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EIGHTH CONFERENCE

OF

GOVERNORS OF FEDERAL RESERVE BANKS

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EIGHTH CONFERENCE OF GOVERNORS OF  
FEDERAL RESERVE BANKS.

SECOND DAY; AFTERNOON SESSION.

Hotel Somerset, Boston, Mass.,  
August 23, 1916.

The Conference reconvened at the expiration of the recess.

Hon. William P. G. Harding, Governor, Federal Reserve Board, Hon. Frederick A. Delano, Member of the Federal Reserve Board, Mr. Olin M. Attebery, Manager Transit Department, Federal Reserve Bank of St. Louis, Mr. F. M. Hardt, Cashier of the Federal Reserve Bank of Philadelphia, and Mr. Chester C. Bullen, Auditor of the Federal Reserve Bank of Boston were in attendance with the Governors.

6-(m) Reserve requirements. Uniformity of computation and report.

The Chairman: We will take up the next topic, 6-(m), Reserve requirements. Uniformity of computation and report. Governor Miller.

Governor Miller: Mr. Chairman, that topic was suggested by the fact that a great many of our member banks oppose making reports according to the form we sent out. We thought that was the simplest form that could be devised, and those on the outlying border are familiar with the reports required by other Federal reserve banks. I thought

it would be a very good thing to discuss some uniform report and let it have the sanction of the Board, so that the requirements of member banks in that regard would be uniform and would allay any feeling that one Federal reserve bank is requiring more information than another. I have a copy of the report we are requiring, which I think is as simple as it could possibly be (exhibiting copy to the Conference).

The Chairman: Mr. Miller would like an expression of opinion as to what other banks are doing.

Governor Miller: Yes. I have no resolution to offer, but I thought that that report ought to be prepared by a committee and have the approval of the Federal reserve Board so that they might require it by virtue of the order of the Board, and not as seemingly coming from our own bank. I suppose all banks get something, and a uniform report is the main thing I am seeking information about.

The Chairman: Would you like an expression of opinion from the Governors here as to the desirability of a uniform form of report as to reserve requirements made by the Federal reserve banks?

Governor Miller: Yes.

The Chairman: Has any Governor an opinion to express as to the desirability of a uniform form for such reports? Governor Treman, what are you doing in the New York Bank, may I ask, in that respect?

Governor Treman: I really cannot tell you. Mr.

Hendricks might know.

Mr. Hendricks: We have prepared a simple request which goes out with the monthly statement asking them to advise us as to what their average daily required reserve to be held with the Federal reserve bank was for the past month. They do all the figuring. They just certify that the balance is \$25,000, for instance, the average daily balance for the preceding month.

The Chairman: That is about what we do, is it not, Mr. Bullen?

Mr. Bullen: Yes sir. We had not decided on any particular time to send it out.

Mr. Hendricks: Our idea was that they had the responsibility of the report upon them, and we did not ask them to do any more work than was necessary.

Governor Wold: I would like to ask an expression from each Governor as to what they are asking for, and if it is a weekly or monthly report, and if they are not asking for it, what they propose to do. We have not as yet commenced to ask for reserves. We contemplate doing it.

The Chairman: Following out Governor Wold's suggestion I will ask each Governor to state if they are asking for reports at the present time, and, if so, whether the reports are daily, weekly or monthly, and what the general form of such report is. Governor Fancher?

Governor Fancher: Since the 15th of June we have

had our banks furnish us with a weekly report. The report is required of net deposits for the week preceding. They mail it to us Monday or Tuesday. We get it the forepart of the week. We have them listed each day of the week, the demand deposits, and five fifteenths if it is a reserve city bank, and five twelfths for a country bank, and total them. We are getting reports from all but 25 of our banks. The 25 have not been doing it regularly, and three or four of them have positively refused to make the reports, saying that they are furnishing too many reports, and that their books are not kept in such shape and that it involves a great deal of work. They do not have their deposits in any form, and we thought that in asking a bank to render a statement of its average reserve for the month, many of the banks did not carry their books so that they can do it. It is more simple to furnish a statement and let us figure the required reserve. We are not finding that so much of a job to keep those reports up and figure the reserves and refer to the reserves in the reserve ledger and see how they check up. I think we are going to find that form satisfactory to us, and it has seemed to me about the simplest requirement we could make of the banks and still get the information upon which we can figure the reserves.

Governor Wold: As I previously stated, we have not as yet made a request except from those banks we had reason to believe were depleting their reserves, and we have asked

for reports upon the regular form that the Comptroller uses but we never contemplated asking them and have not yet decided whether it was best to ask for them weekly, daily or monthly. I am inclined to believe that this report of Cleveland is a very good one. I rather like it.

Governor McCord: We send out, as New York does, a blank, when we send a monthly statement---

The Chairman: That is in operation now?

Governor McCord: Yes sir; for some time, and has proved very satisfactory. We first started out with having a clearing house statement similar to the usual clearing house statement sent in every fifteen days, but that required a good deal of calculation on our part and did not amount to so much. There was very little change in it. So we went to the monthly system, it requiring demand deposits and time deposits, and we checked the figures.

Governor McDougal: I am going to ask Mr. McKay to answer that question for me, Mr. Chairman.

Mr. McKay: We have not been asking for any reports of reserves so far, but our idea was that when we did ask for them we would only ask the banks whose reserves we thought were being depleted, except that we might get possibly a weekly report from the banks in the reserve cities, the larger banks that would have the reserves figured anyway and would not have to do any extra work to get it up.

The Chairman: Mr. Hendircks has reported for the Federal Reserve Bank of New York. Governor Rhoads?

Governor Rhoads: We sent out at the close of July with the monthly statement a request to every member bank that they certify to us the average amount of reserves required to be maintained with the Federal reserve bank of Philadelphia for the fifteen days and get responses very promptly from banks with one or two or three exceptions. We propose to do that every month hereafter.

The Chairman: Mr. Bullen, how far have we got?

Mr. Bullen: We have not made any requests of the member banks for such information up to this time, but we have a blank that we have all ready to send out, and we will probably send it out to the country banks once a month, and we may get the information from the large city banks optionally as occasion warrants.

Mr. Hoxon: We have a simple form that we sent out on the 15th of July to be filled out at the close of business every Saturday. It merely shows the amount required to be kept in bank by the member bank, and, in another column, the amount actually in the bank on that date, according to their books. The bank cashier certifies that that is true, and we get those in once a week. There are about eighteen out of 470 members that have not yet replied. I have been going after them pretty steadily and propose to get replies from all of them. There are about eighteen that have not sent us in any reply for any week since July 15. The rest of them responded, most of them, with absolute regularity, with but a few missing a week here and there.



Governor Seay: For several months, Mr. Chairman, we have been receiving weekly reports from our member banks. The statement giving the time deposits and the demand deposits and the amount of the balance in our bank is shown by their books. We do all the computing.

Governor Kains: We send out the forms for weekly statements and get them in regularly as of Friday of every week, on an average; but the banks that want to furnish us with the figures for every day have a place there to do so. They all, with few exceptions, respond.

The Chairman: Governor Miller, do you want any action on this question.

Governor Miller: No.

The Chairman: Governor Harding, have you any suggestions to make?

Governor Harding: I believe not.

Mr. Delano: I wanted to ask Mr. Miller whether he shows total deposits and whether he makes any distinction between demand and time deposits?

Governor Miller: If you will look on the formula, you will see that it is supposed to be worked out according to the Comptroller's formula. They put down the actual amount on which the reserve shall be counted, and we tabulate the reserves.

Mr. Delano: Are you getting it filled out correctly?

Governor Miller: Some of them fill it out correctly and others cannot do so. And that is what I would think

you would go up against by asking a member bank to calculate its own reserve and send you the sum.

Mr. Delano: You used a form very similar to Cleveland's for a time; I think two months, did you not?

Governor Miller: No, we never used this, but we used your form 43 for a long time.

Mr. Delano: I thought it was very similar to that.

Governor Miller: Yes. For a long time I think that was Mr. Harding's form we sent out, for almost two years; but on July 15 we changed that form to this. Of course some of them kick about taking any form, and if it were the purpose to be anything like accurate, I am sure that our member banks could not, half of them, make it out accurately, if they wanted to.

The Chairman: They have to figure their own reserves?

Governor Miller: We figure that for them if they furnish us the deposits. We figure the reserve.

The Chairman: But I mean, in the ordinary course of business?

Governor Miller: Oh, yes; they do not do that.

Governor Fancher: Some of them do not know how.

The Chairman: How do you do in your district, Governor McCord?

Governor McCord: We send out a form when we send the monthly statement, and we find it works very well, because when they acknowledge the monthly statement they send in the reserve calculation.

The Chairman: They make the reserve calculation?

Governor McCord: They send in the amount of their demand deposits and the average amount of time deposits and make their calculations, which we check.

Governor Harding: You have the data to check by?

Governor McCord: We have the data to check by and we check it by that.

The Chairman: Do you not find that would work fairly accurately?

Governor McCord: Fairly so, but there is a campaign of education, sir, which we started. Half of them were wrong, nearly, but we very diplomatically went back and got it up and straightened it out so that it works all right.

Mr. Chairman, I think it would be a good idea to have the centers furnish a weekly statement because they furnish it to their clearing house, and we would take such reserve cities or large cities and have the weekly statement, which is a very advantageous one. As for the others, I think once a month is often enough.

Mr. Hendricks: You only need the figures once a month?

Governor McCord: Yes.

The Chairman: Do you want any action on this, Mr. Miller?

Governor Miller: No sir.

(n) Penalties for encroachment on reserves.

The Chairman: You were also responsible for (h), Penalties for encroachment on reserves.

Governor Miller: Of course, that brings up a very serious question about how and when we are going to assess those penalties. We were under the impression that the Federal Reserve Board's circular contemplated that the penalties would begin, but up to this time we have assessed <sup>no</sup> penalties.

(Informal discussion followed which the stenographer was directed not to report.)

Governor Miller: The question is we have got all the banks in our district thinking we were keeping a pretty good tab on them, and they are keeping their reserves up; but if we do not commence to tax somebody just as an example, we will lose our ground.

Governor McCord: Our experience was that we had more breaches of the agreement with regard to reserves during the voluntary system of clearings than we have had since. Those who are sending us their figures keep the reserves intact. The only ones we have trouble with now are those who are not sending us the items, sending them through some city and covering with exchanges on those cities.

Governor Miller: The only reason I suggested this topic was to save my own face in suggesting to them that we were going to charge them up with a penalty.

The Chairman: Of course, it has been a very perplexing and embarrassing matter, but I think we have got to squarely face the fact that the time is coming when we have got to enforce these penalties and see that reserves are maintained. The question arises as to when we shall do this, when the check collection system has in our judgment gotten to be so highly developed, and these statements of reserves coming in regularly---

Governor McDougal: I do not believe we could make any inflexible rule in that direction now or in the future. I think that is a matter for each bank to determine in connection with each case, and I think that Governor Miller, if he has a case where he ought to apply the penalty, should do it at this time.

