of the charge and informing them that the transfer has received attention.

Top Slip, Page 2—Credit to Federal Reserve Bank of

Slip 2, Page 2—Debit to Member Bank's Account.

FORM AC-3

For use in making transfers from one account to another, both of which keep balances with the Federal Reserve Bank, its explanation being:

Top Slip, Page 1—Advice to Member Bank, requesting the transfer.

Slip 2, Page 1—Advice to the Member Bank whose account will be credited.

Top Slip, Page 2—Debit to the Member Bank, requesting the transfer.

Slip 2, Page 2—Credit to the Member Bank whose account is to be credited.

FORM AC-4

This will cover the depositing of funds over the counter, for credit of Member Banks' Accounts, its explanation being:

Slip No. 1—Letter of advice to Member Bank.

Slip No. 2—A duplicate of the above, which will be tendered as a receipt to the Bank or individual depositing the funds.

Slip No. 3—Credit to the Member Bank's Account.

Slip No. 4—Auditor's Checking Slip.

FORM AC-5

Intended to cover the receipt of instructions from Member Banks to deposit funds with other banking institutions located in the same city in which the Federal Reserve Bank is situated, its explanation being:

Slip No. 1—Advice to the Member Bank that their instructions have received attention and also giving the amount charged to their account.

Slip No. 2—Accompanied by a check of the Federal Reserve Bank, this slip will serve the purpose of a letter of instructions to the institution receiving the funds.

Slip No. 3—Debit to Member Bank's Account.

FORM AC-6

This will be used in arranging deposits with the Treasurer of the United States for the credit of the Five Per Cent Fund of Member Banks, its explanation being:

Slip No. 1—Advice to Member Bank of the amount deposited.

Slip No. 2—Debit to Member Bank's Account.

FORM AC-7

A sample check to be used in redeeming unpaid items which have been cleared through the Clearing House:

No. 1—Form of proposed check.

No. 2—Credit to "Returned Items."

FORM AC-8

A proposed check to be used in drawing upon other Federal Reserve Banks, its explanation being:

No. 1—Form of check, together with Auditor's stub.

No. 2—Credit to the account of the Federal Reserve Bank upon whom the check is drawn.

FORM AC-9

A proposed form of expense voucher, which would be descriptive of the particular invoice intended to be covered, its explanation being:

No. 1—Form of check, to which is attached a statement of account.

No. 2—Credit to "Expense Checks" and Debit to "Provision for Disbursements."

In this connection, it may be suggested that a daily charge to Expense with a corresponding credit to "Provision for Disbursements," sufficient to cover the average expense of the Bank, would tend to indicate more clearly the actual current earnings.

If it is determined to debit Expense only at the time of actual disbursement, then, of course, the debit ticket in this instance would be labelled "Expense" instead of "Provision for Disbursements."

FORM AC-10

Proposed form of envelope, which is intended to enclose such contracts as may be entrusted to the Department.

It will be noted that the face of the envelope provides full particulars concerning the contract, dates of payment, and various other details.

FORM AC-11

A tentative form of Analysis, which could only be made use of when the actual conditions surrounding the accounts can be determined, and, likewise, after the base of operative expense has been established. It has been tendered simply for the purpose of guidance when the time arrives for its completion.

FORM AC-12

Block Sheet for the Department, to be used in establishing sectional proofs.

FORMS AC-13-14-15-16

Vari-colored slips to be used in routing the different batches to the several departments.

FORM AC-17

A Proof Sheet, upon which will be assembled the figures obtained from a recapitulation of the Block Sheets.

FORM AC-18

This is a form which will be prepared and delivered to the different departments, in order that they may be in touch with the expense of their respective department.

SECURITIES DEPARTMENT.

As this Department will have charge of the purchase, sale, and custody of such securities as will be classified under the General Ledger account known as "Investments," it is suggested that the manager be an officer of the Bank.

The Department will also have charge of the purchase and sale of securities for the account of Member Banks, and in the event of the Federal Reserve Banks permitting Member Banks to deposit securities with them for safekeeping, they will have charge of such Custodies.

The preparation of such statistics as may be required concerning the status of the different classes of investments, will also be entrusted to the Department.

The Forms are—

FORM S-1

This will be used in purchasing securities for account of Federal Reserve Banks, its explanation being—

Slip No. 1—Debit to Investments.

Slip No. 2—Debit to Interest Accrued Rec-Inv.

FORM S-2

This is a continuous record for the Federal Reserve Board at Washington, which will be written at the same time the above form is executed, and which will be forwarded to the Board with the thought of placing it in a position to know, with the least possible delay, what investments have been made by the Federal Reserve Banks.

FORM S-3

This is a loose-leaf book which will be used in maintaining a descriptive balance of the different classes of securities on hand, and will be in agreement with the General Ledger at all times. Upon the reverse side of the sheet provision has been made for the listing of bond numbers.

FORM S-4

This is a sample page of a bound book which will be used to record purchase and sale of securities for account of Member Banks.

FORM S-5

Furnishes a summary of the condition of the investments, which will be made to the Board of Directors of the Federal Reserve Bank each week.

FORM S-6

A sample loose-leaf sheet to be used in effecting the daily accrual of interest, the resulting figures to be used as a debit to "Interest Accrued Receivable-Investments," and a credit to "Interest-Investments."

FORM S-7

In the event of the Federal Reserve Banks holding securities in safe deposit for account of Member Banks, this form will be used, and is designed to fully describe such Custodies, provision having been made for a nominal balance based upon par value and also for the date and other details, etc., of their delivery.

Before filling the form, all indices, except those covering the months when interest payments are to be made, should be removed, so that at a glance it may be seen what interest payments are due in any month.

In order that a proof of the Custodies be possible, it is suggested that a controlling balance be placed upon the General Ledger which will in no way affect the assets or liabilities of the Banks, such as, on the debit side, "Custodies," and, on the credit side, "Custodies due Correspondents."

Forms have not been drafted covering the handling of coupons, inasmuch as it is assumed the Federal Reserve Banks will not burden themselves with their collection.

FOREIGN DEPARTMENT

In general explanation of the following forms, it is suggested that they have been constructed along two distinct lines, viz.:

No. 1—That it will be the purpose of Branch Banks in the original handling of items to so manifold their entries that the Regional Banks will be obliged to do the least possible work.

No. 2—That the Regional Banks only will maintain balances abroad and, as a consequence, any foreign exchange transactions originating with Branch Banks, will be for account of their Regional Banks.

FORM FX-1

Intended for use of Regional Banks, when forwarding Cash items for credit, such items being drawn in the currencies of their respective countries at ten days' sight and under, together with such long items as may be forwarded for immediate discount.

It will be noted in this form, as well as subsequent FORMS NOS. 2, 3, 4, 5, and 6, that provision has been made for a double-accumulating typewriter adding machine, whereby at the completion of the listing of the different items, a total is readily obtainable both in foreign currencies and dollars. It may also be added that this necessitates a machine with Sterling equipment.

The first page of Form No. 1 will accompany the original drafts and documents. The second page will be forwarded with the duplicate drafts and documents. The third, or first Liability Sheet, is for use of the Liability Clerk in the Regional Bank. The fourth, or second Liability Sheet is to be forwarded to the Federal Reserve Board at Washington for the accumulation of their credit record. The fifth serves as Remittance Register as well as a Debit to the Foreign Bank to whom the items have been sent.

It will be noted that the plan of a Remittance Register will give full particulars as to the entry, tenor, and amount of the bills, and at the same time assemble them in totals so that the bookkeeper attached to the department is materially assisted in the correct postings of the different accounts. It might also be suggested that the clerk detailed for checking the correctness of discounts, value dates, etc., has all particulars before him.

Attention is called to the fact that provision has been made in the last sheet for a "follow-up" system looking to the prompt acknowledgment of the cash letters, the covering receipts of which have already been attached to the original and duplicate letters forwarding the items abroad.

FORM FX-2

This has been constructed identically with FORM FX-1, with the exception that it has been designed to cover the forwarding of exchange to a Branch or a Correspondent of the institution abroad, providing, as will be noted, a simultaneous advice to the Regional Bank's correspondent. An example of this would be the forwarding of exchange to the Dresdner Bank in Hamburg for account of Dresdner Bank, Berlin, for Credit of the Federal Re-

serve Bank in Chicago. The pages of the form will be used as follows:

Page 1—Letter accompanying original drafts and documents abroad.

Page 2—Letter accompanying duplicate drafts and documents abroad.

Page 3—Notification of the forwarding of the items to the foreign bank with whom the checking balance is maintained.

Page 4—Liability Sheet for use of the Regional Bank.

Page 5—Liability Sheet to be forwarded to the Federal Reserve Board at Washington.

Page 6—Sheet for Remittance Register.

FORM FX-3

This is also for use of Regional Banks and intended to cover the handling of Australian Exchange when forwarded to the place of payment for collection, and at the same time for a *realization of the proceeds through negotiation* at London. Explanation of its pages follow, viz.:

Page 1—Letter accompanying the original drafts and documents to Australia.

Page 2—Letter enclosing seconds of Exchange to London, looking to the negotiation of the items.

Page 3—Liability Sheet for use of the Regional Bank.

Page 4—Liability Sheet to be forwarded to the Federal Reserve Board at Washington.

Page 5—Sheet for Remittance Register.

FORM FX-4

This is identical with FORM FX-1, being intended to cover short items drawn at ten days' sight and under, with the exception that it is designed for the forwarding by Branch Banks of exchange for account of Regional Banks and includes a notification to the Regional Bank of the forwarding of the items.

FORM FX-5

This is similar to FORM FX-2, covering the same purpose, with the exception that it includes a notification of the forwarding of the items abroad to the Regional Bank.

FORM FX-6

This will cover the same ground as FORM FX-3, except that it includes a notification to the Regional Bank of the forwarding of the Australian Exchange.

Concerning FORMS FX-4-5-6, it will be necessary for the Regional Banks to execute entries at their end upon receipt of the notification from the Branch Banks, who will mail the following day the Remittance Register sheets, to be placed in the Regional Bank's Binder, awaiting the acknowledgment of Credit from the Banks abroad.

FORM FX-7

For the purpose of maintaining a controlling balance upon such long items as may be purchased and which will be held without discount to maturity, it is proposed to establish an account upon the General Ledger to be known as "Unmatured Foreign Bills."

This form is intended to cover these bills when forwarded by a Federal Reserve Bank direct to a correspondent abroad with whom it keeps a checking balance.

Page 1—Letter accompanying the original draft and documents abroad.

Page 2—Letter accompanying the duplicate draft and documents abroad.

Page 3—Serves as an acknowledgment of receipt and provides for a "follow-up."

Page 4—Is an advice of Credit to customer.

Page 5—Is a Credit to the customer's account.

Page 6—Is a Debit to "Unmatured Foreign Bills."

Page 7—Is a Credit to "Unmatured Foreign Bills."

Page 8—Is a Debit to "Due from Foreign Banks."

It will be noted that the entire record and bookkeeping entries have been executed when first handling the bill. Pages 7 and 8, being attached to one another, are filed in a chronological manner, reflecting the maturity abroad of the item, consequently the bills are charged to the Foreign Banks at the approximate due date, thereby keeping our books more closely in touch with the balances abroad. It is provided, of course, that non-payment of the items will be cabled promptly. This resume also applies to FORMS FX-8-10-11.

This is identical with the above form, with the exception that it is designed to cover long bills forwarded to Branches or Correspondents of the Federal Reserve Bank's correspondent abroad. Its explanation follows:

Page 1—Letter accompanying the original draft and documents abroad.

Page 2—Letter accompanying the duplicate draft and documents abroad.

Page 3—A notification to the Regional Bank's correspondent that the item has been forwarded to one of its Branches or Correspondents.

Page 4—Serves as an acknowledgment of receipt and provides for a "follow-up."

Page 5—Advice of Credit to customer.

Page 6—Credit to customer's account.

Page 7—Debit to "Unmatured Foreign Bills."

Page 8—Credit to "Unmatured Foreign Bills."

Page 9—Debit to "Due from Foreign Banks."

FORM FX-9

This will cover short items drawn at ten days' sight and under, in the following classifications, viz.:

No. 1—When payable and forwarded to places where no relations have been established.

No. 2—When the items are drawn in currencies other than the currency of the countries in which they are payable.