The Chairman: Will you make a motion embodying that idea, Governor McDougal?

Governor McDougal: I move that we do not undertake at present to formulate any inflexible rule with regard to when reserve penalties shall begin to apply, but that each bank shall use its own discretion, and, considering the cases as they arise, feel at full liberty to apply the penalty if they think it should be done.

Governor Miller: That would leave the matter up in the air, because it would leave it entirely discretionary, and it would not be applying the same rule to all member banks. Unless we go through as a mathematical proposition and attach this penalty, we are liable to get ourselves

in very bad repute.

Governor Seay: Further than that, if we allow a motion of that kind to go on record we array ourselves against the law. It is not within our discretion, wholly, at least, as to whether we shall apply this penalty or not. The law is specific on that, possibly more specific than it is upon many other points; and if the rule is once fixed by the Federal Reserve Board it is the duty of the Federal reserve banks to enforce the law. I believe it would be safer for us not to go on record as leaving anything within the discretion of the Federal Reserve Banks, but if we are going to use it, why, use it, and say nothing about it. It is one of the most important subjects with which we have to deal, and I take it that we shall have to follow the law; and, what is more, it may be very doubtful about the legality of the policy of fixing an average balance for the month as the proper basis. The law does not say so. Whenever a bank uses its reserve, it uses it subject to the penalties; and while all of those things must be enforced in the light of reason, still I have very grave doubts whether the average balance per month is correct, when perhaps several times during that month a bank might utilize its whole reserve, as it did in the case of Governor Miller. It is not authorized to do so by law.

Governor Wold: The paragraph applying to that reads as follows:

"The reserve carried by a member bank with a Federal

reserve bank may, under the regulations and subject to such penalties as may be prescribed by the Federal Reserve Board, be checked against and withdrawn by such member bank for the purpose of meeting existing liabilities."

Then it provides further:

"That no bank shall at any time make new loans or shall pay any dividends unless and until the total reserve required by law is fully restored."

That is the paragraph under which a penalty may be assessed, as I understand it. It depends upon rules or regulations which may be promulgated by the Federal Reserve Board.

Governor Seay: Not the rules and regulations, but the penalties may be fixed by the Board; and then the bank is automatically subject to it under the Act.

Mr. Delano: The Board has already approved the suggestions made by the Governors.

Governor Seay: Yes sir. Now it is a question as to whether the bank is subject to it and under what conditions it is subject to it.

Governor Harding: Would it be your idea to have a fixed penalty or a fluctuating penalty based upon the discount rate?

Governor Seay: I think most of the banks have taken their rates for mercantile paper and have added to that.

Mr. Delano: Some are two per cent higher than the highest rate.

Governor Seay: Not less than six per cent. There are a great many banks that would be delighted to use their reserve if they could use it at the discount rate.

Governor Miller: There are several banks that have issued their regulations, and hardly any two of them are exactly the same. One is two per cent higher than the maximum rate. That was according to our circular, and others have two per cent plus the ten day rate, and it figures out all kinds of percentages.

Governor Seay: Was it in all cases less than six per cent, Governor Miller?

Governor Miller: No. One or two banks have received no circular on it, as far as I know.

Governor Seay: But I understood the ruling of the Board to fix a minimum of penalty that is not less than six per cent.

Governor Miller: But, Governor Seay, the Board has never fixed a penalty at all except that they have tentatively approved what was discussed at the transit meeting in Chicago. When we got ready to make our debit entries we discovered just what Governor Wold has read, that the Board must fix the penalty, and we hesitated about making any charge because the Board had never come out and stated or promulgated the penalty.

The Chairman: Is not the simplest solution of the matter to leave it as it is, and the Federal Reserve Board will exercise its authority when they are satisfied that



the conditions of the clearing operation have reached a point where it can be done as a practical matter?

Governor Miller: That would suit me exactly.

Governor Harding: There is a general opinion that the Board <sup>to</sup>ought take this matter up and issue a circular regarding it?

Governor Miller: Exactly; and send it to every member of the Conference.

Governor Seay: At the last conference the Board gave the Governors to understand that they would consider and allow some flexibility in the penalties in the various rates, and would permit the banks to suggest to them what they thought was a reasonable penalty. For our bank, our Board of directors have formally acted upon the matter and have submitted their action to the Federal Reserve Board, and they have fixed the penalty to be enforced by our bank.

Mr. Delano: That is true as to more than half of the banks. They submitted to the Board a penalty and asked us to approve it and it was done. Kansas City is not one of the banks that submitted a specific penalty, but more than half of the banks have. I have felt that we had not worked out the clearance problem far enough, nor have we worked out a daily or weekly or monthly statement of reserves actually held sufficiently well to warrant us in promulgating anything generally. For six months we have been suggesting that progress ought to be made on

reserve statements to be made by members, and you have heard just now the disparity in the style of reports. Some of them trust to the banks themselves to maintain the reserves; others calculate it from the figures sent in. I do not think that we ought to be hesitating in this thing. Some banks may be a little farther along and more ready to impose penalties than others. We think it is an essential part of the clearing problem, and we are ready to act on it just as soon as you are ready to have us act on it. We would rather be patient with you if you are making headway.

Governor Miller: Then you are of the opinion that it would be well for the Board to establish some uniform form or manner in which the member banks should report to the Federal reserve banks, as in my topic just before this one, and then, that being perfected, the Board will announce at some future time when the date is that the penalties shall begin?

Mr. Delano: Yes sir.

Governor Harding: I presume the minutes of this meeting will be sent to all the Board, so we will have something of record?

Mr. Delano: I think it would be a good thing for a committee of the Governors to be appointed who will take hold of this subject and discuss it with us, because there are two angles to it. First, the report of the member banks as to what their reserves are; second, as to how the rates shall be established. Therefore it

is necessary that the rate should be the same in New York as it is in San Francisco; but that can be adjusted, as was suggested, I understand, by the Governors' conference some time ago, that it should be two per cent higher than perhaps the highest ninety day rate. I do not see why that is not a good way of fixing it.

Governor Seay: I consider that we are fully prepared in our district, since we have been receiving weekly reports for several months, to begin the enforcement of the penalty, and we shall commence to do it from the first of the month. There were so many accounting intricacies at the beginning of the month, and so many errors, both on our part and on the part of the member banks, that we heretofore found difficulty in proving whether the violation was due to the bank or due to us. But we think from the first of the month we are now prepared to enforce the penalty. I do not see how we can conduct the collection system unless we are prepared to enforce it.

The Chairman: Might I suggest that the Federal Reserve Board address an inquiry to the different Federal reserve banks as to what they would consider a reasonable penalty, and when they feel it can be put in force? Undoubtedly there should be a committee to meet the Federal Reserve Board and have the matter settled.

Governor Miller: I move that the Chair appoint a committee to cooperate with the Federal Reserve Board on the question--- a committee of three.

The Chairman: Is there not a motion before the house?

Governor McDougal: In view of the fact that by the withdrawal of that motion it will leave us in exactly the same position as if the motion were carried, I am perfectly willing to withdraw it.

The Chairman: The motion is withdrawn.

Governor Miller: I move that a committee of three be appointed by the Chair to cooperate and confer with the Federal Reserve Board on uniform reports of member banks, and the announcement of the Board to the member banks that the penalty will begin at a certain date.

The Chairman: Might I simplify that resolution to the effect that a committee of three be appointed to confer with the Federal Reserve Board in the matter of enforcement of penalties for encroachment of reserves?

Governor Miller: And uniformity of reports on reserves. That is a very important part of it.

Governor McDougal: And the fixing of a penalty, I would suggest there, Mr. Chairman, because I think we can easily see ahead of us the possibility of cases arising wherein the present penalty would not hold them.

The Chairman: The fixing and enforcement of penalties for encroachment on reserve---

Governor Harding: The Comptroller of the Currency showed me the other day a circular he had sent out to all national bank examiners, and in order not to put balances

with Federal Reserve banks at a disadvantage as compared with balances of reserve agents he has instructed national bank examiners in computing the reserves of member banks as they examine them to accept at their face value, according to the statement shown by the bank books, the balances that the bank claims to have with the Federal reserve bank, verifying that just as he would the balance of the approved reserve agent, at the same time advising each member bank that while the Comptroller's office accepts the bank's books as to what its reserve with the Federal reserve bank is, as far as the Federal reserve bank is concerned, those balances are computed according to the books of the Federal reserve bank, and if there is any actual deficiency they will hear from the Federal reserve bank and the penalty will be enforced.

The Chairman: The actual deficiency from whose point of view?

Governor Harding: From your point of view. He if makes it very clear that the examiner will carry out his instructions there will be no confusion.

Governor Wold: I will raise no question so long as their own books show the reserve.

Mr. Delano: He is not to do that unless you are going to give the advantage to the banks that are now holding the reserve.

Governor Wold: But they will not have that advantage if we take that view---

Mr. Delano: Yes, I know; but they still have optional reserves until November, 1917 that they can hold with other banks. We might change that rule a year and three months hence.

The Chairman: In the interest of progress, let me state that there is a motion before the house. Is the motion seconded?

Governor Treman: I second it.

(The motion was duly carried.)

(o) Method of dealing with member banks that deduct exchange.

The Chairman: Governor Miller, you are responsible for (o), Method of dealing with member banks that deduct exchange.

Governor Miller: We have one member in our district, the First National Bank of York, Nebraska, that has charged us exchange on everything we have sent them since December, 1914, and he has got a bill against us of \$658 now, just as regularly as the reconciliation blanks are sent. If we send him ten items of \$10 each he charges us 10 cents on each one of the items.

Governor Wold: Does he do that now?

Governor Miller: Yes. The question that came to me is that we have taken the matter up with him in every diplomatic way. I fed him for a week down at Kansas City, and I thought sure we had him. The next month we discovered that item again, and we have written to the Comptroller

about it. We took it up through the chief examiner and he made a special examination of the bank, which is one of the best banks in Nebraska; and we have taken it up with our board, and we do not seem to be making very much progress. That will spread very rapidly in Nebraska. That is bad seed to sow, and we ought to have some way of getting the Comptroller to write that man a letter saying something like this, that that item appearing in the next published statement as an asset will be regarded as a misrepresentation of his condition---

Governor Harding: I talked with the Comptroller about that very case.

Governor Miller: What did he say?

Governor Harding: He did not commit himself, but indicated that he had a formal letter from you setting forth all the facts, that he would notify this bank that the last statement showed a certain amount due from the Bank of Kansas City and the Federal Reserve Bank of Kansas city advised him from time to time that that amount is not due, and that he must not show such a misrepresentation on his next statement.

Governor Miller: That is the thing to do.

Governor Harding: He is not going to do it unless you send him a clear cut indictment stating all the facts.

Governor Miller: We would have taken that matter up formally with the Comptroller, but we thought we had passed it through.

Governor Harding: I suggest that you take it up with

him in that way right away.

Governor Delano: On July 12 I wrote to you and you answered some questions that I asked you on July 18. Then I prepared a letter to you along the lines which Mr. Harding has suggested. In order to be sure that I had the law department with me I sent it in to the law department. I found my letter had never been sent, that the law department took it off on a vacation and he has got it there. I telegraphed to find what had become of it and received word that he hoped I would hold the matter up until he got back, which will be the first of the month, because he had some suggestions to make. So you will hear from it pretty soon.

Governor Miller: It is in the grinding?

Mr. Delano: Yes.

The Chairman: Does that satisfy you, Governor Miller?

Governor Miller: Yes sir.

Mr. Delano: There is a similar case in Wyoming.

(Informal discussion followed which the stenographer was directed not to report.)

The Chairman: Let us pass to the next question.

(p) Immediate availability of drafts on Federal Reserve banks.

The next question has been put on the program by Mr. Delano and by various governors of the banks. Mr. Delano sent a letter to all the Federal Reserve Banks



bearing on this matter. The matter has been under discussion, and if agreeable to Mr. Delano I will ask him to bring the matter before the conference.

Mr. Delano: I confess that I am a good deal interested in this matter; and one reason that I am interested in it is that it seems to me an answer to a statement that is very frequently made that the banks that are getting the greatest benefit out of the Federal Reserve System are the state banks located in the cities where the Federal reserve bank is situated, where as the little country bank sees very little profit in the system.

It seemed to me that here was something that we could offer the country banks, a service that we could offer them. Although that is my general view of the subject I do not want you to think that I have not an open mind on the subject. I have been trying to get the opinions of men who are opposed as well as those who are in favor of the thing. I am anxious to have all the facts before us in order to arrive at a fair conclusion.

Among the men to whom I wrote on this subject was Mr. Forgan, president of the First National Bank, or formerly president, and now chairman and member of the Advisory Council. I am going to read, if I may, the answer that he wrote me, although it is opposed to this thing. It not only states the conditions, but it is to a great extent an argument in favor of the service.

He says:

"The furnishing of bank drafts for both domestic and foreign exchange purposes has always formed a branch of the legitimate business of banking on which banks have earned a fair profit. Quite a considerable proportion of this profit is derived from what has come to be termed the 'float', meaning thereby the profit on the funds in the hands of the banks represented by the enormous number of their drafts always outstanding, which is earned between the dates of their issue and the dates of their payment. The longer bank drafts are kept afloat the more profitable are they to the banks that issue them. For example if a bank sells a draft on New York to a customer who remits it to San Francisco to a payee who can use it there as cash it is more profitable to the drawing bank to issue it on New York than it would be to issue it on San Francisco, even if it had available funds in both places. The draft on New York would be outstanding for over five days longer than the draft on San Francisco before it could be charged to the account of the drawing bank."

In the statement I sent to you gentlemen I think I quoted the figures which showed that about 99 per cent of the National Banks in the country had New York City accounts, and about 65 to 70 per cent of the State banks would have New York City accounts.

"This, however, presupposes that the funds against which the drawing bank makes its drafts are earning interest. Therein lies the impracticable part of the proposed use of

drafts on Federal reserve banks for domestic exchange purposes. The funds on deposit in them earn no interest; However advantageous the 'float' might be to the Federal reserve banks or to the public there would be absolutely no profit in the issue of them to the banks and they would lose their present legitimate profit on that branch of the business."

In other words, as I understand Mr. Forgan's argument, even if we gave this privilege, the advantage is so much greater to continue doing business in the way it now is that the banks would practically not make use of the new method. If that is an argument, then I do not see what the objection can be to giving this as an alternative privilege, because there are a good many banks asking for this privilege.

"Already the Federal Reserve System has eliminated the legitimate charges heretofore made by its member banks for issuing their drafts in remitting to the Federal reserve banks for checks drawn upon themselves and payable at their counters only. The proposition that they shall also supply their customers with drafts on the Federal reserve banks for purposes of domestic exchange, which involves their maintaining large non-interest bearing balances to their credit at the Federal reserve banks in excess of their reserve requirements, would seem to be rather 'rubbing it in', especially as the Federal reserve banks belong to the member banks, being established and

maintained with their money."

Governor Harding: There is no objection to their charging a premium, though, is there?

Mr. Delano: Mr. Harding and I have no objection whatever to the member banks charging a fee. I think that is a highly proper form of revenue.

Governor Seay: And the law permits it too.

Mr. Delano: (Continuing) " It would seem therefore very unfair that the Federal reserve banks should undertake to prevent their member banks from earning reasonable profits for their legitimate and actual services to their customers."

The answer to that Mr. Harding has made. We do not want to prevent their earning, but they would earn it in a different way. They would earn it by charging their customer something instead of earning it in float.

Governor Wold: Unless they could sell to their customers something that is better than the customers' own draft, drawn on the banks, they have got nothing to charge on.

Mr. Delano: (Continuing reading): "Banks in Great Britain will supply anyone with a draft on London without charge for practically any amount which is to be used by the purchaser in paying a foreign debt. They can afford to do this because the draft is drawn against an interest bearing balance which affords the drawing bank the interest on the amount of the draft for the period it is out-

standing. Similarly any bank in Chicago would be glad to sell its draft on New York without charge if the draft in the first instance is to be remitted west and will similarly earn a legitimate profit on the transaction. But what profit would a member bank have in issuing its draft on the Federal Reserve Bank if it had to keep a non-interest bearing balance on deposit always sufficient to cover all the drafts it draws?"

In other words, that is repeating the argument that we made before, that they would not have any interest in keeping that excess deposit in the Federal Reserve Bank; they would rather keep it in New York or Chicago or somewhere else, and draw against that. If that is true, then the Federal Reserve Banks are not going to be called upon to do much of this business.

Governor Miller: Could not the drawing bank figure on the average float itself and keep just that much less in the Federal reserve bank? He would get the benefit of the float that way.

Mr. Delano: In the suggestions we made we suggested that there should be a daily notification by the Federal reserve bank.

"It would make no difference to the drawing bank whether the drafts were presented the day they are drawn or months thereafter. The result of course would be that the Federal reserve banks would ultimately have on deposit all the time all the funds represented by all the outstanding drafts drawn by all their member banks; or in other

words, the Federal reserve banks would reap all the benefit of the 'float'. In the aggregate this would become an enormous fund, a large part of which could be reckoned on as a steady deposit and could be used just as other deposits are used. This would be greatly to the benefit of the Federal reserve banks, but it would be at the expense of the profits now earned by the member banks.

"We in the First National Bank see to it that our daily remittances of checks get to our credit in New York with the least possible delay. On the other hand, even those of our drafts which are sent direct to New York having to pass through the individual hands of the payees who deposit them in their own banks, average at least on a day's delay longer than our remittances to cover them. Then, of course, many of our drafts are remitted to different parts of the country before they are finally sent to New York and we gain several days on them. A careful estimate made from the monthly reconcilements of our New York accounts shows that between August 1, 1915, to July 1, 1916, our average float of New York drafts amounted to \$3,033,673. On this amount we of course earned two per cent or a little over \$60,000. Bank profits on outstanding drafts drawn for exchange purposes, commonly known as the 'float' are earned from the interest paid on the balances against which they are drawn."

My point is simply this: A bank like Mr. Forgan's will always prefer to keep its accounts against which drafts are drawn in New York, and there is no objection to that;

but there are a good many little banks in the country who say that it is going to be more difficult for them to keep outside accounts, outside of Federal Reserve Banks, and we have had more than one complaint. I think of one from Union City, Tennessee, in the St. Louis District, where they sent us a letter from the Hanover Bank from a man who had formerly kept an account with the Hanover. He had decided, as he had to keep his reserves with the St. Louis bank, that he would discontinue his Hanover Bank account. The next time he tried to send a draft against the Federal reserve Bank of St. Louis, naturally they gave him deferred credit. Deferred credit would be all right if they treated New York the same way, and they would all be in the same boat; but so long as the draft on New York is given immediate credit, besides this advantage of interest, I do not see where you are doing anything for your members as a service unless you give them equal treatment.

Governor Miller: Are your suggestions with reference to the New York account only, or each of the other eleven banks?

Mr. Delano: I only mentioned New York because that is the most prominent one.

Governor Miller: You would not confine it to New York?

Mr. Delano: Oh, not at all.

Governor Harding: The theory of it is this: It is only on checks of any considerable size that this proposi-

tion would apply. Just assume a case of a bank down in Sweetwater, Texas, having no account anywhere except with the Federal Reserve Bank of Dallas, having closed all its other accounts; it is a small bank and has no exchange anywhere else. A customer comes in and wants to buy \$2500 on New York. What is the man going to do? The Sweetwater Bank can say, "We have no account there. You had better ship the money by express." "Can you use Dallas?" "No, we cannot, You have got to use New York." "Must we ship the money by express, or would it not be permissible for the Sweetwater Bank to draw against its reserve account, the necessary reserve account, if you please, in Dallas, stamp on that check, "collectible, if desired, through the Federal reserve bank in New York", give it to the customer, charge him a premium for it, just enough to justify his excess reserve and tell the customer, "This is the same as New York exchange." Then he will send a notification by mail that night to the Federal Reserve Bank of Dallas giving them an abstract of the transaction. Say, after this check is stamped "collectible at New York without deduction; please charge our account with the amount of this check and please send a night message at our expense to New York authorizing them upon presentation to purchase this check for your account for the Federal Reserve Bank of Dallas." The Federal Reserve Bank of Dallas is carrying an account for exchange purposes or arranging through the gold settlement fund.



Governor McDougal: It seems to me if that plan were followed a better procedure perhaps would be to have the bank drawing that check, when it did advise the Federal reserve bank in the district, to simultaneously advise New York in the same way so that the mail advice would reach there---

Governor Harding: There is no objection to that; but I should think the New York man would want something better than the mere advice of the drawing bank. They would want some authority from the Federal Reserve Bank of Dallas to act as its agent in taking this check, and the last endorser in New York would want some protection; because when a check is drawn payable on a bank in New York, the last endorser of the check, as soon as it passes through the clearing house, is released from all liability.

Governor McDougal: There would be liability on the part of somebody until the check reached its destination.

Governor Harding: No. After New York has handled the proposition, even if the drawing bank should say so while that check was in transit back to Dallas, it would not affect the proposition. Our counsel has advised us on that.

Governor McDougal: Suppose that check were a forgery. It seems to me they would have to pass on the signatures under certain circumstances like that.

Governor Harding: I understand this is applied to checks that are large enough and where the exchange warrants the sending of a telegram. The code might be worked

on it, the number of the check given and the date and the man in whose favor it is drawn, and the payee and all of that.