This class of items is quite apt to be very troublesome in handling, usually being drawn upon distant points, and for the pur-

pose of control it is suggested that they be grouped under a General Ledger Account, to be known as "Foreign Collection Banks," and it is for this account that FORM FX-9 has been constructed. An explanation of the form follows:

Page 1—Accompanies the original draft and documents abroad.

Page 2—Accompanies duplicate draft and documents abroad.

Page 3—Serves as an acknowledgment of receipt and provides for a "follow-up."

Page 4—An advice of credit to the Customer.

Page 5—Credit to Customer's account.

Page 6—A Debit to "Foreign Collection Banks."

Page 7—Credit to "Foreign Collection Banks."

Page 8—Debit to "Due from Foreign Banks."

FORM FX-10

For long bills purchased by a Branch Bank and forwarded to a direct connection for account of the Regional Bank maintaining the balance abroad.

It will be noted in the following explanation of the form that the record of the Regional Bank as well as the Member Bank has been made at one writing, viz.:

Page 1—Letter accompanying the original draft and documents abroad.

Page 2—Letter accompanying the duplicate draft and documents abroad.

Page 3—Provides for an acknowledgment and "follow-up."

Page 4—Advice of Credit for Branch Bank's customer.

Page 5—Credit to Branch Bank's customer.

Page 6—Debit to "Unmatured Foreign Bills."

Page 7—Debit to the Regional Bank for whose account the item is handled abroad.

Page 8—Credit to "Unmatured Foreign Bills."

Page 9—Notification to Regional Bank of the forwarding of the Bill.

Page 10—Advice of Credit from the Regional to the Branch Bank.

Page 11—Credit to the Branch Bank.

Page 12—Debit to "Due from Foreign Banks."

FORM FX-11

This is for long bills purchased by Branch Banks and handled as outlined above, when the items are forwarded to a Branch or a correspondent of the banking connection abroad. Its explanation follows:

Page 1—Letter accompanying the original draft and documents abroad.

Page 2—Letter accompanying the duplicate draft and documents abroad.

Page 3—Letter of notification to the foreign bank for whose account the item will be handled.

Page 4—Serves as an acknowledgment and a "follow-up."

Page 5—Advice to the Branch Bank's customer.

- Page 6—Credit to the Branch Bank's customer.
- Page 7—Debit to "Unmatured Foreign Bills."
- Page 8—Debit to the Regional Bank in whose account the item will be credited when paid.
- Page 9—Credit to "Unmatured Foreign Bills."
- Page 10—Letter of notification from the Branch to the Regional Bank of the forwarding of the item.
- Page 11—Advice of credit to the Branch Bank.
- Page 12—Credit to the Branch Bank.
- Page 13—Debit to "Due from Foreign Banks."

FORM FX-12

This is designed for items covered by FORM FX-9, except in this case they will be purchased by a Branch Bank and be handled in accordance with the thought outlined in FORMS FX-10 and 11. Its explanation follows:

- Page 1—Letter accompanying the original draft and documents abroad.
- Page 2—Letter accompanying the duplicate draft and documents abroad.
- Page 3—Serves as an acknowledgment and "follow-up."
- Page 4—Advice of credit to the Branch Bank's customer.
- Page 5—Credit to Branch Bank's Customer.
- Page 6—Debit to "Foreign Collection Banks."
- Page 7—Debit to the Regional Bank.
- Page 8—Credit to "Foreign Collection Banks."
- Page 9—Letter of notification to the Regional Bank of the forwarding of the item.
- Page 10—Advice of credit to the Branch Bank.
- Page 11—Credit to the Branch Bank.
- Page 12—Debit to "Due from Foreign Banks."

FORM FX-13

This will be a continuous record for items covered by FORMS FX-7-8 and 9, the original of which will go to the Liability clerk of the Regional Bank, while the duplicate will be mailed to the Federal Reserve Board at Washington.

FORM FX-14

This will be a continuous record covering FORMS FX-10-11 and 12, the original of the form being used by the Liability Clerk of the Branch Bank, while the duplicate will be forwarded to the Federal Reserve Board at Washington.

FORM FX-15

This will serve as an advice of credit to the Member Banks covering such items as might be bought by the Regional Banks and which will be forwarded abroad on FORMS FX-1-2 and 3. The attached duplicate will be a credit to the Member Bank's account.

FORM FX-16

As only certain individuals in the Foreign Department will be authorized to quote rates, this form has been devised for the purpose of supplying the clerks who will receive and deliver exchange, with authenticated rates, so that there will be no confusion incidental to prompt handling.

FORM FX-17

This is a daily balance sheet of the Department, which will be prepared by the bookkeeper and delivered to the head of the Department, daily, in order that he may be in close touch with the condition of balances abroad, without the necessity of examining the Foreign Ledger. It is understood, of course, that in the left-hand column the names of the correspondents abroad will be printed.

FORM FX-18

This form will serve the purpose of recording special cable words not covered in the codes, and which may be required as a notification of prompt payment or non-payment.

FORM FX-19

This form consists of a Debit and Credit Ticket to be used in the transfer of funds from one Foreign account to another, principally because of cable transfers and arbitrage operations.

FORM FX-20

This form serves as a confirmation covering the purchase of cable transfers from institutions, through their brokers.

FORM FX-21

The Foreign Department may require for counter use, as well as for the use of Member Banks, a supply of drafts and the form tendered herewith is to supply that want.

FORM FX-22

In arranging for postal remittances ordered by Member Banks, this form has been constructed, the original of which will be forwarded abroad with the necessary instructions. The carbon copy will be retained in a loose-leaf binder awaiting the return of the receipts.

FORM FX-23

Upon the above receipts being received, they will be returned to the Member Banks upon this form, the full data being obtained from the duplicate of FORM FX-22, which, as previously outlined, will be retained in a binder for the purpose.

The receipts covering postal remittances, returned from abroad, are usually written in an undecipherable way, and the above forms and method of handling will materially assist in completing the record.

FORM FX-24

(OUT—Travelers' record not required)

FORM FX-25

This has been modeled to relieve as much as possible formal letters being written by the Department, as it is felt that many routine matters can easily be covered by this form. The duplicate will serve as a record for the files.

FORM FX-26

This is a series of postal cards to be used in tracing overdue items. The duplicate is filed away under a maturity "follow-up" system, so that all overdue items will receive intelligent and careful tracing.

FORM FX-27

This form will be executed in triplicate and is intended to cover the depositing of funds in institutions in accordance with instructions received from Foreign Banks. The first sheet is to the bank receiving the funds. The two remaining portions of the form serve as an original and duplicate receipt, the original being forwarded to the bank requesting the depositing of the funds, and the duplicate is for the files.

FORM FX-28

(OUT)

FORM FX-29

This is for use in arranging cable transfers and serves as a confirmation and bill (inclusive of cable charges) to the customer, as well as a credit to the Foreign Bank and a "follow-up" to see that the amount due is received.

FORM FX-30

This covers the offerings of the Foreign Department, looking to the establishment of lines of credit needed for the purchase and sale of Exchange.

FORM FX-31

For use of the Liability Clerk in the Foreign Department, and is indicative of the total liability of customers, both as drawer and drawee.

FORM FX-32

For use of the Liability Clerk in the Foreign Department and shows the total of payer's liability under Unmatured Long Items.

FORMS FX-33 and 34

This is a suggested "Block Sheet" together with a tab for use in routing items to different departments.

FORM FX-35

A Ledger Sheet for the Foreign Department Ledger and from which it will be noted a balance in dollars is obtainable at any time. A balance in foreign amounts is deemed unnecessary, as it would serve no useful purpose except for the reconciliation of the account at stated intervals, at which time the Auditing Department can easily strike the balance.

FORM FX-36

This is for use of the Manager of the Foreign Department who will do the trading, or who will influence the trading, and arrange for the establishment of quotations. It has been arranged upon a Chicago basis, but, of course, it may easily be adjusted to whatever center it is determined to have the rates emanate from.

FORMS FX-37 and 38

These sheets are intended to be compiled weekly by the Liability Clerk of the Foreign Department and in turn to be delivered to the Manager of the Department for the purpose of keeping him in close touch with the liabilities of his clients, without the necessity of consulting the Liability Ledger. It is also suggested, if required, that the originals, or perhaps duplicates, of the form be delivered to the Board of Directors of the Federal Reserve Bank at stated intervals.

FORM FX-39

This is designed to cover the receipt of a cable from abroad, concerning which it is necessary to cable a reply and may be of use in relations with Member Banks as well as for those from whom Bills of Exchange have been purchased in the open market.

FORM FX-40

This form is somewhat descriptive of its use and is intended to be a matter of record of the addition of any word in the private cable code.

FORM FX-41

This is an added Ledger Sheet for the Foreign Department Ledger, descriptive of the record of purchases and sales of Foreign currency, over the counter. Its use will enable any Examiner to know just how much of any particular Foreign currency is being held in the Department, together with the dollar value at which it is being carried on the books.

FORMS FX-42 and 43

These are Credit and Debit tickets descriptive of the different classes of Foreign currency bought and sold, and from which the bookkeeper will post to the Foreign Currency Sheet.

FORM FX-44

This is a labor-saving form which covers an advice to the customer, together with a Debit and Credit to different accounts.

FORM FX-45

This is identical with FORM FX-44, with the exception that the advice to the customer reflects a Debit in his account, the manifolding entry being a Credit to some other account.

FORM FX-46

A suggested form of Daily Statement for the Foreign Department, showing its condition in a similar manner to that of the rest of the Bank. This Daily Statement should be in the hands of the administration of the Bank each morning at the same time that the Daily Statement Book of the General Bank is being examined, so that the two may be compared, if necessary.

FORM FX-47

This form has been arranged in order that the Regional Banks might be equipped to handle strictly collection items payable in foreign countries, and upon which no advance or credit would be made, until the actual settlement of the item. Its explanation follows:

Page 1—Accompanies the original draft and documents abroad.

Page 2—Accompanies the duplicate draft and documents abroad.

Page 3—Serves as an acknowledgment of the receipt of the item, together with a "follow-up."

Page 4—Is an advice of credit to the customer.

Page 5—Is a credit to the customer's account.

Page 6—Is a debit to "Due from Foreign Banks."

FORM FX-48

This is identical with FORM FX-47, with the exception that it is intended to cover strictly Collection Items payable in foreign

countries, which may be received by Branch Banks and which would be forwarded abroad for account of its Regional Bank. Its explanation follows:

Page 1—Accompanies the original draft and documents abroad.

Page 2—Accompanies the duplicate draft and documents abroad.

Page 3—Serves as an acknowledgment to Regional Bank of the receipt of the item.

Page 4—Serves as an acknowledgment to Branch Bank of the receipt of the item, together with a "follow-up."

Page 5—Advice for customer of the Branch Bank.

Page 6—Credit for customer of the Branch Bank.

Page 7—Debit to the Regional Bank.

Page 8—Letter to the Regional Bank descriptive of the forwarding of the item.

Page 9—Advice for Branch Bank.

Page 10—Credit for Branch Bank.

Page 11—Debit to "Due from Foreign Banks."

FORM FX-49

A sample check to be used by the Regional Bank in drawing upon their direct connections abroad, and concerning which it will be noted that the original and duplicate advices, together with the Credit to the Foreign Bank's account, as well as the Auditor's checking stub, have been written at the time of the issuance of the check.

FORM FX-50

A sample check to be used by the Regional Banks in drawing upon a branch or a correspondent of their foreign connection.

FORM FX-51

A sample check for the use of Regional Banks in drawing their long drafts upon a direct connection abroad.

FORM FX-52

This is the departmental daily proof sheet, upon which is transcribed the totals as obtained from the recapitulation of the "Block" sheets.

It will be noted that in each case the accounts described upon the proof sheet represent simply interlocking balances with the General Ledger and other departments, so that the proof of the accuracy of the figures is controlled by other departments.

AUDITING DEPARTMENT.

The duties of the Auditor will be largely governed by his vested power and authority, but in no sense should his department form an operating unit of the Bank.

His functions should be those of verification and control, systematic examinations of the different departments, criticism of discipline and system, and he should have a general knowledge of the earnings and expenses of the Bank.