Governor Seay: Mr. McDougal is supposing that the New York bank would have to know the signature. How about the case of a bank out west that receives a check on New York and gives credit on it. It does not have to know any signature. It gives credit on the face of the bank that drew it. If you will apply that illustration to a check used in New York--- a check drawn on New York is more advantageous to another New York Bank than anything else you can give it, but this exchange is to be used broadcast all over the country.

I am quite confident that if a distinguishing form of check were used, known as Federal reserve exchange, any bank drawing that check would have to draw it against an excess balance, and it would advise its own Federal reserve bank of having drawn it, and it would agree with the Federal reserve bank in advance that it would charge it up to its account upon receiving advices. If that form of check were used it would be known all over the country by whomsoever received that that check was drawn against an excess balance on the Federal reserve bank and it had been charged to the account of the drawer.

Governor Harding: Our counsel points out that in taking up this check it is not paying the check; it is simply cashing it. It has got to satisfy itself as to the party to whom paid.

Governor Wold: The responsibility of an endorser?

Governor Harding: Yes.

Governor Seay: If Minneapolis receives a check on New York City drawn by another western bank it does not know anything about the signature; it does not have to know it. It usually passes it to the credit of the bank that sends it and does not pay until it gets to New York.

Mr. McKay: That check is not paid in Minneapolis. The other one is payable in New York.

Governor Seay: It would be current in New York at par. It would be paid to the Gold Settlement Fund. It seems to me that that is one of the essential things for carrying into effect the spirit of the Federal Reserve Act. We will have to be frank in the matter. It is going to operate more against New York than against any other city in the country, but it is going to be the chief means of building up and keeping within the district the bank funds of the district, and more surely than anything else in the Federal Reserve Act it will make the financial districts of the country independent.

Governor Wold: Would not any Federal reserve bank of any district find it convenient just to carry the balances with the New York bank just for exchange purposes?

Governor Seay: I do not think that would be necessary because there would be two things for the same purpose. There is the gold settlement fund---

Mr. Delano: Yes; you have the gold settlement fund.

Governor Seay: The gold settlement fund is a step in

advance of anything that has ever been attempted in this country or any other country.

Mr. Delano: Unless we use it we do not get its full utility--- unless we put it to that sort of use.

Governor Seay: We do not. I have the very highest admiration for the conception which has established the Gold Settlement Fund, and I believe it is a means by which all of our Federal reserve banks can instantly obtain credit for anything they have on another Federal reserve bank. That can be instantly done. I do not know anything which would be more conducive to keeping the bank funds of the Fifth District within the Fifth District; and the same thing as to Boston and Minneapolis and Chicago. I do not see why the banks west that now keep balances in New York would want to keep balances in New York. They would keep them all in Chicago if the Federal reserve exchange were as current as New York exchange.

Mr. Delano: I think Mr. Forgan's letter answers that. If they could keep their balances in London they would keep them there. The farther away the better. They get the interest on the float while it is afloat.

Governor Wold: It is to accommodate the smaller banks. The bigger banks will not use this after November 1917. It is absolutely necessary for us to protect the small bank in some way and afford it a means of selling exchange through a draft on the Federal reserve bank of its district. I think it is done with safety, without

Any doubt.

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The Chairman: Governor Treman, I notice that you are one of the propounders of this inquiry. How do you feel, in New York, about it?

Governor Treman: I do not know that I am quite competent to represent New York, because I have been on the job so short a time. I can give you my own personal views, but I would not want to commit anyone else to them.

It seems to me, in the first place, that it would be very wise to postpone the inauguration of this for perhaps the entire year, or until November. That would be my first thought, because we are in the midst of a development of a new system. You are at the present time operating against a small bank. As a matter of fact, there is a certain amount of float, a very large amount. I suppose it is fair to say that the large banks, principally in New York and Chicago and in the reserve cities have bought that float in the past. The small bank has thought that the big bank bought it out of its own funds. It strikes me that the small bank has been paying for that float by having balances in different places. They have been getting two per cent, and in many cases it has been counted as reserve, and they are losing the difference between the two per cent and the five or six or seven or eight per cent that they could have loaned their money for in their own district. So it is not fair to say that the small bank has not really been paying for that float.

Taking the instance of the bank at Sweetwater draw-

ing on Dallas, in the first place so much publicity has been given to the Federal reserve bank that anyone who knows anything about that draft knows that the draft is protected by a balance kept by the Sweetwater bank in Dallas, and probably an excess balance kept there, so that as far as being good is concerned, I think it will circulate throughout the United States. You take the ordinary commercial house which is accepting drafts and checks all the time, and they turn them into their banks. But in a great many small places those checks circulate as currency and they pass one to the other; and so long as it has been a New York draft there has been no question about the circulation of that as currency. It seems to me that in so far as that is concerned, a draft on a federal reserve bank, any one of the twelve, is going to circulate among the commercial people freely, just the same as a New York draft.

At the present time most of the banks, or the larger proportion of the banks are still keeping accounts in New York and Chicago on in the reserve cities, just as they have been, because they are feeling out the conditions, and it seems to me before we take any radical step or try to take another step forward, we can go along slowly and study the thing a little more. If you will look at it in one way, it seems to me that it is for the transfer of credit or ~~money~~ from one point to another, and what should be a proper charge? It does not make any difference. We

have been having a lot of rules. Between manufacturer and jobber there is a question of freight that always comes up. It has always got to be a matter to be adjusted. As between Manufacturer and jobber or the jobber and retailer there is a question as to whether it is to be paid in funds current in the place where the buyer lives or where the seller lives. It is a question of who pays for the transfer of that. I do not think that you are working any really great hardship except that you are breaking up a custom which has been instituted and inaugurated in the evolution of the United States Banking system that has been going on for several generations, and to that extent you are arousing criticism and adverse comment, because anything that interferes with the course that has been pursued is subject to criticism and comment. Especially with the small country bank you must recognize the caliber of most of the men who are running such banks, the very small bank of 25 to 50, thousand dollars capital or less.

My thought is that if you experiment with this thing during the coming year you will arrive perhaps at a very wise conclusion if you take time to study it still further.

In New York there are things you want to consider. This question of the Gold Settlement Fund, for instance. I am very much concerned at the present time with the Federal Reserve bank having \$375,000,000 in gold. It ought to have a good deal more than that. We are not

accumulating gold in any amount. Our credit balances in New York with the clearing house in May, 1915, up to and including July, amounted to \$292,000,000 at the clearing house, and the debit balances are \$20,000,000. In other words, we had a credit balance of \$272,000,000. We paid out everything in gold and we received silver and legal tender.

There are great questions in regard to the flow of gold and the effect of having gold in the country, on all those intricate things, but if we take a little more time to study these questions and go a little more slowly we will come out ahead. If you want to have drafts on New York paid at par, it seems to me that you could arrange some way that there should be a discount for the time in which the New York bank would collect that and discount it. It is a perfectly fair charge for the use of the money, when we come to analyze it, and in every place where there is a delay or a deferred credit it seems to me that you have got to recognize that that is a charge for the collection. I do not know that I make my meaning clear, but I do think that we should go very slow in adopting this proposition. If you are going to handle a draft payable in New York, for instance, of the Sweetwater bank on Dallas, payable in New York, it seems to me the Sweetwater man should advise the Dallas Bank that he has paid that draft, that the Dallas Bank can charge it up against his account or put it in a deferred debit until



it comes back to him. When the man in Sweetwater draws that he should notify the Dallas Bank and the Dallas Bank should notify New York that there has been such a draft issued, and the New York bank, in my judgment, should not pay that until they get the receipt from Dallas, and if the notice from Dallas does not get there until the day after the draft gets there the draft will be held until they get the formal notice from the bank on which it is drawn.

Governor Harding: I agree with you in that, fully.

Governor Kains: It seems to me that there ought to be a basis of settlement through the gold settlement fund and that all that float should be in the gold settlement fund.

Mr. Delano: We are ready to do that any time.

Governor Kains: That would make a sound transaction of it and the benefit would be to the gold settlement fund.

Governor McDougal: I do not believe you could clear that up entirely ---

Governor Kains: When the drafts are drawn, the federal reserve bank on which it is drawn would credit the gold settlement fund and settle it into that fund.

Governor Treman: It seems to me there is some basis.

Governor Kains: Yes.

Governor Seay: Every Federal reserve agent can get gold. If it were deposited by your member banks in the

clearing house you could pay legal tender and you would get gold for every dollar of it. That would be one means of the New York bank covering gold into itself.

The Chairman: Mr. Hendricks has given this matter a great deal of study, I know, and I should like to hear from him about it.

Mr. Hendricks: Mr. Aiken, the situation as I see it is this. This whole subject seems to affect New York more than any other Federal reserve bank. The New York funds have been the one thing that has been current all over the United States. It is safe to assume, since you are talking about drawing and making immediately available, that when drawn on Kansas City it will be made payable to New York in the majority of cases.

Governor Seay: Oh, no.

Governor Wold: I do not think so at all.

Governor Seay: The only reason it goes to New York is that it is drawn on New York; and if it is drawn on the other Federal reserve banks it may be sent anywhere in the country, but may never get to New York in one case out of ten.

Mr. Delano: Within the last two months I had a bill to pay in Idaho and another one in Alberta, Canada. In both cases my bank gave me drafts on New York. I said, "can you not do better than that?" He said, "New York is at a premium. That is a proper thing." It is just like Mr. Forgan's argument. The customer wants San Fran-

cisco exchange. He gets New York exchange because it will stay afloat longer.

Governor Harding: I do not suppose there is one out of ten that is drawn on New York that goes to pay a bill incurred in New York.

Mr. Delano: We are perfectly willing to have all of our drafts payable in New York drawn on New York; and if this is to be a regional system we want to have the central bank of the district perform the services of the district.

Mr. Hendricks: In that case, of course, there are interdistrict matters to be considered. That money has got to be transferred---

Mr. Delano: Excuse the interruptions.

Mr. Hendricks: What I was getting at is this: Conditions will arise in New York City, as soon as the exchange rule is in effect, that a check drawn on Dallas is immediately available in New York and it will be subject, in my opinion, to an exchange charge. The simple reason is that I do not believe for one minute that the New York City banks are any less jealous of their deposits than Chicago or St. Louis or New Orleans, and the clearing house will immediately, in my opinion, impose an exchange charge upon every such check that comes into New York City.

Governor Harding: Even though it is immediately available in New York?

Mr. Hendricks: It does not make any difference, be-

cause these checks can be drawn anywhere in the United States, and these New York accounts will disappear, and they will never sit idly by---

Mr. Delano: I do not think they will disappear for the reason Mr. Hendricks has stated, that the bank that can afford to keep a New York account and get two per cent will certainly do it. I am only looking out for the fellow that cannot afford the New York account.

Governor Seay: One very important consideration, Mr. Delano, is do the member banks want it? That would answer Mr. Forgan's argument, if they did. I am of the opinion that the banks in our district want it overwhelmingly. I am of the opinion that they look upon it as I have tried to express myself here. I am convinced beyond any proof to the contrary that it would be overwhelmingly to the financial advantage of our district, and I think it would be the same thing with any other district except New York.