The routine of the Auditing Department would consist of examinations; verification of correction entries; scrutiny of Gen-

eral Ledger tickets; adjustment of errors; reconciliation of balances, both domestic and foreign; maintaining direct correspondence with Member Banks, etc., in reply to inquiries affecting the adjustment of accounts; investigations resulting from the marking of mail matter to the Auditing Department by the officers of the Bank who desire special investigations to be made; control with a daily proof and by means of checking to stubs, all cashier's checks, expense vouchers, redemption checks, and certified checks; arranging for the handling and re-forwarding of National Bank Examiners' requests for information, and establishing a proof upon the General Ledger.

The forms of the Department would be:

FORM A-1

This will be used for the registration of such inquiries as may be received in connection with examinations by bank examiners, directors, etc.

FORM A-2

To be used in forwarding the balance of any account, as at the close of business on a certain day, in response to an authorized request.

FORM A-3

Reconciliation blank to accompany the daily statement which will be forwarded to each account upon the last business day of the month.

FORM A-4

Sample envelope to be enclosed with the above form of reconciliation, in order that its return may be made directly to the Auditing Department.

FORM A-5

Card record for registering the receipt of reconciliements.

FORM A-6

A tracer to be forwarded no later than the 15th of the succeeding month, to such accounts as have not reconciled their balance of the month prior.

FORM A-7

A form to be used in decreasing formal letter writing, looking to the adjustment of exceptions as shown upon the reconciliements.

FORM A-8

Form of reconciliation to be retained by the Auditing Department and upon which will be inscribed the reconciliation of balances with other Federal Reserve Agents as well as with Foreign Banks.

FORM A-9

To be used after the reconciliation of Foreign Accounts, in instructing the Foreign Department to make entries covering Commission charges, Postage, etc.

FORM A-10

Auditor's proof of General Ledger, the figures for which will be assembled from a recapitulation of the different Departmental proof sheets.

FORM A-11

Suggested letterhead for the correspondence of the Auditor.

FORM A-12

Card record to be filed chronologically in a special Examination File, and upon which will be inscribed the Teller or subject to be examined, the salient points to be covered, and the best methods of procedure. This will enable the Auditor to make systematic examinations at irregular periods, owing to the fact that upon each day of examination the card will be replaced in the file in the compartment of a future determined date.

FORM A-13

To be used in requesting special reports from clerks who have made errors, either of commission or omission.

In this connection, it is suggested that the Secretary-Treasurer and an assistant, or any two officers who might be determined upon, meet with the Auditor each business morning, for the purpose of examining the typewritten reports which will be the result of using FORM A-13, as in this way the designated officials of the Bank will be kept in close touch with the clerical force. Possible defects of system will be obtained in this way, which it would be difficult to develop in any other manner.

FORM A-14

This will be used in reporting the results of departmental and other examinations.

There will be no Cashier-Check Registers maintained in the department, inasmuch as this work is a duplication of labor, and for the purposes of proof and control the same object will be served by retaining the Credit Tickets executed at the same time the checks are drawn.

MAIL DEPARTMENT

This Department will receive and distribute all mail matter received between the hours of 9:00 A. M. and 2:30 P. M., and likewise it will be entrusted with the forwarding to Member Banks, etc., of all mail matter emanating from the officers and the different departments.

It is suggested that the equipment include steel racks with suitably-sized compartments, in which the mail for each Member Bank may be accumulated (in this way a saving of postage will be made); an electric envelope opener, and an electric envelope sealer.

FILING DEPARTMENT.

The object of this Department will be the collection and filing of all mail matter which has accumulated during the day. There are no distinctive forms for the Department, but it is suggested that the files be operated upon a plan of assembling into separate compartments, under an alphabetical arrangement of Member Banks, such mail matter and carbon copies of transactions as may affect each individual bank.

The daily accumulation of ledger sheets from the Bookkeeping Department, liability slips from the Discount Department, General Ledger tickets, cancelled checks from the Auditing Department, and the proof sheets and block sheets of all Departments, will likewise be filed and cared for by this Department.

MISCELLANEOUS

The following described forms are general in character and cannot be directly assigned to any particular department:

FORM MISC-1

A sample of check to be used in the different departments, the distinguishing red numbers being indicative of the department originating the transaction. It is suggested that the Discount, Securities, Accounting, and Foreign Exchange Departments be supplied with their own Cashier's checks to bear the distinctive numbers 1, 2, 3, and 4, respectively.

It will be noted that at the time the check is drawn a corresponding credit has also been executed by means of a carbon impression.

An auditor's stub has been affixed to the check, which will protect the signing officer, who upon affixing his signature will detach the stub and place it in a box situated upon his desk. The Auditing Department will collect the stubs the following morning and check them to their proper entries.

FORMS MISC-2 and 3

These are sample credit and debit tickets, which will be used by the departments in executing entries which have not been covered by other forms.

FORM MISC-4

This is a form of debit ticket which will be used by clerks working after hours and to whom a disbursement of a nominal sum will be made.

FORM MISC-5

This will be used in handling expense incidental to the forwarding or receiving of telegrams for account of Member Banks, etc., its explanation being:

Slip No. 1—Advice to Member Bank of the Charge.

Slip No. 2—Debit to Member Bank's Account.

Slip No. 3—Credit to "Provision for Disbursements."

FORM MISC-6

This will be used by all departments in forwarding registered mail matter to the Mail Department, the purpose being that each department will obtain a signed receipt from the Mail Department that the contents of the letters or parcels have been received by them.

FORM MISC-7

A vault record to be used by the different departments and is designed to show the time their particular compartments were closed, as well as the opening and closing of the main doors of the vault.

FORM MISC-8

This is a card to be used by the Chief Clerk, which is descriptive of applications for employment, as well as an employee's record.

FORM MISC-9

A sheet to be used by all departments in reporting to the Chief Clerk the time of closing of the previous day, together with any debit or credit difference which might have occurred in their general work. Provision has also been made for the reporting of absentees and the reason for absence.

FORM MISC-10

A form to be used by the Chief Clerk in reporting to the Secretary-Treasurer the time of closing of all departments on the day prior, together with any debit or credit differences in their work, names of absentees and the reason for their absence. The data for this form will be supplied from the departmental record as outlined in FORM MISC-9.

FORM MISC-11

This will be used by the different departments in requisitioning supplies from the Chief Clerk. The second sheet of the form is a carbon copy of the requisition, which will be retained by the department, in order that they may be in a position to check the departmental bill which will be rendered, say, semi-monthly, by the Chief Clerk or the Purchasing Agent.

FORM MISC-12

A card, upon which will be inscribed the signatures of those authorized in the Member Banks to transact business with the Federal Reserve Banks.

FORM MISC-13

A card, upon which will be inscribed the signatures of Government officers authorized to transact business with the Federal Reserve Banks.

FEDERAL RESERVE AGENT

As the Federal Reserve Agent will have relations with the Federal Reserve Bank and the Comptroller of the Currency, and as he likewise will be under the necessity of making certain reports to the Federal Reserve Board at Washington, all of the forms to be used by the Agent have been designed to cover his necessary bookkeeping entries as well as to provide for a concentrated advice of his operations to the Federal Reserve Board.

The forms of the Agent are:

FORM FRA-1

This is intended to cover the receipt by the Federal Reserve Agent of Federal Reserve Notes from the Comptroller of the Currency, its explanation being:

Slip No. 1—Acknowledgment of receipt to the Comptroller of the Currency.

Slip No. 2—Credit "Federal Reserve Notes from Comptroller of Currency."

Slip No. 3—Debit "Federal Reserve Notes on Hand."

FORM FRA-2

This will be used in forwarding mutilated Federal Reserve Notes to the Comptroller of the Currency for destruction, its explanation being:

Slip No. 1—Notification to the Comptroller of the forwarding of the Notes.

Slip No. 2—To accompany the shipment.

Slip No. 3—Credit "Federal Reserve Notes on Hand."

Slip No. 4—Debit "Federal Reserve Notes from Comptroller of Currency."

FORM FRA-3

This will be for use of the Federal Reserve Agent when issuing Federal Reserve Notes to the Federal Reserve Bank, its explanation being:

Slip No. 1—Credit to "Federal Reserve Notes on Hand."

Slip No. 2—Debit to "Federal Reserve Notes in Circulation."

Slip No. 3—Debit "Re-Discounts to secure Federal Reserve Notes."

Slip No. 4—Credit "Collateral received from Federal Reserve Bank, Chicago."

The advice to the Federal Reserve Board at Washington of the issuance of the currency and its supporting collateral, having already been obtained by means of the Continuous Record, as outlined in the Discount Section, it will not be necessary to provide this form with a slip covering advice. It will, however, be noted that all of the necessary bookkeeping entries have been written at one operation.

FORM FRA-4

This will be used to cover the depositing of Gold or other lawful money by the Federal Reserve Bank with the Federal Reserve Agent to reduce the outstanding Federal Reserve Notes, its explanation being:

Slip No. 1—Credit to "Provision for Redemption of Federal Reserve Notes."

Slip No. 2—Debit "Gold and Lawful Money to retire Federal Reserve Notes."

FORM FRA-5

This is a sample loose-leaf ledger sheet to be used by the Federal Reserve Agent in maintaining such controlling accounts as will be necessary.

It will be noted that a duplicate of the ledger sheet has been provided, with the thought that this will serve the purpose of a concentrated daily statement to the Federal Reserve Board, of the condition of the Federal Reserve Agent's accounts.

For the relations of the Federal Reserve Agent with the Secretary of the Treasury, covering transactions in "Transit Account," see FORM B-5 of the Bookkeeping Department.

SECRETARY OF THE TREASURY

Under the proposed Transit plan, a certain portion of the gold reserves of the Federal Reserve Banks will be concentrated at Washington with the Secretary of the Treasury, who will main-

tain a record descriptive of the balance of the gold reserve of each Federal Reserve Bank.

The entries in the different balances will be obtained from daily statements received from the Federal Reserve Agents, who, as previously outlined, will verify the entries and authenticate the daily statements with their signature.

As it will be advisable for each Federal Reserve Bank to be acquainted daily with the condition of their gold reserve at Washington, a form, in duplicate, has been provided which will enable the Secretary to retain the top page as a ledger sheet, or permanent record, while the duplicate will be forwarded to the Federal Reserve Banks.

APPENDIX III.
A STATISTICAL BUREAU FOR THE FEDERAL RESERVE
BOARD.*

One important duty of the Federal Reserve Board will be to direct and to influence the money market for the benefit of the country. To enable the Federal Reserve Board to fulfil this task, it must thoroughly and carefully follow the developments of economic life, and must be equipped with detailed data and information bearing on the same.

With this end in view, it is recommended that a statistical bureau (hereafter called "Bureau") of unquestioned ability be established. The duties of the Bureau should be not only to gather figures, data, and statistics, and to compile statistical records, but also to digest information collected and to put it in such shape that it will serve as a basis for the Federal Reserve Board in directing the Federal Reserve Banks.

The Federal Reserve Act provides for weekly statements to be furnished by the various Federal Reserve Banks and in addition empowers the Board to require of each bank such statements and reports as it may deem necessary. It is mainly information of this nature which should enable the Bureau to supply the Board with the material necessary to apply a "preventive" banking policy. A number of explanatory forms for the compilation of such statistics has been devised, and their various purposes will be discussed in the following pages.†

Form I. Cash on Hand:—(See page 187.)

As probably the largest part of the country's money reserve will be centred at the Federal Reserve Banks, it goes without saying that the amount of these reserves and their fluctuations from week to week are of great significance. Figures collected as suggested in Form I and brought into correlation with other facts will after a time enable the Board to ascertain the laws underlying and the causes affecting the rise and fall of the reserves. For instance, once the average for reserve is established, the variations can be compared with this norm to judge whether the fluctuations are normal or abnormal.

Form II. "Gold Supply on Hand":—(See page 188.)

In view of the great importance of gold in our monetary system, statistics of the gold reserve should be reported in detail. Form II proposes two heads for classification:

- (1.) Gold certificates and coins of the U. S.
- (2.) Bullion and foreign coin.

This division is important, for under certain circumstances

*Prepared by Ludwig Bendix, Esq. See page 39 above.

†It is, of course, understood that each Federal Reserve Bank must place at the Bureau's disposal detailed information of the kind indicated on the specimen sheets, and that the Bureau will prepare consolidated statements of such data.

an increase or decrease in bullion indicates financial operations, such as the export of gold, which may call for action by the Board.

In addition to the statistics collected by the Bureau, the figures on gold exports and imports are of great value and should, therefore, be given to the Bureau as soon as collected in the Department of Commerce.

Form III and IV. Federal Reserve Notes.—(See pages 189 and 190.)