Mr. Hendricks: I do not believe it would be to the disadvantage of New York?

Governor Seay: I think it would, because I think a very large volume would be kept in the banks in the reserve cities of the country.

Mr. Hendricks: I am speaking of the New York Federal reserve bank. It is a little to our advantage; there is no question about that.

Governor Seay: It seems to me just as plain as A,

B, C, as far as the banks of the reserve cities of the country are concerned, that they stand to gain immeasurably by it.

Governor McCord: Custom has made New York exchange float at par.

Governor Seay: The National Banking System has made it--- not custom so much as the National Banking System; the banks that carry that float from two to four days and credit it on their books and draw against it.

I can see no other way out of this proposition than to have a daily gold settlement, absolutely, and any checks drawn on a Federal reserve bank reaching another Federal reserve bank be immediately available.

Governor Fancher: I believe that the time is approaching when we have got to provide our small banks with some means of handling their exchange drawn on the New York account. While I cannot say that a number of our banks are clamoring for it, yet it is being brought to our attention that something must be done. It seems to me that some plan should be devised. I do not think it is immediately before us, but when the reserves are transferred, that request is going to be very insistent from a great many of the small banks, and I believe that we have got to provide the small banks with that facility in some form. I think that daily settlement in the Gold Fund is going to be one of the conditions of putting it into operation. It might not be that we will want to adjust balances arising out of

transit matters every day, but I believe there are certain transactions that will take place between Federal reserve banks that should be cleared up every day in the gold settlement fund. I think it is a question that is before us and we have got to work on it and work it out in some manner. I feel it should be confined to the small bank. I think the 15 per cent reserve banks, generally speaking, are going to maintain balances and are going to draw drafts as they have been doing; but it is the small bank with the small deposits and small reserves, that cannot spread it around that has got to have the facility in some form. I think the matter can be worked out so that when a man comes to the bank for a draft he will give information as to where the payment is to be made, and as to where he wants the draft payable. It seems to me that by daily settlement in the gold fund these transactions may all be washed out very nicely.

Governor Rhoads: I think that we will probably come to this. I am not sure that there is any pressure on our district for this arrangement at the present time. I would only be in favor of it on the basis that Governor Harding has indicated by which it can be charged up to the member bank's account and the bank at which it was being cashed would be satisfied. My suggestion, subject to further light, would be that the bank drawing the draft should not only advise its own Federal reserve bank but should advise the Federal reserve bank where it is to

be cashed, so the advice would probably get there in time.

Governor Hoxon: In spite of the fact that the only complaint mentioned was in our district--- I think it was Union City, Tennessee that Mr. Delano mentioned, which is the only bank that I have heard made a complaint about it-- it seems to me that the Federal reserve bank checks should be made current without deduction anywhere in the United States; that it is essential to the ultimate success of the system, and we believe that under the plan outlined by Mr. Harding it is entirely practicable and feasible. There were some objections that I had to it until I heard Mr. Harding expound his plan. I think it is entirely practical, and I think we will come to it, provided we have a daily settlement in the gold settlement fund. I do not see the advantage to be gained in the bank drawing such a draft advising the bank that is to pay the draft. I think it is important that we should advise the bank upon whom the draft is drawn; but it seems to me advising the bank at which it is payable would be entailing a little extra work.

Mr. Delano: It would add very much to the labor.

Governor Hoxon: Yes; and I do not think it would be of any value.

Governor McDougal: I suggested that purely for the reason that the New York bank or whatever bank it might be would then be advised as early, at least, as the draft itself can possibly be presented; whereas, if it came in

a round about way there would be delay which would of course be annoying.

The Chairman: I understand that this is not a matter that the members of the Board want brought to a definite vote at this time. They wanted a general discussion for mutual enlightenment. They deemed the matter to be sufficiently urgent so that it was entitled to consideration at the present time, with the idea---

Governor Harding: The main idea was to try to evolve some plan that was fair and absolutely safe for the banks that might be called on to redeem these drafts.

The Chairman: My own feeling in the matter was that on general principles I do not like to have an application filed in New York or in Chicago, as the case may be, of which I have no knowledge before its presentation at the point of payment. That is a situation that would arise a great many times in many of the districts. For instance, in the Chicago district, a bank in the eastern part of the district might draw a check on New York and the check be presented for payment in New York at the same time that the advice reached Chicago of the check having been drawn, and the Chicago bank having no way of confirming until after the payment was made. I do not understand that there was to be a specific point of payment. Suppose these checks under this plan would be payable at any one of the 12 federal reserve banks at the option of the holder of the check. I think it is very important that there should be a specific limit on these checks. I



should feel very loath to permit a bank to draw ad libitum against our credits, in New York or in Chicago. I think this is a problem that has got to be met. I do not think we can escape it, but I should like to have some very definite plan worked out by a committee acting with the board, and reduced to writing, as to the mode of procedure to be followed before I felt favorably disposed toward it or before my present prejudices can be overcome.

Governor McDougal: I would like to ask one question of Mr. Delano. It comes about from the nature of the correspondence with our banks, our understanding being that it was something that some of the Federal reserve banks themselves would like to see done, and, moreover, that some members of the Federal reserve Board would like to see--- a Federal reserve bank check given circulation and immediate credit at any of the 12 points. We gave a good deal of consideration to the question in Chicago, and we reported to the Board unfavorably, and we supported our statement by an argument. I think, though, that as Governor Harding presents the case, it is simply a matter of taking care of the smaller banks and furnishing them with a possible means of securing New York exchange and furnishing them with that means on a sound basis. It presents the matter in an entirely different way. We would be very much opposed to the granting generally of free circulation to checks on Federal reserve banks; that is, by making them immediately available at any of the twelve points; but if I have a correct understanding of

what the Board now would be satisfied with, I should not go into this argument at all as against the general plan. Am I right about it, Mr. Delano?

Mr. Delano: Yes, you are entirely right. I think I sent out two circular letters on this thing. One in order to get your views--- and I did not hesitate to express my own, but I have an open mind on the subject. I have modified my views and have seen the necessity and desirability of throwing safeguards around it; for instance, limiting the payment of the draft to the Federal reserve bank on whom drawn; and one other bank, I think is a good limitation. I think it would be too bad, though, to inculcate the idea that if you wanted to pay a bill in San Francisco you would draw a Federal reserve draft on the bank of the district and stamp it payable in New York on the theory that you wanted to continue that policy. That is just what we are trying to get away from. It would be paid in San Francisco <sup>and</sup> it should be stamped "payable in San Francisco."

Governor McDougal: There would not be the same incentive for the Federal reserve bank as for the commercial bank. Our consideration of this question goes back to the date on which I heard from you, and it originated with a request from one or more of the banks that in inaugurating the collection system we should immediately make available checks on other banks, which we very promptly and properly declined to do. That is one phase of the

question. But I see now the views are modified, and therefore there will be no necessity of presenting what I had prepared on that subject.

Governor Seay: There is, Mr. Chairman, one point of view from which the matter is pressing to a degree. I believe that the use of the draft on Federal reserve banks could be cultivated coincidentally with the development of the Federal reserve collection system. We are practically forcing our member banks to accumulate balances with us, and even after having done that they cannot get excess balances away from us except at a disadvantage.

Another thing, if you will pardon me, Mr. Chairman. I quite appreciate the position taken by Governor Aiken that one Federal reserve bank does not wish to be compelled to advance credits to another, but I am convinced fully that it is entirely practical to evolve a scheme by which another Federal reserve bank would be granting credits.

There is another thing. I do not think this thing will appear half as illogical as it does to many of us here if we look upon the Federal reserve system as a system and cease to consider that it is composed of units. The Federal reserve system will never reach the limit of its power unless it is operated as a coordinated system.

Mr. Delano: The suggestion has been made a good deal in the correspondence that I have received that there is no reason why these drafts should be treated any differently from a check; or if we deferred credit on a check we

ought to defer credit on a draft. It seems to me there is all the difference in the world. In the first place, we are not dealing with mere individuals who are drawing checks, irresponsible people, against possibly fictitious balances, but we are dealing with not to exceed 7500 member banks, who are drawing against any one of twelve reserve banks.

Governor Seay: The whole thing, Mr. Delano, resolves itself into these two factors: Is it desirable, and can we among ourselves evolve a system by which it can be done safely? I am convinced of both of those things; and the gold settlement fund is that great institution, I am confident, through which we can effect settlement not only at the close of business, but at any time during the day. If you will draw a million dollars in the morning at Richmond we will pay you the money as soon as you can get a wire to us.

Governor Rhoads: Our experience shows that it is not physically practicable. New York has made transfers to Philadelphia, and vice versa, of large amounts, and we cannot get the gold out <sup>of</sup> the subtreasury in time to meet the clearings.

Governor Seay: Through the settlement fund?

Governor Rhoads: Yes. It does not work.

Governor Seay: You mean the Federal reserve Board cannot make the transfer to you---

Governor Rhoads: The time lost is so much, and the

actual drawing of the gold order certificates, that we can not get it out in time.

Governor Wold: It is simply a bookkeeping entry.

Mr. Delano: That is where the balance was so large it could not be transferred on the books, but it required the actual drawing of gold out of the subtreasury.

Governor Rhoads: Yes sir.

Mr. Delano: 90 per cent of our balances are transferred every week on the books without any actual change of a certificate.

The Chairman: Governor Kains, I would like to hear from you on this matter.

Governor Kains: I am thoroughly in favor of it. I got a little new light from Governor Harding. I think that this thing is necessary and that it can be safely handled through the gold settlement fund by daily settlements.

The Chairman: Governor Miller, what views have you on this matter?

Governor Miller: Mr. Chairman, I am satisfied that 700 of our banks would be all right if we could make their checks available at Chicago, New York and St. Louis. We have ten reserve cities in our district, but I would hesitate to open the doors to those at this time on account of the enormous flow of exchange at certain seasons.

Cox fls.

Governor Rhoads: Do you wish a motion on this, Mr. Chairman?

The Chairman: No. I understand from Mr. Delano that he does not care for any action on this. He simply wanted an expression of opinion. The Board has it under consideration and it is a matter that has got to be taken up and settled one of these days.

Governor Seay: We have been asked questions, and I would like to ask a question if it is entirely in order. I would like to know, Governor Harding, if you are prepared to answer, whether or not the Board has considered this and believes it to be desirable.

Governor Harding: We have considered it informally. It is a matter which none of us expected to rush. I think I am justified in saying that it is something we all feel is desirable and that we expect to see put into operation in due time, or at least some progress made looking toward that end. We feel there is necessity for it.

Governor Wold: May I ask a question here?

The Chairman: Governor Wold.

Governor Wold: It would seem to me that after the next payment of reserves in November, that this question will become more pressing. It is not something that I believe will stand putting off until the readjustment is entirely completed in November, 1917, but I think it is going to be very pressing after the coming November and ought to be adjusted between now and the first of the year.

Mr. Hendricks: I think we ought to first find out how the readjustment is going to affect the balances in different parts of the country, whether it is going to take

it out of New York and put it in Philadelphia or take it out of Philadelphia and put it into Chicago. Until we find where these balances are going to accumulate and where they normally should accumulate, I do not think we can tell anything about it.

Mr. Tremat: One day last week we had an adverse balance in the gold settlement fund of ten or eleven million dollars. Suppose the current should be changed so that it ran against us very much and depleted our gold? What would we do?

Governor Wold: If I may be permitted to answer that question I will say that the same question was raised by Governor Strong when we discussed this a year or so ago. This scheme of permitting the member banks to draw upon the Federal reserve bank and have funds available at different points will enable the New York bank to get rid of its silver certificates and it will be up to the banks in the interior to provide gold for you in the gold fund. You will be dumping your silver certificates on the member banks and clearing house banks in New York and we will be replenishing your gold fund with gold.

Governor Seay: That is unquestionably so.

Governor Wold: It will help you out.

The Chairman: This question is a very large one and if we are going to get through with this program I do not think we should devote more time to it, unless Mr. Harding or Mr. Delano wish us to take definite action on it. The Chairman will entertain a motion that the sub-

ject be continued on the program.

Governor Fancher: I will make such a motion.

The Chairman: Governor Fancher moves that item (p) under topic 6, "Immediate availability of drafts on Federal reserve banks be continued on the program.

(The motion was duly seconded and carried.)

The Chairman: The next topic is

(q) Immediate availability at Federal reserve banks of checks drawn on member banks located outside Federal reserve cities.

The Chairman: Governor McDougal, you are responsible for that topic, as is also Governor Miller.

Governor McDougal: Mr. Chairman, that question was brought up because of a telegram which was received from Mr. Delano by our bank in which he states:

"You are doubtless aware that Cleveland and St. Louis banks have given privilege to some of their largest cities of keeping excess deposits with them so as to give checks on those cities immediate credit at par. It seems to me it would be only fair for you to give similar privileges under similar conditions to certain cities, for example, as Detroit, Indianapolis and Milwaukee."

To that telegram I replied:

"We have your telegram of this date suggesting that we consider giving immediate credit for items on Detroit, Indianapolis and Milwaukee, should they desire this privilege, and we note that Cleveland and St. Louis have permitted such an arrangement to be made with some of their



largest cities."

"Our experience in operating the voluntary collection system of immediate debit and credit develops the fact that it was practically impossible for our member banks in the reserve cities to maintain their reserve balances with us and that reserves were not only seriously impaired, but overdrafts were frequent. Some of our members advised us that it was impossible for them to anticipate and provide for the volume of checks that might be presented to us in any one day, and the Indianapolis banks withdrew from the voluntary system principally because they were unable to maintain their reserves. One of the Milwaukee banks, which did succeed in maintaining its reserve, was enabled to do so by requesting its Chicago correspondent not to deposit the checks drawn on it in the Federal reserve bank. If, under the limited operation of the voluntary collection system, reserve city banks were unable to maintain their reserves, how can they be expected to do so with the increased volume of items we will have under the new collection system.

"If this bank should agree to receive items on its member banks in Milwaukee, for instance, for immediate credit, charging them up against the member bank's account, what would we do with items on the non-member banks in Milwaukee? Would we have to split Milwaukee in two, by making checks on member banks available immediately, and checks on non-member banks available only after two

days? It would seem to us that if the arrangement were permitted that all checks on Mileaukke should be received on the same basis.

"This bring up the question---

"First, as to whether our member banks would be willing for us to charge the non-member banks' checks against their accounts, and

"Second, as to whether they would carry the increased additional amount of funds which this would require.

"This question is very similar to the proposition of making Federal reserve bank checks cashable at other Federal reserve banks. Our opinion is that checks are payable at the counter of the bank upon which they are drawn. If cashed anywhere else, it involves the advancing of the funds or, in other words, carrying 'float' until returns are available.

"In the matter of checks on Federal reserve banks we do not feel that we should carry 'float' by cashing checks of other Federal reserve banks, nor do we believe it good banking policy for us to maintain balances in other Federal reserve banks against which they could charge checks drawn upon us. If it is not good banking for the banks to advance funds in anticipation of checks drawn upon them, it must follow that such a practice would prove to be inadvisable if undertaken by our member banks.

"The situation in this district, although similar in some respects, is not the same as that in the Cleveland

district, owing to the fact that Chicago is the predominating financial center of this district, and the majority of the non-member banks have Chicago correspondents and, of course, the member banks are obliged to use us as their Chicago correspondent. In the Cleveland district, Cleveland, Pittsburgh and Cincinnati are all of nearly equal importance as financial centers, and there is a stronger reason why Pittsburgh and Cincinnati should desire to make their checks as available as funds on Cleveland. In this district it would seem, however, that the principal reason why a member bank in Milwaukee would want its checks to be taken for immediate credit here would be to enable a non-member bank to remit to us in Milwaukee exchange for checks we would send them. If the Milwaukee banks, however, would agree to receive from us at par checks on other non-member country banks, the matter could be settled in that way. Milwaukee banks, however, would still have the problem of making checks on them immediately available in Minneapolis, inasmuch as a large number of their correspondents are in the Minneapolis district.

"There are many angles to this question, and even if this bank should arrange to receive items on Milwaukee banks for immediate credit, where would we draw the line? Suppose we extended the privilege only to members in the reserve cities of this district, then collecting centers like Waterloo, Peoria, and many others, would be clamoring for equal privileges and would claim that they were being

discriminated against."

There is other correspondence following that which I do not think need be read.

There have been some developments since this correspondence was concluded. Milwaukee is very anxious to be put back on the immediate credit list, or on the discretionary list, and naturally so because of the fact that the operation of the new collection system has undoubtedly worked to their disadvantage in some ways. It has worked to their disadvantage largely because of the fact that time now must enter into our operation of the system, and they are feeling the effect of that feature which, heretofore, they have not felt. For some reason, I do not know how or why, Milwaukee has been a discretionary point in Chicago.

We feel this way about it. Milwaukee and other cities were not able to take care of their requirements that they had because they had no way of knowing how many checks were going to be presented next Thursday. They told us so and it developed, furthermore, that their efforts to guess at the amounts were not very successful. That is all cited in this correspondence. It seems to me that if we grant this permission to Milwaukee, we are granting a privilege which we would have to grant to others, and how far that would extend I do not know. All of our cities are two day points. Milwaukee is only 90 miles away, but just as far away in the question of time as

Des Moines. If we should grant this concession we are then embarking in the collection plan which we have recently abandoned as not workable. We feel that we should not be compelled to make Milwaukee par even if they do agree, and have expressed their willingness, to undertake to maintain sufficient balances.

Mr. Delano, bearing on this subject, you might be interested to know that the Milwaukee banks had a committee in Chicago and that Committee has been good enough to tell me that they believe that after all the question was one between them and the clearing house more than it was between Milwaukee and the Federal reserve bank. They are making every effort now to arrange some plan by which they can be put on the discretionary list of the Chicago clearing house. I told the representative of that committee that at this meeting, if the subject came up, I would tell you that they thought they had reached a solution, or a possible solution, owing to the expressed willingness of the Chicago banks to make Milwaukee immediately convertible into Chicago exchange. They would do that by permitting items to be charged immediately against their accounts and the member banks of Chicago would be taken care of in that way. The other numerous banks that might get Milwaukee items would have the privilege of presenting them at the Continental National or the Corn Exchange, or some other national bank, and having them exchanged for cashier's checks. We have been opposed to embarking again in the

immediate debit and credit plan, which has not been satisfactory and which, it so happens, has not been satisfactory in the three cities which we believe are now interested and want to get back under the old plan.

The Chairman: For the information of the men here I would like to ask what the banks have undertaken---

Governor McDougal: If you will permit me, Mr. Chairman, I will go ahead and tell you what the other banks are doing, based upon information that we have from their collection plan circulars, and also some verbal information.

The Chairman: Pardon me, Governor McDougal, I thought you had finished.

Governor McDougal: The Philadelphia bank takes New York. I am speaking now of what they are taking aside from their own districts.

Governor Rhoads: Only from country banks.

The Chairman: That is simply as cover for checks sent them for collection, is it not?

Governor Rhoads: Yes, Mr. Chairman.

Governor McDougal: If I make any mistakes I should like to be corrected by the bank that is affected.

Cleveland is taking checks on member banks in Cincinnati and Pittsburg--- only member banks checks. I think that should be noted. They are not taking Cleveland and Pittsburgh, but are simply taking checks on member banks. That is not what Milwaukee wants us to do. They want us to take the whole city. Cleveland is also taking

checks on all branches of the Cleveland Trust Company, by special arrangements.

Richmond takes New York checks and checks on all other Federal reserve banks---

Mr. Delano: It also takes Baltimore and Roanoke.

Governor Seay: That is recent, and Governor McDougal has probably not received that advice. It receives checks on non-member banks in Baltimore as well as a bank in Roanoke, Virginia.

Governor McDougal: I understood that Atlanta was taking New Orleans and Birmingham. That was according to the advice I received from Mr. Delano. I fail to find either of those two towns mentioned on their collection plan.

Mr. Delano: New Orleans is a branch of Atlanta.

Governor McDougal: I would like to ask Governor McCord what they are doing down there.

Governor McCord: We are taking for immediate credit items on Birmingham and New Orleans in Atlanta except where the state bank agrees to remit at par and gives us a check on Birmingham and Birmingham would allow that to be immediately debited to their account. We take from non-member banks checks on any of the financial centers east of the Mississippi River, including St. Louis, in settlement of items sent to them. We do that to broaden the collection system of non-member bank checks. But we do not give immediate credit for items on the cities named, neither do we on any other cities in our district.

Governor McDougal: Then you are not making New Orleans and Birmingham items immediately available, generally speaking?

Governor McCord: No. We defer New Orleans one day to our Atlanta members, because New Orleans is a branch of our bank. We defer two days for Birmingham and one day for our New Orleans branch.

Governor McDougal: Minneapolis, I understand, is taking St. Paul, which bank can easily be accounted for, and I have added Milwaukee, but I find there are restrictions there far beyond those that Milwaukee would like to place on Chicago.

Governor Wold: We take a draft on Milwaukee from a bank to whom collections are sent; a draft in settlement of collections.

Governor McDougal: You are not taking Milwaukee in the sense that you are making it immediately available at par?

Governor Wold: No. Milwaukee is out of our district. We take from Wisconsin banks in settlement of items sent to them, a draft upon Milwaukee.

Governor Harding: Member banks as well as non-member banks?

Governor Wold: Yes.

(Informal discussion followed.)

Governor McDougal: Take Kansas City. Kansas City



takes Kansas City and receives in return non-member items and drafts on any reserve city in the district---

Mr. Delano: You mean for immediate credit?