As this country has not yet any experience with modern banknotes, statistics on the new Federal Reserve notes should be made as specific as possible. Form III is arranged in the same way as Form I, and will reveal the various fluctuations in note issues.

Great stress should be laid on data on the different denominations of banknotes (Form IV). It has been argued that the new system will secure quick expansion as well as quick contraction of banknotes. The underlying idea is that when credit is needed notes will be issued against rediscounts of commercial paper, and when this demand has been satisfied the notes will gradually return to the various Federal Reserve Banks for redemption. This supposition is doubtless correct so far as notes in denominations of \$100.00 and \$50.00 are concerned, but it is very likely that notes in smaller denominations, i. e., \$20.00, \$10.00, and \$5.00, will not conform to this law. Once in circulation, it is likely that they will return to the banks only occasionally, and these notes will lose their character as a credit instrument and be used like all the other forms of paper money. Thus it is evident that a large amount of small notes in circulation might easily counteract the purpose of the law. The Federal Reserve Banks or the Federal Reserve Agents should therefore report from week to week on the various denominations in circulation, and the Bureau should carefully follow the relative proportion of each. In case the circulation of the small notes should become too extensive the Federal Reserve Agents should be advised to issue these denominations only in limited quantities.

Form V A and V B. Analysis of Deposits:—(See pages 191 and 192.)

The deposits of the Federal Reserve Banks are divided into three classes:

- (1.) Compulsory deposits by member banks as prescribed by the Act,
- (2.) Voluntary deposits by member banks as provided in the Act,
- (3.) Government deposits.

The deposits of the first category may safely be assumed to be relatively permanent, i. e., not liable to great change in amount. Deposits of the second and third category, however, are subject to more frequent and more extensive fluctuations. On the one hand, it may occur that the Government and the Federal Reserve Banks withdraw large amounts of their deposits simultaneously, and on the other hand, withdrawal of Government funds may be coincident

with increased deposits by member banks, or vice versa. In the first-mentioned case, the Federal Reserve Banks would be deprived of a large amount of their working capital, while in the last-mentioned case there may be no cash movement to speak of. Furthermore, these various changes in the amounts of the different categories of deposits may follow each other at specific short intervals during certain periods of the year. On the basis of the statistical data relating to deposits, such as suggested in Form V A and V B, the Bureau will in due course be able to predict the changes about to take place in the amount of the deposits, and will thus tend to facilitate the Board's banking policy considerably.

Form VI and VII. Relation of deposits and Federal Reserve notes to cash on hand:—(See pages 193 and 194.)

With a view to precluding inflation of the note circulation, the Act very prudently prescribes comparatively high limits as to the *minimum* cash reserve to be maintained against deposits and notes in circulation. It could not, however, define any average amount of cash reserves to be kept by the banks in ordinary times to secure a permanent sound banking activity. This had to be left to the management of the Federal Reserve Banks and to the wisdom of the Federal Reserve Board. Thus, it is the duty of the Federal Reserve Board to see to it that the reserve actually maintained by the banks is at all times sufficiently in excess of the legal minimum to insure the proper operation of the entire system in times of emergency. Careful statistics as outlined in Form VI will undoubtedly be a material help to the Federal Reserve Board in the fulfilment of this part of its responsible task. The approximate amount of deposits and notes not secured by cash on hand, in the case of each Reserve Bank individually, as well as of the entire chain of banks, will of course vary. When the supply of funds is abundant only a very small part of deposits and notes will be unsecured by cash; under normal monetary conditions there will be an average rate of cash. When seasonal demands for credit make themselves felt, a relatively high proportion of deposits and notes will be without cash security. Information along these lines, after a period of years, will place the Board in a position to recognize the approach of abnormal conditions at an early date and to apply an equalizing and preventive discount policy. For the same purpose, Form VII has been devised. A comparison of the percentage of cash on hand with both deposits and Federal Reserve notes during the various periods mentioned above may safely be considered as an index of impending deviations from the rule.

Bills of Exchange:

It may safely be presumed that in the future, transactions in drafts, notes, and bills of exchange will constitute a very considerable portion of the business of the member banks, for the simple reason that such assets will be realizable at any time, by rediscounting with Federal Reserve Banks. It is evident, therefore, that commercial paper will hereafter play a much more important part in

economic life than heretofore, and needs close surveillance and control from the beginning; for on this will depend whether the impending change in our monetary and credit system will be beneficial or detrimental to our economic condition. The Federal Reserve Board will be called upon to pilot the course of this development, and its task in so doing is one of grave responsibility. It is for this reason that great stress has been laid on the preparation of forms which will enable the Board to carefully follow the discounting operations in all their details.

Form VIII. Analysis of all purchases of bills of exchange:— (See page 195.)

This form has been prepared in accordance with the various sections of the Federal Reserve Act pertaining to bills of exchange. There are three sources from which the Federal Reserve Banks may acquire bills of exchange. Under certain conditions they may rediscount the commercial paper bought by other Federal Reserve Banks (Col. 2-4). Ordinarily, and in fact preferably, they will invest their funds in commercial paper purchased either direct from member banks (Col. 5-16) or in the open market (Col. 17-37). In the open market again they may acquire the paper from member banks (Col. 17-25) or from other than member banks (Col. 26-34). Furthermore, as regards the purchases from member banks, the law discriminates as to the nature of the business from which the paper originates: whether it arises out of commercial transactions or is issued for agricultural purposes or based on the importation or exportation of goods. The open market operations are divided in the act according to the form of paper: into purchases of cable transfers, bankers' acceptances, and bills of exchange. If detailed information is collected along the lines of these classifications it will be an easy matter for the Federal Reserve Board to exercise a permanent control and particularly to investigate whether member banks avail themselves of the Federal Reserve Banks regularly or only in exceptional cases; such statistics will show to what extent, on account of spasmodic and insufficient rediscounts on the part of member banks, the Federal Reserve Banks are obliged to invest their funds in commercial paper purchased in the open market from other than member banks. Furthermore, it is important to know the proportion of the different classes of paper to the grand total of transactions during each month, and, in addition, the Federal Reserve Banks should be required to report the average face amount and average maturity of each class of paper discounted by them. With such statistical data on hand, the Bureau should in due course be able to recognize whether or not the discounts of any of these classes of paper exceed the limits prescribed by a sound banking policy. With this object in view, Form VIII has been made as specific as possible; a study of the 40 columns of this table will make its various purposes clear.

Form IX. Analysis of funds invested in bills of exchange:— (See page 196.)

While Form VIII is designed to show and analyze the total of the discounting transactions of each bank during a certain period

(month, year). Form IX purports to indicate the amount of funds invested in bills of exchange at a *fixed date* (end of the month, end of the year) and specifies it according to the different classes of commercial paper. Information of this kind will be important, indicating to the Federal Reserve Board the amount of each Federal Reserve Bank's liquid assets. For instance, if a bank invests its funds largely in bankers' acceptances and foreign bills of exchange bought in the open market, it will be in a much stronger position financially than it would be with investments consisting principally of rediscounted paper of the kinds and maturities specified in Section 13 of the Federal Reserve Act.

Form X. Purchases of foreign bills of exchange:—(See page 197.)

A number of Federal Reserve Banks probably will invest their funds to a great extent in foreign bills of exchange, in the first place on account of insufficient offerings of domestic paper and in the second place on account of the fact that foreign bills of exchange are justly considered to be the most liquid of all investments. But, as our gold supply may be unfavorably affected by such a policy it will be necessary for the Board to watch these transactions very closely. Statistics concerning this subject should, therefore, be prepared with great care and should be made as specific as possible, so as to provide the Federal Reserve Board with the required information on this question. The data proposed in Form X will show the proportion of purchases of foreign bills of exchange as against total investments in bills of exchange and, furthermore, indicate the fluctuations as well as the average amount and the average maturity of foreign paper. It is also hoped that the knowledge of the situation will facilitate discrimination between sound commercial, and speculative, or purely financial foreign bills of exchange.

Form XI. Foreign bills of exchange on hand.—(See page 198.)

It is of no less importance to know how the portfolio of each Federal Reserve Bank is composed, particularly with reference to the countries where foreign bills of exchange are payable. It will be readily comprehended that investments in English, German, or French paper are of a much more liquid nature than bills drawn on other countries. From another viewpoint, it will be useful to know the composition and extent, for instance, of a Federal Reserve Bank's South American portfolio, as reflecting the influence of our new banking organization on the financing and developing of our foreign trade.

Form XII and XIII. Fluctuations of rates of foreign bills of exchange as an index to our trade balance:—(See pages 199 and 200.)

The fluctuations of the rates of foreign bills of exchange already receive careful attention at the present time; in future they will even be of still greater significance in connection with our economic and financial system. The information to be gathered by the Bureau on this subject, therefore, must be recorded with the mi-

nutest care. Form XII gives the number of days on which exchange rates were higher or lower than parity. Great Britain, Germany, and France are chosen, as with these countries we are continually in extensive commercial and financial relation. The rates of exchange for these countries, therefore, clearly indicate the status of our international trade balance. If these rates are above parity (parity meaning the value of our standard unit expressed by the standard unit of another country), it signifies that our balance of trade is unfavorable, or vice versa.* It will be of great importance to the Federal Reserve Board to know the number of days of the month (or year), on which the rates of foreign exchange have been favorable or unfavorable. A decided tendency towards unfavorable rates would probably induce the Board to pursue an appropriate discount policy.

In order to ascertain the frequency of extreme fluctuations of rates of exchange, Form XIII has been prepared indicating the number of days on which exchange rates were higher or lower than the gold points. The gold points signify that under normal conditions gold can be either exported or imported, as the case may be. The longer the period during which such statistics are collected, and the more detailed the data, the easier it will be to recognize the causes correlated to these phenomena. Information along these lines will, therefore, constitute very valuable material for the Federal Reserve Board's decisions.

Form XIV. Credit balances abroad:—(See page 201.)

Changes in foreign rates of exchange may be wholly or partly caused or prevented by the Federal Reserve Banks themselves, by enhancing or withdrawing their foreign credit balances. Therefore, it will be necessary to consider these foreign credit balances if fluctuations in the rates of foreign exchanges are to be correctly interpreted.

Form XV. Funds invested in bills of exchange, classified according to where bills are payable:—(See page 202.)

The classification of the discount portfolio of each Federal Reserve Bank according to various districts of the United States and foreign countries where the bills are payable is advocated for the following reasons:

If a Federal Reserve Bank's supply of rediscounted paper is exclusively composed of bills payable in the same district, it may be safely presumed that the bank's discount business is too narrow. If, on the other hand, the supply consists of a fair proportion of bills payable in the bank's own district and of bills payable in other districts or abroad, the portfolio would not only afford more security but could also be more readily liquidated in case of necessity.

*Bills of Exchange on Paris are quoted in Dollar units, i. e., \$1=5.1826 francs. An increase in the price of francs, therefore, would express a higher valuation of the Dollar Unit or a favorable trend of our trade balance with France.

Form XVI. Analysis of all sales of bills of exchange:—(See page 203.)

As a rule, the Federal Reserve Banks will buy only bills of exchange to be held in their portfolios until maturity and then present them, or have them presented, to the drawees for payment. When, however, one Federal Reserve Bank finds its cash reserves depleted while another bank has a large surplus, the Federal Reserve Board may permit—or even direct (see section 11b of the Act)—the bank in need of cash to rediscount a portion of its holdings of bills of exchange with the Federal Reserve Bank having an abundance of cash reserve. Furthermore, when a Federal Reserve Bank has lost control of the open market, it will be necessary for the Bank to regain control by sales of bills of exchange.

Discount operations between Federal Reserve Banks will probably occur only when one of these banks is facing an unforeseen emergency. Sales in the open market, however, may happen quite frequently, for the following reason: As soon as the open market rate declines to such an extent that the difference between a Federal Reserve Bank's official rate and the open market rate exceeds a certain limit, the Federal Reserve Bank will have to choose between two alternatives: In order to lessen the difference in the rates, it will either have to reduce its own bank rate or, by selling in the open market, endeavor to cause a rise of the open market rate. Thus, in all cases where a reduction in the official rate seems inadvisable, the Federal Reserve Bank will eventually have to sell in the open market. Discount operations among Federal Reserve Banks as well as sales by Federal Reserve Banks in the open market must be considered of such fundamental importance that statistics on these subjects should be collected in full detail. To illustrate: If all the Federal Reserve banks should be obliged regularly to sell in the open market, it would demonstrate that the official discount rates are generally too high. If, however, one Federal Reserve Bank should frequently sell, it would indicate that its policy is not well adapted to local conditions. Statistics, as suggested in Form XVI, would indicate the reasons for such policy.

Form XVII. Amount of domestic bills of exchange on hand (classified according to lines of business of drawees, acceptors or makers):—(See page 204.)

The statistics collected according to Form XVII will reveal the economic conditions underlying the discounting operations of the Federal Reserve Banks. With this object in mind, bills of exchange should be grouped in at least five classes, as follows:

- (1.) Commerce, transportation and insurance.
- (2.) Manufacturing industry.
- (3.) Agriculture, forestry and fisheries.
- (4.) Miscellaneous, including the mining industry.
- (5.) Finance and banking (duplicate items).

Each item should be entered in the proper column, according to the line of business of the party on whom the bill is drawn. Inasmuch as bills of exchange originating from stock, bond, or invest-

ment transactions are not eligible for rediscount, the group finance and banking contains only bankers' acceptances issued in the interest of one of the industrial classes. These bills should, therefore, be placed accordingly. In order to show, however, the amount and percentage of bankers' acceptances in proportion to the other forms of paper, finance and banking has been added as a special group. (Compare columns 12 and 13 in Form XVII.)

If the bills of exchange are classified as indicated above, the Board will at all times be in a position to ascertain the amount and percentage up to which the various industries avail themselves of the credit facilities granted by the Federal Reserve Banks. Each of the groups mentioned above (excepting group 5) could, and perhaps should, be subdivided in order to make the data as specific as possible, as this would doubtless contribute to early recognize the existence of overexpansion in one or the other industry.

Form XVIII. Face amounts of domestic bills of exchange:— (See page 205.)

The portfolio of each Federal Reserve Bank will be composed of bills of exchange in all denominations, i. e., in small, medium and large amounts. It is the general understanding that the face amount of a bill reveals to a certain extent its character and origin. To illustrate: A small draft indicates a small business transaction, and a bankers' acceptance for, say, \$25,000 manifests the adjustment of a debt originating in connection with a more extensive industry. As it will be the duty of the new Federal Reserve Banks to serve the trade and commerce in all stages—with due security and safety—their portfolios should show a great variety in the face amounts of the bills discounted. The Federal Reserve Banks should pursue such a discounting policy in the interest of the general welfare, and for their own benefit as well. The denominations of the bills discounted should, therefore, be classified with great care. In view of this, it is suggested (by Form XVIII) to divide the bills discounted by each bank into seven categories. The first class should comprise all the bills in denominations up to \$250, the second from \$251 to \$500, and so on until the seventh class, embracing bills over \$10,000. The sample sheet submitted contains an additional classification, i. e., bills payable in the Bank's district and bills payable in other districts.

These statistical records of the discounts of each Federal Reserve Bank, when compared with one another, will provide the Board with excellent means of checking up the discount policies pursued by the various banks, and will unquestionably be an important source of information for the Board in giving its directions to the Banks.

Form XIX and XX. Maturities of bills of exchange:— (See pages 206 and 207.)

Another element for economic control is the maturity of a bill of exchange. Small amounts and short maturities are considered the ideal form of investment for central note institutions. As the functions and purpose of the Federal Reserve Banks are

similar to those of the European central note banks, they should apply analogous principles in the pursuance of their discount policies, i. e., it should be their aim to obtain commercial paper with an average maturity of from thirty to forty days. As in connection with the reserve requirements, the Federal Reserve Act stipulates the maximum maturity limits for the various categories of discountable bills. It is evident, however, that this provision alone cannot insure a sound banking policy, but that the Board should in addition define limits of *average* maturities. With a view to ascertaining what would constitute fair average maturities, Forms XIX and XX have been prepared.

By a statistical arrangement, as suggested in Form XIX, the various maturities of *domestic* paper are disclosed. For this purpose the maturities are divided into different classes and the relative proportion of each class to the total compared. Such statistics will also reveal the average maturity of all discounted paper. The significance of the arrangement may be illustrated by the following table:

(EXAMPLE)

Domestic bills of exchange were bought with the following maturities:

Maturing Within	In Per Cent of Total	Maturing Inside of	In Per Cent of Total	Calculation of Average Maturity	
				Days	Index
15 days	17	15 days	17	7.5	127.5
in additional 15 days	47	one month	64	22.5	1057.5
in an add. month	18	two months	32	45	810
in an add. month	8	three months	90	75	600
in an add. month	7	four months	97	105	735
in an add. two months	3	six months	100	150	450
Total	100			Total Index 3780	
				Average Maturity 37.80 Days	

If, as in the example above, the discounts consist of an average maturity of 37.8 days, a Federal Reserve Bank will at all times have a comparatively large quantity of bills in its portfolio with short maturities. The results of each Federal Reserve Bank's policy with regard to the maturities will be clearly illustrated in a statement of the amount of bills on hand at the end of each month, as proposed in Form XX. The higher the amount and percentage of short maturities, the stronger will be the bank's condition. It will be an easy matter for such a bank to meet its daily obligations (growing out of withdrawals of deposits or redemption of banknotes against cash) with the funds paid to the bank for bills maturing from day to day. The relative liquidity of the various Federal Reserve Banks is especially revealed by statistics of this kind.

Form XXI. Extent and limit of credit accommodation granted by the Federal Reserve Banks (classified according to lines of business):—(See page 208.)

This subject has been dealt with in detail by the Preliminary Organization Committee under the heading "Examinations." If local credit departments are created, as suggested by said committee, the Bureau would have at its disposal statistical material of the highest

value. If, for instance, condensed statements are prepared by each local credit department as expressed in Form XXI, the Board would become thoroughly familiar with the characteristic features of each Federal Reserve Bank on these points:

- (1.) The proportion in which credit facilities are distributed among the various lines of business,
- (2.) A classification of credit accommodation according to amounts in which it is granted.

With such data on hand, the Bureau could compile condensed tables showing these facts for the entire country and also disclosing whether the various industrial lines of business, small concerns and large corporations, are treated alike in the new organization.

Form XXII and XXIII. Bills of exchange remaining unpaid at time of maturity:—(See pages 209 and 210.)

The degree of precaution shown by a Federal Reserve Bank in its discount operations is illustrated by the number of bills remaining unpaid at maturity. The statistical material regarding the unpaid bills is, therefore, of paramount importance for the Board. The information will have to be gathered along the following lines:

- (1.) Form of unpaid drafts (Form XXII), whether single or two-name paper; in the latter case bankers' acceptances should be particularly marked, as it may be presumed that this form of paper will hardly, if ever, remain unpaid; should a bankers' acceptance not be taken up at maturity, however, this would be a very serious occurrence and should be recorded separately. In the course of a few years, this classification will enable the Board to decide the question, now a matter of intense discussion, as to whether or not single name paper affords as much safety as two-name paper, and is as well adapted for use as cover against bank notes.
- (2.) Origin of paper (Form XXIII), whether arising out of commercial, industrial, agricultural, or miscellaneous transactions. If the number of unpaid drafts in any one month or stated period increases proportionately for all lines of business, it may be concluded that business conditions on the whole are impaired. If the number of unpaid drafts increases only for some particular line of business, an investigation should be made as to the reasons underlying the increase. In the same way, a decrease in the number of unpaid drafts will be indicative of favorable conditions along the line in question.

RATES OF DISCOUNT.

The Federal Reserve Act has empowered the Board to review or to determine the rates of discount to be charged by the various Federal Reserve Banks. The purpose of this provision is undoubtedly to insure a uniform discount policy (not a uniform discount

rate!) for the entire country. The pursuance of a suitable discount policy has always been regarded as one of the most difficult problems to be dealt with in banking. This doctrine certainly applies particularly to a country with an area and with such varying economic conditions as in the United States. It will require years of experience to recognize the currents and undercurrents influencing the fluctuations in the demand for money and credit in this country. A number of forms has, therefore, been prepared dealing primarily with the discount policy.

Form XXIV and XXV. Changes in discount rates:—(See pages 211 and 212.)

Form XXIV shows the discount rates and their fluctuations; the sole purpose of this form is to enable the Board to keep posted at a glance on this important subject. On Form XXV, however, each change of a discount rate is to be recorded, together with the reason. It is especially important to record whether the change was occasioned by events in the international money market (reasons I, II, III, IV) (for which purpose the statistics on rates of exchange should be compared), or by economic developments in the United States, by favorable or unfavorable business conditions as indicated by a corresponding increase or decrease in the offerings of domestic bills of exchange (reasons IV, VII, VIII). It is, furthermore, possible to determine which discount rates are lowered or raised on account of developments in the international money market as well as changes in economic conditions in the United States (reasons IV and X).

Form XXVI and XXVII. The demand for credit facilities:—(See pages 213 and 214.)

Form XXVI purports to disclose the influence of seasonal demands for credit on the reserves of the various Federal Banks. In column 2 should be recorded the kind of seasonal demands, i. e., crop movements, quarterly dividends, and so forth. The difference between the amount of deposits and notes not secured by cash before and after the seasonal demand as shown by the Bank's statements (Col. 3-5) illustrates the increase in the demand for credit from one week, or month, to the following. At the same time, there should be a corresponding decrease of cash on hand as against deposits and notes (Col. 6-8). These figures (Col. 5 and 8) must be brought into correlation with the various discount rates. Statistics of this nature should, in due time, show the discount rates best suited for any given percentage of cash reserve at different periods.

Form XXVII is proposed as an indicator expressing the demand for credit facilities in one figure. The underlying idea is as follows: On the one hand, the deposits of the member banks contain a considerable portion of their clients' working capital, and on the other hand, the paper rediscounted by Federal Reserve Banks represents indebtedness of the business world. It follows that when both are brought into correlation and the one is subtracted from the other, the resultant difference must in some way

express a credit balance of the business world (Col. 3). This balance, it is evident, increases with a diminishing demand for credit or with slack business, and decreases with a larger demand for credit or an expansion of business. The proportion of domestic bills of exchange to deposits (Col. 5) would indicate these identical fluctuations. These figures could be used covering longer periods, if due allowances are made for the normal gradual extension of the country's business. With a view to ascertaining whether the fluctuations shown by this indicator are caused by increased or decreased domestic or foreign trade, the domestic bills of exchange are to be recorded separately. Should, for instance, the figure in column 5 fall and that in column 8 rise, this would signify diminishing domestic and expanding foreign trade, and vice versa.

The indicator above described is similar to a method employed in Germany. The method proposed herein has, of course, been adapted to economic and banking conditions in the United States. It is not claimed that this indicator will prove to be an absolutely accurate barometer of conditions. It should, however, receive a thorough trial, be it only in order to suggest through practice another method better suited to this purpose.

Form XXVIII. Fluctuations of the discount rates and statistics regarding factors of the money market affecting the same:—(See page 215.)

The purpose of this form is to demonstrate the use of the weekly statements as a means of showing not only the causes and reasons for changes in the discount rates, but also the effects brought about by such changes. This form will, in a way, give a history of all changes and an exact analysis of the factors in connection therewith. With this purpose in view, a comparison should be made of various items contained in the statement issued before the rate was changed and the statement preceding the previous change. For instance: cash, gold, Federal Reserve notes in circulation, amount of deposits, supply of bills of exchange, proportion of cash reserves as against both deposits and Federal Reserve notes issued, and so forth. Inasmuch as changes in discount rates are frequently caused by conditions prevailing in the open money market and in the international money market, all facts bearing thereon, such as rates of exchange, rates of the open money market, and foreign discount rates, have been correlated in this form.

Form XXIX.—(See page 216.)