Governor Miller: No, for collection. Kansas City, Kansas is the same as Kansas City, Missouri.

Governor McDougal: San Francisco, I understand, is taking drafts on all Federal reserve banks and also United States treasury warrants. I mention all this in support of the statement which I propose to make, and that is that Milwaukee is asking of us something which is not being given by any other Federal reserve bank to any city, Mr. Delano, if I correctly understand it. That is about all there is to say on the subject.

Governor Miller: I might say that we have proposed not only to the reserve cities, but to any member bank in our district that they may place themselves on an immediate availability list with us.

Governor McDougal: All I can say in reply to that is this: This is an organization of Governors, if it is an organization, that has responsibilities, and I would put foremost among those responsibilities the matter of encouraging sound banking methods and discouraging unsound methods. When you offer to do that you are placing your bank in great danger.

Governor Miller: I do not see why, Governor McDougal.

Governor McDougal: While you may be able to stand that in ordinary times, you are coming to a time later

on, in all probability, when you would have to treat those banks in exactly the same manner that some of the small banks in the large cities have been dealt with by the large banks through which they clear. For instance, if the small bank in New York has not been able to stand a run on it, and therefore the stream goes through the clearing agent until such time as that clearing agent has to shut down, then the burden of responsibility is placed on the big clearing house banks. That same thing will happen to you sooner or later if you permit your members to do that.

The Chairman: Governor McDougal, Mr. Harding would like to make an inquiry or two.

Governor Harding: I would like to ask Governor McDougal a few questions. Is the Federal reserve bank of Chicago a member of the Chicago clearing house?

Governor McDougal: We are not a voting member.

Governor Harding: But you send checks to them and receive checks from them?

Governor McDougal: Yes sir. We have the privileges of the clearing house.

Governor Harding: At what hour is that clearing made?

Governor McDougal: At eleven o'clock.

Governor Harding: The banks in Detroit, Des Moines, Milwaukee, Minneapolis and Peoria--- I mean the member banks all carry reserve accounts with member banks in Chicago, do they not?

Governor McDougal: Yes; I think in every case.

Governor Harding: On which they get interest?

Governor McDougal: Yes.

Governor Harding: Just what is unsound about it?

I would like to have this explained to me. I am not speaking now of all the banks in any city, including all the member banks and all the non-member banks, but I am speaking of any particular bank in any city which for some reason, which it regards as sound, desires to remove what it considers this disadvantage of being put on the deferred credit basis. This situation can very easily arise under this rivalry between cities where there are two or three cities of practically the same size that regard themselves as important as a Federal reserve city; that is, it might come to pass that unless the checks drawn by a large corporation in a non-reserve city could be received all over the country on exactly the same basis as checks drawn on banks in a Federal reserve city, the non-reserve city might lose the banks in the Federal reserve city. For that reason, or other reasons, they might desire, by paying the price, to eliminate this disadvantage that their distance from a reserve city places them under. They are stockholders in the Federal reserve bank and they write and ask the privilege of having a special favor extended to them, something that they appreciate the responsibility of and for which they are willing to pay. Now, we will assume, for instance, in Wisconsin--- and I am not talking of all the Milwaukee banks or all the Detroit banks--- but let us say that the

Wisconsin national banks or the Indiana National Bank or the Merchants National Bank of Indianapolis, should write to you and say, "We desire to make an arrangement with you by which you will credit immediately, subject to final payment, all checks which are received by you on us. We estimate that \$150,000 excess balance will be sufficient." Suppose you say to them, "Well, that is something we do not care particularly to do, but we are willing to try it out. We want you to understand, though, that we are not going to credit immediately subject to final payment, any check on you that encroaches one dollar on your required reserve; we are going to hold you to your contract." They say, "All right, we will stand by it." We will then assume that the Wisconsin National bank carries \$150,000 excess reserve with you. There is certainly nothing unsound in a Federal reserve bank permitting a bank to carry with it a balance in excess of its lawful reserve. You have the money. We will assume that it runs along for a week or so all right, and you find that the \$150,000 excess reserve is ample. As checks come in you do not give final payment, but you do give immediate credit subject to final payment, and with the exception of a few checks which may not be good, the credit stands. The arrangement has fulfilled the object for which it was undertaken. Now, on a certain occasion there is an unusually large amount of checks drawn on the Wisconsin National Bank which are presented to you for immediate credit subject to final payment, but the amount, instead of being \$150,000, which

represents the amount of their excess balance, is \$250,000 or \$300,000? Would there be anything unsound in it, or would there be any particular hardship on you, as soon as you ascertain just what the situation is, to send a collect telegram to the Wisconsin National Bank and say "The checks on you amount to \$300,000. We need \$150,000 additional for immediate cover." Then the Wisconsin National bank telephones or telegraphs down to the First National Bank or the Continental Commercial of Chicago, where it carries an account, "Deposit at once to our credit with Federal reserve bank \$150,000." That will take care of the checks. Always having it understood, under that situation, that you are doing this as a matter of courtesy and you are not going to let them encroach one dollar on the required reserves. You send them this collect telegram, and if the deposit is not made you will simply add the checks up in the regular course and credit them when you receive funds under the regular time schedule. Under that system you do not treat the city as a whole, but you deal with the individual banks.

Governor McDougal: I believe it would work out all right under the principle as you have outlined it, but I do not believe that you could possibly make the rule so inflexible as you have outlined it and not permit them to encroach one dollar on their reserve account. We learned a good many things in operating our immediate credit plan. I fail to see how a collect telegram, or any other kind of a telegram, would get a response quick enough to

remedy the situation that day.

Governor Harding: You close at three o'clock.

Governor McDougal: Yes, but the Federal reserve banks are no different from commercial banks. They do not know at three o'clock how the accounts stand. I only wish we did. It is impossible always to ascertain.

Governor Fancher: I might state how we handle this proposition, as we seem to be the bank that started it. The situation mentioned by Mr. Harding appealed favorably to our member banks at Pittsburgh and at Cincinnati, that is, the advantage of an account in Cleveland, by reason of the fact that a Cleveland draft or check was immediately available and items on Pittsburgh and Cincinnati were deferred. The Pittsburgh banks were naturally very anxious to put themselves as nearly as possible on the same footing with the Cleveland Banks, and that condition was brought about by all the banks agreeing by action of their boards, to maintain their reserves and to maintain a sufficient amount to protect their items. Normally our reserve deposits prior to July 15, were about \$37,000,000 or \$37,500,000. Our realized reserve deposits now are in excess of \$40,000,000 practically all the time. That is the arrangement we have with the larger banks. We telegraph them. In one instance, I might say, one of the banks in Pittsburgh made an arrangement with a bank in Cleveland under which we were authorized to report to the Cleveland bank, upon their inquiry, their realized reserve each day. They have given instructions to

the Cleveland bank that they are to keep a certain amount there, and the Cleveland bank supplies the deficit if there is any, by either a deposit of lawful money or else by check on the Cleveland bank for the excess reserve. In the case of three or four of the very large banks in Pittsburgh and Cincinnati we wire them when the letters are in excess of a certain amount. That is, we send them a collect telegram.

The other day we had an item of \$600,000 on one of our Pittsburgh Banks, which would have depleted its reserve to the extent of some \$300,000. We wired them very promptly. We knew that by noon, when our mail was practically all in. That amount was made available by wire transfer, before the close of business that day, through Chicago and New York.

I fail to see where there is anything unsound in that. It is a situation that has arisen in some of the districts which has got to be met. If we can do it, and be perfectly safe in doing it, I see no reason why the privilege should not be given to the banks.

Governor McDougal: I think you will perceive the difference between the situation in which you are involved and the situation in which we would be involved if that this is a question of making a whole city available. You have an arrangement with I don't know how many banks in Pittsburgh, but would not the situation be somewhat modified, and would not your opinion regarding the desirability of doing it be somewhat influenced, if you were

asked to take Pittsburgh?

Governor Fancher: Just what do you mean?

Governor McDougal: Pittsburgh has 25 or 30 national banks and probably that many more trust companies and other banks, and the same is true of Cincinnati. You are dealing now in a very small way with those two cities.

Governor Fancher: I must beg to differ with you, because we have member banks in those cities---

Governor McDougal: How about the non-member banks, the state banks?

Governor Fancher: We are not concerned with them.

Governor McDougal: I know, but you would be if you were asked to put Pittsburgh on a par with them.

(Informal discussion followed.)

Governor McDougal: Governor Seay, in view of what you have said might I ask if you would be willing to extend this privilege in your district?

Governor Seay: Yes, to an unlimited extent.

Governor McDougal: Would not that amount to going back to the old plan and trying it over again?

Governor Seay: No; it would be on an entirely different basis. In the first place we have not offered that privilege to the member banks but they have asked for it. That puts the whole transaction on quite a different basis. Then there is another thing that I would like to call your attention to. Mr. Harding was saying that when checks on a member bank were in excess of the balance and impaired its reserve you could telegraph and



the account could be restored. The Federal reserve bank is perfectly safe in that matter because the Act distinctly provides, subject to penalty imposed by the Board, that the member bank may use its reserve balances to pay its obligations. There is no risk assumed by the Federal reserve bank. You are not loaning that bank money. You are allowing it to use, as the law provides it may use, its own balance with you.

Governor Harding: If they are willing to pay the price.

Governor Seay: Yes.

The Chairman: But I cannot escape the feeling that sooner or later you are going to be confronted with the necessity of deciding whether or not you will pay those checks that are payable somewhere else, no matter what your agreement is. A case will arise some time when a bank's checks will be presented to you for payment and they cannot make them good that day. You have then got to determine whether you will throw those checks out or whether you will not. It is practically a question of shutting up your bank or not shutting it up. It seems to me that we must go a good deal further into the check collection system and must know a great deal more about it than we do now before we introduce a plan which we cannot tell the extent of. It is much more safe to stick to our present method of deferring these items. If you do it for one you have got to do it for another, if they give you satisfactory agreements.

Governor Harding: There is some criticism of the present plan under which we are operating. Some people claim that by making this strictly a collection system and having this deferred payment all the way through that we are not carrying out the mandates of the Act in providing for a clearing system.

Governor McDougal: I would take exception to one statement made by Governor Seay. With the exception of the penalty which we now have, and which would remedy to some extent the evil, we are in exactly the same position we were before, even if you have a contract with your banks. You had a contract with them before. You did not invite them to come into the voluntary plan. If you did, you did something we did not do.

Governor Seay: I am aware of that, Governor McDougal, but I do maintain that the arrangements that would be made with us now would be made under circumstances quite different from the arrangements that were first made.

(Informal discussion followed.)

Governor Harding. I think there is a very essential difference there that we have overlooked. Before these assenting banks felt that they were doing the Federal reserve bank a favor. This time the Federal reserve bank is doing them a favor and it is for their convenience and not for the convenience of the Federal reserve banks. It is something for their own selfish interests. There is nothing patriotic about it. It is a cold blooded business proposition.