While it is impossible to predict whether Federal Reserve Banks will avail themselves of the privilege of dealing in securities, it is, nevertheless, necessary to collect in advance data on this subject. History proves that financial operations of this character have overburdened banknote institutions with assets that could not be easily liquidated, and embarrassed them so seriously that they could not meet their obligations. Thus the Bank of England found itself in a most serious difficulty, being unable to redeem its banknotes in cash for more than twenty years (1797-1819), primarily because of

advances made to the English Government. Likewise the complete failure of the Royal Prussian Bank in 1806 resulted from mortgage loans granted to some Prussian provinces. On the other hand, so long as the Federal Reserve Banks, like the European Central Banks, are to be in a measure public banks to serve the Government, one of their functions must necessarily be the lending of credit to the various States and communities of this country in cases of necessity. This is a principle generally conceded and is fully exemplified in the history of European central banks. The Bank of England has £18,175,000 invested in loans to the English Government, or in its securities. The Bank of France has advanced to the French Government Frs. 200,000,000; it has a permanent investment in French rentes of Frs. 100,000,000, and its last annual report shows among the assets of the bank a temporary investment of more than Frs. 100,000,000 in French obligations. The German Government is not permanently indebted to the Reichsbank, but the latter lends its credit from time to time to the Empire in discounting short-time obligations in the form of Imperial Treasury Notes, so-called "Reichsschatzscheine." In May, 1909, the Reichsbank held these to the amount of Marks 509,000,000. While this amount has been considerably decreased, in 1913 it still averaged about 95,000,000 Marks. Moreover, the Imperial Budget Law of July 3rd, 1913, provides an issue of 600,000,000 Marks of these Reichsschatzscheine which the Reichsbank may at any time be called upon to discount.

Government loans, or investment in government securities, are, moreover, not always undesirable. At times when the Federal Reserve Banks are temporarily unable to utilize funds in discounting commercial paper, advances to the government or investment in government securities will be very desirable outlets for their idle money.

The fortunate financial situation of the United States makes it very unlikely that under normal conditions the Federal Government will ever be obliged to have recourse to credit from the Federal Reserve Banks. It is not improbable, however, that smaller communities may apply to the Federal Reserve Banks. If such financial relations become customary, such credits, though formally for a short term, may in the end become permanent investments. Steps should early be taken to prevent such an outcome, for it may result in loading up a Federal Reserve Bank with assets that cannot be liquidated. The Board has it in its power to forestall this, for purchases of securities under Section 14 (b) must be made in accordance with its rules and regulations. Danger to a Federal Reserve Bank through such investments can be averted, if said banks are compelled to furnish regularly to the Board statements as outlined in form XXIX. This form provides that the different classes of purchasable securities be reported separately; United States bonds and notes are set apart as a special class and distinguished from short time obligations of States, municipalities, etc. One of the rules that should be prescribed by the Board is that investments in securities may be made only with funds permanently at the disposal of the Federal Reserve Banks, as, for example, com-

pulsory deposits. The form proposed provides columns indicating for each Federal Reserve Bank the relation between the various classes of investment securities and the amount of compulsory deposits on hand (Cols. 4 and 22). The form furthermore contains columns for reporting holdings of short-time obligations (Col. 6, 9, 12, 15 and 18). Finally, classified according to their maturity, the relation of the amount invested in each class of investments to the total amount tied up in securities (Cols. 3, 7, 10, 16 and 19) is revealed. If the Federal Reserve Banks are required to furnish regularly, statements giving the data classified to show these details, the Board will find it easy to ascertain whether its rules and regulations are strictly complied with.

The forms herewith submitted for consideration represent, of course, but a small part of the statistical work to be performed by the Bureau; they have been separately discussed in order to explain the special purpose for which they are devised. Aside from all material covering finances, money and credit, great stress should be laid on the gathering of statistics concerning all the various phases of economic life. The Bureau should, for instance, possess the most detailed information on commerce, manufacturing industries, agriculture, mining, transportation, the situation of the labor market, and foreign trade. Valuable material on these subjects may be obtained from official sources. This would, however, chiefly serve for purposes of comparison. The current information should be partly furnished by the various Federal Reserve Banks and partly by material gathered and collected by the Bureau itself. If the Federal Reserve Banks are organized as suggested by the Preliminary Organization Committee, the Bureau should receive from them reports on all these subjects. Moreover, the Federal Reserve Agent should regularly prepare for, and furnish to, the Board special reports concerning the economic conditions in their districts. In addition to the data procured through these channels, the Board should establish connections with experts in the various lines of business in order to get direct reports by which there may also be obtained material of fundamental importance. Finally, the Bureau itself should collect all statistics available on these subjects from newspapers, magazines, journals, financial and trade papers. If all these records are properly filed and prepared, the Bureau will be able to appreciate the significance of all events and occurrences in business life and to give at any time a correct interpretation of a given situation. As everything depends on the quality and thoroughness of this work, it is evident that it would constitute the principal activity of the Bureau. Upon this assumption the Board would be equipped with information of a thoroughness never obtained by any European Central Bank. Expansion or contraction of business in each part of the country would be quickly noted, and the Board could, if necessary, advise the Federal Reserve Bank in question to apply such a discount policy as may in time turn the tide or prevent an overexpansion in one part of the country or one line of business from spreading to other parts of the country

or other lines of business. The recording of events occurring in the United States would, however, not suffice to protect the country from possible injuries arising out of the new banking system. While the new tariff tends to open the United States more than heretofore to foreign competition, one of the results of the Federal Reserve Act will doubtless be to make the American money market more international in its scope. In other words: the gold reserve of this country will be considered as belonging to the international money market, and will be disposed of whenever there is an advantageous opportunity to do so, just as we shall rely to a great extent on the foreign gold reserves. Under these circumstances it will be necessary to follow a policy of precaution in order that this close financial connection with foreign countries may not turn out to be a disadvantage to this country. It will, therefore, be indispensable that the Bureau collect similar statistics as those suggested for the United States—in more condensed form, of course—on conditions prevailing abroad. Such records and statistics should embrace:

A. In regard to finance and banking—

- (1.) General monetary and financial conditions in all countries:
- (2.) Weekly statements of the great European central banks, regularly prepared in retrospective form in order to show the situation prevailing in former periods.
- (3.) Fluctuations in bank and money rates abroad.
- (4.) Fluctuations in foreign exchange rates abroad.
- (5.) Gold movements in the international money market.
- (6.) Status of the great European Private banks.*

B. In regard to economic conditions:

- (1.) Trend of business in European countries.
- (2.) General market conditions.
- (3.) Development of foreign trade abroad.

Moreover, the political situation in these important countries should likewise receive close attention, for it may also exert an influence on the American money market. A disturbing turn in the relations between the great European powers, the hoarding of gold by one or the other of the Central Banks (as was recently the case with the Bank of France and the German Reichsbank) would have to be brought immediately to the knowledge of the Board, for it could possibly cause a considerable decrease of the gold supply of the United States. A financial crisis, overexpansion in business, or even a temporary money stringency in only one of these countries would affect our money market and might lead to

*As in Europe an increased demand for credit is, while yet in its first stage, satisfied by the private banks without the assistance of the Central Banks, the monthly reports of the former frequently reflect a corresponding change in economic conditions earlier than the weekly statements of the latter.

a more or less extended exporting of gold from this country to Europe. To secure such complete information on foreign conditions, it does not suffice that the Bureau collect its figures from foreign publications. It would be indispensable to establish connections through which exhaustive reports could be secured. The correspondents and agencies of the various Federal Reserve Banks, as well as the foreign branches of the member banks, should be required to perform this service. But it would be of no less importance to have also reports from American consuls who should be able to furnish in time valuable material on such economic conditions in foreign countries which might affect the American money market. It may also be advisable to include American Ambassadors and Envoys in this service. Finally, it is suggested to establish with the great European Central Banks (Bank of England, Bank of France, German Reichsbank) a regular individual exchange of opinions in regard to financial and economic conditions in their respective countries. It is believed that such a suggestion coming from the Federal Reserve Board as representative of the new American sister banking system would be very favorably accepted by those banks.

CONCLUSION.

The foregoing pages have outlined the various functions of the Bureau. Some remarks on its organization may well be added. In view of the comprehensive and far-reaching task of such Bureau, it should be equipped from the outset with an adequate staff of well-trained men. The chief of the Bureau should be a man who is not only a first-class statistician, but also an economist of ability and thoroughly familiar, in theory and practice, with problems of money and credit, who is able to give opinions on matters of finance in the broadest sense of the word. It should be the duty of the chief of the Bureau to furnish the Board with detailed and up-to-date information, based on data collected by the Bureau, on all important subjects relating to banking here and abroad. Under his supervision daily reports should be prepared giving such data as may be useful or necessary to the Board in arriving at its decisions. Furthermore, it should be his duty to make monthly, if necessary, weekly reports on economic and financial conditions in the United States and foreign countries, and he should prepare each week a summary, giving the result of an analysis of the weekly statements and other reports of the Federal Reserve Banks.

The Bureau should perform its various duties with the greatest secrecy. All material collected and all information prepared should be for the exclusive use of the Board. Neither the chief of the Bureau nor any of the employees should be allowed to write for publication on questions relating to banking without the approval of the Board. Finally, there should be established in connection with the Bureau, for reference purposes, a well-equipped working library of books on modern banking, keeping on file all documents published by European central banks.

In conclusion, the fact must not be lost sight of that the great European central banks came into existence when modern commerce and finance were in their first stage of development. This is true even of the German Reichsbank, established as late as 1876, for the latter rested on the well-founded traditions of its parent institution, the Bank of Prussia, created in 1845. On the other hand, the Federal Reserve Board commences its activities when commerce and finance are dealing in billions, when the money and credit system of the United States, as well as of the great European countries, has attained a complexity and breadth undreamed of. Moreover, the scope of the Federal Reserve Board's activity is from the beginning infinitely larger than that of any of the great European central banks.

It is obvious that a well-organized and capably managed statistical department would be of greatest service and facilitate the difficult task before the Federal Reserve Board.

Cash on Hand.

Month	Average Amount	High		Low		Difference between high and low (Col. 4 and 6.)	
		Date	Amount	Date	Amount	Amount	in per cent. of average (Col. 2.)
1	2	3	4	5	6	7	8
Jan.....							
Dec.....							
Year 191.....							

137

Gold Supply on Hand.

188

Month	GOLD CERTIFICATES AND GOLD COINS OF THE U. S.							GOLD-BULLION AND FOREIGN COINS							Total Gold
	Average Amount	High		Low		Difference between High and Low (Col. 4 and 6)		Average Amount	High		Low		Difference between High and Low (Col. 11 & 13)		
		Date	Amount	Date	Amount	Amount	in per cent. of average (Col. 2.)		Date	Amount	Date	Amount	Amount	in per cent. of average (Col. 9.)	
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16-22*
Jan....															
Dec....															
Year 191....															* Col. 16-22 similar to Col. 2-8

Federal Reserve Notes In Circulation.

Month	Average Amount	High		Low		Difference between high and low (Col. 4 and 6.)	
		Date	Amount	Date	Amount	Amount	in per cent. of average (Col. 2.)
1	"	3	4	5	6	7	8
Jan.....							
Dec.....							
Year 191.....							

189

FEDERAL RESERVE BANK OF.....

FORM IV

Denominations of Federal Reserve Notes in Circulation
 AT THE END OF EACH MONTH.

Month	\$100		\$50		\$20		\$10		\$5		Total notes in Circulation
	Amount	In per cent. of Total (Col. 12)	Amount	In per cent. of Total (Col. 12)	Amount	In per cent. of Total (Col. 12)	Amount	In per cent. of Total (Col. 12)	Amount	In per cent. of Total (Col. 12)	
1	2	3	4	5	6	7	8	9	10	11	12
Jan.											
Dec.											

190

Analysis of Deposits.

A

DEPOSITS OF MEMBER BANKS																
Month	LEGAL RESERVES						OTHER DEPOSITS						TOTAL			
	Average Amount	HIGH		LOW		Average Amount	HIGH		LOW		Average Amount	In per cent. of total deposits (Col. 25)	High		Low	
		Date	Amount	Date	Amount		Date	Amount	Date	Amount			Date	Amount	Date	Amount
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
161 Jan.																
Dec.																
Year 191....																

Analysis of Deposits.

B

Month	GOVERNMENT DEPOSITS						TOTAL ALL DEPOSITS				
	Average		High		Low		Average Amount	High		Low	
	Amount	In per cent. of total deposits (Col. 25)	Date	Amount	Date	Amount		Date	Amount	Date	Amount
18	19	20	21	22	23	24	25	26	27	28	29
Jan.											
Dec.											
Year 191....											

192

FEDERAL RESERVE BANK OF.....

FORM VI

Amount of Deposits and Federal Reserve Notes not Secured by Cash on Hand.

193

Month	ALL FORMS OF MONEY							GOLD						
	Average Amount	High		Low		Difference between High and Low (Col. 4 and 6)		Average Amount	High		Low		Difference between High and Low (Col. 11 and 13)	
		Date	Amount	Date	Amount	Amount	In per cent. of average		Date	Amount	Date	Amount	Amount	In per cent. of average
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Jan.														
Dec.														
Year 191.....														

FEDERAL RESERVE BANK OF.....

FORM VII

Percentage of cash on hand against both Federal Reserve Notes and Deposits.

Month	All forms of money					Gold				
	Average	High		Low		Average	High		Low	
	%	Date	%	Date	%	%	Date	%	Date	%
1	2	3	4	5	6	7	8	9	10	11
191 Jan....										
Dec....										
Year										
191....										

ANALYSIS OF ALL PURCHASES OF BILLS OF EXCHANGE DURING EACH MONTH.

961	Month	Purchased from other Federal Reserve Banks			PURCHASED FROM MEMBER BANKS									PURCHASED IN THE OPEN MARKET												Grand Total													
		Amount	Average face Amount	Average maturity	Arising out of Commercial Transactions			Issued for Agricultural Purposes			Acceptances based on Importations or Exportations			Total			FROM MEMBER BANKS			FROM OTHER THAN MEMBER BANKS																			
					Amount	Average face Amount	Average maturity	Amount	Average face Amount	Average maturity	Amount	Average face Amount	Average maturity	Amount	Average face Amount	Average maturity	Amount	Average face Amount	Average maturity	Amount	Average face Amount	Average maturity	Amount	Average face Amount	Average maturity	Amount	Average face Amount	Average maturity	Amount	Average face Amount	Average maturity	Amount	Average face Amount	Average maturity					
																																			Amount	Average face Amount	Average maturity	Amount	Average face Amount
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40
	Jan..																																						
	Dec..																																						
	Year 191..																																						

FEDERAL RESERVE BANK OF.....

FORM IX

Analysis of Funds Invested in Bills of Exchange at the End of each Month.

Month	Purchased from other Federal Reserve Banks	Purchased from member banks				Total	Purchased in the open market				Grand Total
		Arising out of commercial transactions	Issued for Agricultural Purposes.	Acceptances based on importations or exportations	From member banks		From other than member banks			Total	
							Cable transfers	Bankers' acceptances	Bills of exchange		
	3	4	5	6	7	8	9	10	11	12	
961											
Jan....											
Dec....											

Purchases of Foreign Bills of Exchange.

Month	Amount Invested						On hand at the end of the month		Total amount of purchases				
	Monthly Average	In per cent. of total investments in bills of exchange	High		Low		Number of Items	Valued at: basis of exchange prevailing at the end of the mo.	Number of Items	Amount	In per cent. of total purchases of bills of exchange	Average face amount	Average maturity
			Date	Amt.	Date	Amt.							
1	2	3	4	5	6	7	8	9	10	11	12	13	14
1917 Jan.													
Dec.													
Year 191.....													

Foreign Bills of Exchange on Hand.
(AT THE END OF EACH MONTH)

Month	England		Germany		France		Other European countries		Canada		Mexico		South America		Miscellaneous	
	£	\$	Mark	\$	Frs.	\$		\$	Can. \$	\$	Mex. \$	\$		\$		
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
Jan.																
Dec.																

198

Fluctuations in Rates of Foreign Bills of Exchange.

AS AN INDEX TO OUR FOREIGN TRADE BALANCE.

Month	A. NUMBER OF DAYS ON WHICH EXCHANGE RATES WERE HIGHER OR LOWER THAN PARITY								
	IN THE NEW YORK MARKET THE RATES OF EXCHANGE WERE QUOTED								
	London			Berlin			Paris		
	Lower than the parity of 4.86656 \$ for 1 £.	Higher than	Days	Lower than the parity of 95.2852 \$ for 400M.	Higher than	Days	Higher than the parity of 1\$ for 5.1826 fcs.	Lower than	Days
1	2	3	4	5	6	7	8	9	10
Jan.....									
Dec.....									
Year 191.....									

138

Fluctuations in Rates of Foreign Bills of Exchange.

AS AN INDEX TO OUR FOREIGN TRADE BALANCE.

B. NUMBER OF DAYS ON WHICH EXCHANGE RATES WERE HIGHER OR LOWER THAN THE GOLD POINTS.

		In the New York market the rates of exchange were quoted					
		London		Berlin		Paris	
Month		At or lower than the theoretical gold point favorable for gold import (4.8495 \$ for 1 £.)	At or higher than the theoretical gold point favorable for gold export (4.8336 \$ for 1 £.)	At or lower than the theoretical gold point favorable for gold import (94.92 \$ for 400 M.)	At or higher than the theoretical gold point favorable for gold export (95.65 \$ for 400 M.)	At or higher than the theoretical gold point favorable for gold import (1\$ for 5.221 Fcs.)	At or lower than the theoretical gold point favorable for gold export (1 \$ for 5.164 Fcs.)
		days	days	days	days	days	days
	1	2	3	4	5	6	7
	Jan....						
	Dec....						
	Year 191.....						

200

Credit Balances Abroad.

Month	At the beginning of the month \$	Increase Decrease		At the end of the month \$	
		During the month \$	During the month \$		
1	2	3	4	5	
Jan.....					
Dec.....					
Year 191.....					

201

Funds Invested in Bills of Exchange.
 CLASSIFIED ACCORDING TO WHERE PAYABLE.

Mo.	Payable in the Bank's own Federal Reserve District						Payable in Other Districts					Payable Abroad						
	Monthly Average	High		Low		At the end of month	Monthly Average	High		Low		At the end of month	Monthly Average	High		Low		At the end of month
		Date	Amt.	Date	Amt.			Date	Amt.	Date	tmt			Date	tmt			
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
Jan.....																		
Dec.....																		
Year																		
191.....																		

202

Analysis of all Sales of Bills of Exchange.
(DURING EACH MONTH.)

203

Month	Sold to other Federal Reserve Banks			Sold in the open market									Grand total		
	Amount	Average face amount	Average maturity	To Member Banks			To other than Member Banks			Total			Amount	Average face amount	Average maturity
				Amount	Average face amount	Average maturity	Amount	Average face amount	Average maturity	Amount	Average face amount	Average maturity			
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
Jan.															
Dec.															
Year 191....															

Amount of Domestic Bills of Exchange on Hand.

(Classified according to lines of business of drawee, acceptor, or maker at the end of each month.)

Month	Commerce transportation insurance		Manufacturing industry		Agriculture Forestry Fisheries		Miscellaneous (including mining industry)		Total		Finance and banking	
	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%
1	2	3	4	5	6	7	8	9	10	11	12	13
Jan.....												
Dec.....												
Year												
191												

204

Face Amount of Domestic Bills of Exchange.

Month	Face amount	Payable in banks' own Federal Reserve District			Payable in other districts			Total		
		Items	Amount	%	Items	Amount	%	Items	Amount	%
1	2	3	4	5	6	7	8	9	10	11
	Up to \$350 \$ 251 — \$ 500 501 — 1,000 1,001 — 2,500 2,501 — 5,000 5,001 — 10,000 above 10,000									
	TOTAL									
Year 191.....										

205

Maturities of Domestic Bills of Exchange
AT DATE OF PURCHASE

Month	DOMESTIC BILLS OF EXCHANGE MATURED WITHIN											Average maturity expressed in days	
	15 days	An additional 15 days	One month Col. 2 & 3	An additional month	2 months Col. 4 & 5	An additional month	3 months Col. 6 & 7	An additional month	4 months Col. 8 & 9	An additional 2 months	6 months Col. 10 & 11		
	(In percentage of total amount purchased)												
	1	2	3	4	5	6	7	8	9	10	11	12	13
Jan.													
Dec.													
Year 191 ...													

906

Maturities of Bills of Exchange on Hand
 AT THE END OF EACH MONTH.

Month	BILLS OF EXCHANGE ON HAND MATURED WITHIN											
	15 days		16 — 30 days		31 — 60 days		61 — 90 days		91 — 120 days		121 — 180 days	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
1	2	3	4	5	6	7	8	9	10	11	12	13
Jan.....												
Dec.....												

307

**Extent and Limit of Credit Accomodation
Granted by the Federal Reserve Bank.**

(Classified according to lines of business.)

Lines of business	Firms and individuals who are eligible for credit facilities		DISTRIBUTION OF CREDIT, CLASSIFIED ACCORDING TO LIMITS												
			\$1,000 — \$10,000		\$10,001 — \$25,000		\$25,001 — \$50,000		\$50,001 — \$100,000		\$100,001 — \$500,000		More than \$500,000		
			Number of firms and individuals	In per cent. of Col. 2	Number of firms and individuals	In per cent. of Col. 2	Number of firms and individuals	In per cent. of Col. 2	Number of firms and individuals	In per cent. of Col. 2	Number of firms and individuals	In per cent. of Col. 2	Number of firms and individuals	In per cent. of Col. 2	
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	
Commerce, Transportation and Insurance															
Finance and Banking															
Manufacturing Industries															
Agriculture, Forestry and Fisheries															
Miscellaneous (including Mining Industry)															
TOTAL															

203

FEDERAL RESERVE BANK OF
Bills of Exchange Remaining Unpaid at Time of Maturity.
FORM XXII

	Mo.	Single Name Paper				Banker's Acceptances				Other Two Name Paper				Total				
309 Jan..... Dec..... Year 191.....	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	
		Number of Items	In per cent. of all bills presented for payment				Amount				In per cent. of all bills presented for payment				Number of Items			
			In per cent. of all bills presented for payment				Amount				In per cent. of all bills presented for payment				In per cent. of all bills presented for payment			
			Amount				In per cent. of all bills presented for payment				Amount				In per cent. of all bills presented for payment			
			In per cent. of all bills presented for payment				Number of Items				In per cent. of all bills presented for payment				In per cent. of all bills presented for payment			
			In per cent. of all bills presented for payment				Amount				In per cent. of all bills presented for payment				In per cent. of all bills presented for payment			
			In per cent. of all bills presented for payment				In per cent. of all bills presented for payment				In per cent. of all bills presented for payment				In per cent. of all bills presented for payment			
			In per cent. of all bills presented for payment				In per cent. of all bills presented for payment				In per cent. of all bills presented for payment				In per cent. of all bills presented for payment			
			In per cent. of all bills presented for payment				In per cent. of all bills presented for payment				In per cent. of all bills presented for payment				In per cent. of all bills presented for payment			
			In per cent. of all bills presented for payment				In per cent. of all bills presented for payment				In per cent. of all bills presented for payment				In per cent. of all bills presented for payment			
			In per cent. of all bills presented for payment				In per cent. of all bills presented for payment				In per cent. of all bills presented for payment				In per cent. of all bills presented for payment			
			In per cent. of all bills presented for payment				In per cent. of all bills presented for payment				In per cent. of all bills presented for payment				In per cent. of all bills presented for payment			
			In per cent. of all bills presented for payment				In per cent. of all bills presented for payment				In per cent. of all bills presented for payment				In per cent. of all bills presented for payment			
			In per cent. of all bills presented for payment				In per cent. of all bills presented for payment				In per cent. of all bills presented for payment				In per cent. of all bills presented for payment			
			In per cent. of all bills presented for payment				In per cent. of all bills presented for payment				In per cent. of all bills presented for payment				In per cent. of all bills presented for payment			

**Bills of Exchange Remaining Unpaid
at Time of Maturity.**

Month		ISSUED OR DRAWN FOR THE PURPOSE OF															
		Commerce, Transportation Insurance				Manufacturing Industry				Agriculture, Forestry, Fisheries				Miscellaneous (including Mining Industry)			
		Number of items	In per cent. of all bills presented for payment	Amount	In per cent. of all bills presented for payment	Number of items	In per cent. of all bills presented for payment	Amount	In per cent. of all bills presented for payment	Number of items	In per cent. of all bills presented for payment	Amount	In per cent. of all bills presented for payment	Number of items	In per cent. of all bills presented for payment	Amount	In per cent. of all bills presented for payment
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	
210	Jan.																
	Dec.																
	Year 191																

Rates of Discount.

(Classified according to the number of changes and time of existence of each rate.)

Month	Number of changes	NUMBER OF DAYS ON WHICH THE FOLLOWING RATES WERE IN FORCE										
		3%	3½%	4%	4½%	5%	5½%	6%	6½%	7%	7½%	8%
1	2	3	4	5	6	7	8	9	10	11	12	13
Jan....												
Dec....												
Year 191....												

211

Reasons for Changes in Discount Rates.

Date	Increase or Decrease	REASONS FOR INCREASE					REASONS FOR DECREASE				
		I	II	III	IV	V	VI	VII	VIII	IX	
		Gold export	To prevent Gold export	To stimulate Gold import	Increased offerings of domestic Bills of Exchange	Reasons I, II, III, and IV combined	Increase of Cash on Hand caused by Gold Imports	Decreased offerings of domestic Bills of Exchange	In order to get in contact with open market	Reasons V, VII, and VIII combined	
1	2	3	4	5	6	7	8	9	10	11	

212

FEDERAL RESERVE BANK OF.....

FORM XVI

The Seasonal Demand for Credit

MEASURED BY THE DECREASE OF CASH ON HAND AGAINST DEPOSITS AND FEDERAL RESERVE NOTES ISSUED.

Date	Season (crop, quarterly dividend, taxes, etc.)	Amount of Deposits and Notes issued not secured by cash on hand			Percentage of cash on hand against Deposits and Notes			Rate of Discount	
		On date of Col. 1	Preceding week (or month)	Increase	On date of Col. 1 %	Preceding week (or month) %	Decrease %	Federal Reserve Bank At date %	Open market Col. 1 %
1	2	3	4	5	6	7	8	9	10

213

FEDERAL RESERVE BANK OF

FORM XXVII

The Demand for Credit upon the Bank.

MEASURED BY NET DEPOSITS (AMOUNT OF DEPOSITS MINUS BILLS OF EXCHANGE ON HAND).

Week ending	Deposits of member banks	Domestic bills of exchange on hand	Surplus of deposits over domestic bills of exchange	Percentage of domestic bills of exchange to deposits	All bills of exchange on hand	Surplus of deposits over all bills of exchange	Percentage of all bills of exchange to deposits
	Amount	Amount	Amount	%	Amount	Amount	%
1	2	3	4	5	6	7	8
Jan. 7.							
" 14.							
" 21.							
Dec. 30.							
Average Year 191....							

214

Fluctuations of The Discount Rates and Statistics Regarding Factors of The Money Market Affecting The Same.

215

The rate of discount was changed			MAIN FEATURES OF THE STATEMENTS OF THE BANK																RATES OF EXCHANGE			RATES OF DISCOUNT						
			Statements compared		Cash on hand				Fed. Res. Notes in circulation		Deposits		Bills of Exchange on hand		Percentage of cash on hand against FR. Notes and deposits				On day before change of discount rate			On day before change of discount rate						
Date	from	to	Last before change Date	Last before previous change Date	At date Col. 4	Increase or Decrease against Col. 5	At date Col. 4	Increase or Decrease against Col. 5	At date Col. 4	Increase or Decrease against Col. 5	At date Col. 4	Increase or Decrease against Col. 5	At date Col. 4	Increase or Decrease against Col. 5	At date Col. 4	Increase or Decrease against Col. 5	At date Col. 4	Increase or Decrease against Col. 5	At date Col. 4	Increase or Decrease against Col. 5	London	Paris	Berlin	Bank of England	Bank of France	German Reichsbank	Domestic open market	Difference between official rates and open market rates
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27		

Classification of Investments in Securities (Sec. 14b.)

216

Week ending	U. S. Bonds or Notes			BILLS, NOTES, REVENUES, BONDS AND WARRANTS OF															Grand Total					
				State			County			District			Political Subdivision			Municipality					Total			
	Amount	Per cent. of Grand Total	% of compulsory deposits	Amount	Due in days	Per cent. of Grand Total	Amount	Due in days	Per cent. of Grand Total	Amount	Due in days	Per cent. of Grand Total	Amount	Due in days	Per cent. of Grand Total	Amount	Due in days	Per cent. of Grand Total	Amount	Per cent. of Grand Total	% of Compulsory Deposits	Amount	% of Compulsory Deposits	
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	
Jan 7																								
" 14																								
" 21																								
Dec. 31																								
Average Year																								

Index

	Page
Accounting,	
place of	29
in branches	41
for Foreign Exchange department.....	92ff.
two systems presented	100
scope and problems of.....	100
general plan of.....	102ff.
alternative general plan of.....	129ff.
Accounting Department,	
of reserve banks.....	151
Advisory Council,	
work of	98
Application (membership)	
blank	4
Auditor,	
of reserve bank.....	25
Ballots,	
regulations for	4
Bendix, Ludwig,	
on statistics.....	170
Benton, A. A.,	
member of sub-Committee on Accounting.....	101
signs report	101
co-operates in accounting system.....	102
Bills of Exchange,	
how bought	88
statistics of	172ff.
Bookkeeping Department,	
of reserve banks	120, 148
Bonds,	
of reserve agents.....	5
of officers of reserve bank.....	25
of agents, how controlled.....	40
Borrowing,	
habits of, in relation to districting.....	9
Branches,	
rules for.....	4
foreign	5
of reserve banks, how established.....	25
modes of establishing.....	41
capital of	42
by-laws of	43ff.
directors of	43
discount committee of.....	44
officers of	44
foreign, establishment of.....	45

	Page
foreign, how managed.....	47
clearing methods of.....	8, 62
Broderick, J. A.,	
signs report.....	101
member subcommittee on accounting.....	102
By-Laws,	
general	4
for reserve banks.....	43
for reserve board.....	95ff.
of federal advisory council.....	99
Cable Transfers,	
how bought	89
Capital,	
reduction of	4
Capitalization,	
of reserve banks.....	7
average of	11
Cash,	
statistics of	170
Certificates of Stock,	
how signed	26
Chairman of Reserve Board,	
his duties	95
Checks, see items.	
Chief Clerk,	
duties of	104
Cities,	
for reserve banks.....	15
designation of, omitted.....	17
Clearing,	
plan	5
relation to districting.....	7
first system explained.....	48ff.
stamp for	53
alternative system	64
between reserve banks.....	55
views of expert on.....	68
accounting for	115, 131
Code Book,	
requirements of	100
Collection,	
detail of charges for.....	58
mode of conducting.....	66
items originating with non-member banks.....	67
time used in.....	67
accounting for	137
Collection Department,	
accounting for	115
Commercial Paper,	
discussion of	73ff.
single name	76
recommendations regarding	79

	Page
Compensation, schedule of	4
Conversion, rules for	4
Correspondence, how managed	27
Correspondents, of reserve banks, how chosen.....	90
Credit, statistics of	170
Credit Bureau, organization of	36
records of	37
use of	38
Counsel, of reserve bank.....	25
Dawson, Ralph, member of sub-Committee on Accounting.....	101
signs report	101
Deposits, statistics of	171
Designation of Cities, mentioned	4
Differential rate on paper suggested.....	77
Directors, lists of	4
choice of	17
of reserve banks, powers and meetings of.....	22
of branches.....	42
discount committee of branches.....	44
Discount Committee, at branches	44
Distributing Desk, accounting of	131
District, certificate of limits.....	4
Districting, method	6
principles of	12
problems of	13
District Map, enumerated	4
Dividends, record of	4
Domestic Business, of reserve banks	73
Domestic Exchange, see Clearing.	
Electors, Certificate of election.....	4
lists of	4

	Page
Examination,	
reserve banks.....	4, 34
of member banks, plan of.....	32, 35
of other banks.....	34
of agent	35
Executive Committee,	
of reserve banks....	.. 23
Expenses,	
levy for	4
Farnham, S. H.,	
member sub-Committee on Accounting.....	101
signs report	101
co-operates on accounting system.....	129
Federal Clearing House,	
explained 57
Fisher, E. D.,	
member sub-Committee on Accounting.....	101
signs report	101
Foreign Branches,	
how far to be established.....	85
how organized and managed.....	91
Foreign Exchange,	
provisions of reserve act.....	83
control of by reserve board.....	84
scope of operations in.....	85
methods of dealing in.....	86
manager of	87
funds for use in.....	88
accounting for.....	92, 117ff., 155ff.
Forms,	
for statistical bureau.....	187ff.
for accounting, see Portfolios I, II, and III, referred to on pp.....	102, 129
General Books,	
of reserve banks...	...150
Gold,	
how imported.....	89
statistics of	170
Governor,	
of Reserve Board, his duties...	.. 95
Installation,	
of reserve system, date for...	...101
Investment Securities,	
accounting for110
Items,	
how cleared54, 55
Key Letters,	
how used	122
Letter of Transmittal.....	3
Loans,	
Accounting for....	...104, 139

	Page
Mail Teller,	
accounting for.....	...130
Management,	
internal, of reserve banks...	. 26
Manager,	
of foreign exchange business, functions of...	. 87
Marwick, Mitchell, Peat & Co.,	
relation to accounting work.....	101
report of	102ff.
Maturity,	
of paper .	. 81
May, Max,	
aids committee .	3
Member Banks,	
examination of	32
clearing functions	49
outside city	52
must endorse paper.....	80
Municipal securities,	
discussed 81
Nominees (Directors),	
lists of	1
Non-member Banks,	
how related to clearing..... 64
prohibition on items of..... 67
Note Brokers,	
to endorse paper...	. 78
Notes,	
rules for issue.....	5
form of	5
application for	31
identification of	33
accounting for	146
Note Teller,	
accounting for...	...112, 134
Oath of Office,	
of reserve board.....	4
Open Market Operations,	
discussed81ff.
Organization,	
Certificate	4
chief features of.....	20
departments of.....	21
of reserve banks.....	22ff.
of reserve board.....	95ff.
Organization Committee,	
functions of 18
Paying Teller,	
accounting for...	...111, 132
Protest,	
in relation to clearing.....	. 62

	Page
Purchases,	
of paper	5
Railway Time,	
in relation to districting.....	7
Rates of Discount,	
statistics of	179ff.
Receiving Teller,	
accounting for	111, 134
Rediscunts,	
accounting for	105
Remittance,	
method of	52
Report,	
Genesis of	3
Reports,	
annual	4
by reserve agent.....	32
Reserve Act,	
principles of, in relation to districting.....	12
on choice of directors.....	17
on agents	30
on clearings	48
on commercial paper.....	73
on open market operations.....	81
on foreign exchange.....	83
on advisory council.....	98
Reserve Agent,	
books for	4
duties of.....	24, 30
records of	31
plan of work.....	32
examinations by	34
accounts of	126, 167
Reserve Banks,	
elements of organization.....	20
departments of	21
by-laws of.....	22
officers	24
clearing functions	48ff.
relation to member banks.....	52
to one another	55
to federal clearing house.....	57
relation to banks in other districts.....	65
Reserve Board,	
relations with agents.....	32
on open market transactions.....	81
organization of	95
by-laws for	95ff.
meetings	96
budget of	97
business	97

	Page
Reserves,	
in relation to districting.....	14
Robinson, C. C.,	
aids committee	3
co-operates in accounting system.....	101
Seal,	
of reserve board.....	96
Secretary,	
of reserve board, his duties.....	96
Secretary of the Treasury,	
accounts of	169
Secretary-Treasurer,	
of reserve bank, his duties.....	24
Securities Department,	
of reserve bank.....	153
Shareholders,	
records	4
Single Name Paper,	
how far used.....	75
provided for	76
restriction of	78
Speculation,	
how viewed by reserve act.....	74
Statistical Bureau,	
use of	39
plan for	170ff.
Stock,	
transfer	4
subscription ledger	19
Subscriptions,	
rules for	4
Tellers' Departments,	
accounting for.....	110ff., 132ff.
Time Schedules,	
use in clearing.....	68
Transfer,	
of funds	5
of stock in reserve banks.....	26
agent for	28
accounting for	113
Transfer Agent,	
work of	28
Transfer of Stock, see Stock.	
Transit,	
accounting for	135
Transit Expert,	
views of, on clearing problem.....	68
Transit Problem,	
difficulty of	64
Two Name Paper,	
how used	75
preferred	77

	Page
Unpaid Items,	
accounting for	113
Vault,	
management	27
Vice-Governor,	
of reserve board, his duties.....	96
Vice-President,	
of reserve bank, duties.....	25
Ward, Harry E.,	
aids committee	3
co-operates in accounting system.....	101
Williams, Hon. John Skelton,	
instructions of	3
Wolfe, O. H.,	
member of sub-Committee on Accounting.....	101
signs report	101
Willis, H. P.,	
member sub-Committee on Accounting.....	101
signs report.....	101
Van Vechten, Ralph,	
aids committee.....	3