Governor Seay: This is an arrangement we are making now at their request. Before we invited them to come into the arrangement, which they did reluctantly---

The Chairman: In our district I do not think they came in reluctantly. Those that came in came in willingly.

Governor Seay: Then I will withdraw it so far as it applies to you, Mr. Chairman. There is one thing, and that is there are some banks that are not so dreadfully checked when their checks are refused.

The Chairman: That would close up a bank in New England.

Governor Seay: If that is the case in New England I believe that the banks that are so jealous of their credit would take particular care that that credit is not hurt and would maintain the arrangement scrupulously.

Governor Fancher: I think there is another situation which enters into the present collection arrangement and that is that under the limited intra-district collection scheme the banks only had a very limited way of offsetting items. They did not have the facilities and could not take outside points from them. Now we have an entirely different situation which enables them to maintain surplus reserves with you.

Governor Harding: That is a very important difference.

Governor Fancher: Absolutely. We found in Cleveland that after we joined the clearing house, on the 15th

of July we ran a very heavy creditor and it took us two or three days to accumulate the gold clearing house certificates. Then we created exchange by selling those certificates. The clearing house committee agreed that the member banks might settle their debits in the clearing house if we would take their checks against excess reserve; that is, that we would instruct the clearing house manager that a certain bank would settle a certain part of its balance by a check on us. The Cleveland banks at once saw it was to their advantage to carry a surplus reserve to protect their clearing house debit and we have a million or a million and a half excess reserve of Cleveland banks which enables us to take care of their debits in the clearing house.

Governor Rhoads: I think a similar situation might arise to that which arose in 1907 when the Knickerbocker Trust Company failed. That company was clearing through the National Bank of Commerce. Both were supposedly strong institutions. It had deposited with the National Bank of Commerce security to cover its clearings. You all know that the National Bank of Commerce found out that the Knickerbocker Trust Company could not keep up its end and refused to clear. There was the case of a bank trying to do the best it could, but could not do it. I think you will have a similar situation to that.

The Chairman: It was true, was it not, that the refusal of the Bank of Commerce to clear for the Knickerbocker closed the Knickerbocker?

Governor Rhoads: Yes. On a two days deferred credit the Federal Reserve bank would not be in a hole.

Governor Delano: There would not be any deferred credit in New York City.

Governor Seay: I do not think the Federal reserve bank could be put in a hole. There is a weakness, I believe, in the Federal Reserve Act, which permits a member bank to withdraw its balance. I think there might come a time in this country when that would be a decided weakness. I think you are aggravating that by this arrangement.

Governor McDougal: What would you have them use it for if they could not withdraw it under certain circumstances?

Governor Seay: Let the Federal reserve bank loan them the money. It would go twice as far. If they are in need of money they can borrow the money from the bank to satisfy their needs and accomplish more than they can by withdrawing their balance.

Governor McDougal: I believe a bank's reserve should be what it is supposed to be--- a reserve in case of emergency.

(Informal discussion followed.)

The Chairman: Gentlemen, is there any further discussion of this subject?

Mr. Delano: I would like to say a word, Mr. Chairman. I plead guilty to having sent that telegram

to Mr. McDougal with reference to this matter, but as you have perhaps noticed, when he came back and said he did not see any good reason for doing it I did not pursue the matter any further.

I recognize that in the different districts there are going to be quite different views on this question. For instance in the Boston district I do not suppose there is any city or bank outside of Boston that cares enough about its prestige, relative to that of the Boston banks, to be willing to keep a two day balance in the Boston bank. I consider that with reference to the Cleveland bank Governor Fancher absolutely had to do what he did do. I do not see how he could have declined to do it. He would have had an insurrection there. I would not have blamed the banks of Pittsburgh or Cincinnati if they had started one. In the Chicago district, as Governor McDougal says, the Chicago banks are overwhelmingly of more importance than the other banks. At the same time when I called the attention of Governor McDougal to the situation in Milwaukee, I thought it would help soften a situation which was rather aggravated there if he had seen fit, by some way, to do what they asked, especially as Milwaukee is only two hours away from Chicago, and has a train about every hour in the day.

This is not a question that is going to arise with any great acuteness in most of the districts, but in those districts where it does arise I do not very well see how, under the principles of our clearing system, we can say that

we will decline to do this if a bank, which has the money in your bank, requests you to charge their account. If we say that we will not permit the charging of checks against uncollected funds and all that sort of thing, and we wont allow uncollected funds to count as reserve, certainly the reverse is true, that if the funds are there and they request you to charge their checks against those funds, you cannot very well say that you will not do it.

The Chairman: Is there any further discussion of this topic (q). (After a pause) Mr. Miller, does not this discussion cover your topic (r), "Immediate availability of bank drafts on member banks located outside of Federal reserve cities?"

Governor Miller: Yes sir, this is the same question.

The Chairman: Do either you or Governor McDougal desire to offer any resolution so that action can be taken by the conference on this matter?

Governor Miller: I do not.

Governor McDougal: Nor do I.

Governor Miller: We have offered to let any of the member banks make these checks available, and I do not see how we could do differently if they have the money there to cover it.

The Chairman: If there is no further discussion of topic (r) we will pass to topic (s).

(S) Checks payable in New York funds at current rates.

Governor Seay: That matter has been disposed of, Mr. Chairman, by a circular from the Federal reserve Board. The topic was proposed before we had received that circular. I consider that it is disposed of. Governor McCord also proposed the subject, however.

Governor McCord: The question was raised by me in the interim of the receipt of the circular. I had my attorney render an opinion on the subject and his opinion was that checks with any qualifications as to how they should be paid, other than lawful money of the United States were not negotiable and could not be paid by a draft on some other city, especially where there was a deduction of exchange. I furnished the Federal reserve Board with that opinion, and I understand that at the same time, Mr. Harding, the Board's attorney rendered practically the same opinion.

Governor Harding: That they were not checks.

Governor McCord: Then the question has been disposed of.

Mr. Hoxon: You say only checks and drafts. That would exclude certificates of deposits.

Governor McCord: They are not collectible, so my attorney ruled.

Governor Harding: That is what our counsel holds. The Act says, "Shall receive checks and drafts."

Governor Wold: I had a transaction with one of



Governor Kains' member banks, located at Spokane, where they deducted exchange upon a certificate of deposit. The only point in interest is the construction placed by Judge Elliott upon a certificate of deposit.

Governor Harding: We hold it is not a check.

Governor Wold: Judge Elliott's opinion is as follows:

"While there is a technical difference between a certificate of deposit and a check the question involved in the present case is the same in both instances. In other words, the drawee bank claims that checks drawn against it are payable at its own counter. If the holder desires the proceeds remitted elsewhere the bank claims that it has a right to charge for this service. By analogy a certificate of deposit is likewise payable at the counter of the issuing bank and if the holder desires the proceeds remitted elsewhere the bank claims the right to charge for this service.

"The technical difference between the check and the certificate of deposit to which you call attention does not affect the question under consideration.

"It seems that the Federal Reserve Bank of Minneapolis received in due course a certificate of deposit of the Spokane Bank. It might have sent this certificate of deposit to the Federal Reserve Bank of San Francisco for collection and credit to its account. In that case the Federal Reserve Bank of San Francisco would have sent the certificate of deposit to the Spokane Bank with request for

remittance. If the present clearing plan had been in force at that time the Spokane Bank would have had the option of shipping lawful money at the expense of the Federal reserve bank of San Francisco. The Minneapolis bank elected to send the certificate of deposit direct to the Spokane Bank with request that it remit to the Federal Reserve Bank of San Francisco for its account.

"The question involved, therefore, is the same one that is involved in the case of the Federal reserve bank of Kansas City which has been unable to reconcile its accounts with some of its members on account of similar charges that have been made. If the Spokane bank will adjust this charge on the basis of the actual cost that it would assume in remitting lawful money to the Federal Reserve Bank of San Francisco, in accordance with the clearing plan now in force, I would suggest that this be done, otherwise, the matter will have to stand in abeyance until the Board takes up the question of adopting some regulation fixing these charges."

This letter was in response to an inquiry of the Board relative to the question whether or not requirement of a member bank covering without deduction applied to a certificate of deposit. In the second paragraph Judge Elliott said, "The technical difference between the check and the certificate of deposit to which you call attention does not affect the question under consideration." That certificate of deposit is

simply a check by the member bank on itself. //

The Chairman: Before taking up the next question the Chair will take up the matter of appointing committees which it is authorized to appoint. The committee to confer with the Federal Reserve Board on the use of postmasters as collecting agents will be composed of Governor Rhoads, Governor Seay and Governor McDougal. The Committee on uniform statements of reserves and penalties for deficiencies will consist of Governor McDougal, Chairman, myself, and Governor Fancher. Under the vote authorizing the Chair to appoint a committee to meet with a committee of the Board and consider the matter of acting as fiscal agents for the government, the Chair was designated as chairman of that committee and I will designate as my associates Mr. Treman and Mr. Fancher.

The next topic is (t).

(t) Transfers between Federal reserve banks.

(The Chair stated that a recess would be declared at half past five until 8:30, and that as topic (t) was of considerable importance it would be passed and questions that could be disposed of quickly would be taken up.)

The Chairman: Next is topic (u). Establishment of branches of gold settlement fund in non-subtreasury Federal reserve cities.

(u) Establishment of branches of gold settlement fund in non-subtreasury Federal reserve cities.

Governor Miller: That topic was proposed because of

the fact that in our district, and I suppose the same thing is true in Dallas and probably in Minneapolis, we have but two seasons when our products usually move eastward, as they are now, and when New York exchange is in great abundance. However, a little later on New York exchange will be scarce, and I thought if we had some kind of a committee, composed of the Federal reserve agent, the president of a bank or trust company and a bonding company, to act as an auxiliary committee to the Federal Reserve Board's committee in Washington, to hold those funds when money is plentiful and pay it back when money is scarce, it would save an enormous flow of actual money inwardly and outwardly. I was encouraged to propose this topic because I had written my suggestions to Mr. Delano and he encouraged the idea by saying that it was entitled to some consideration.

Governor Wold: May I ask a question?

Governor Miller: Certainly.

Governor Wold: This movement of funds is not gold? It is currency, national bank notes?

Governor Miller: Yes.

Governor Wold: National bank notes will not serve as a part of the gold settlement fund.

Governor Miller: I know that, but we could use the lawful money.

Governor Wold: But lawful money does not go into the gold settlement fund.

Governor Miller: But, Governor Wold, I was going to

say we could use the lawful money in the ordinary transaction of business and deposit the actual gold, because we have got to produce the gold for the gold settlement fund one way or another.

(Informal discussion followed.)

Mr. Delano: I was interested in Governor Miller's suggestion, because we have recognized at Washington that six of the Federal reserve banks were at a considerable disadvantage in settling through the gold settlement fund. I confess that I have not been able to satisfy myself just how to work out a scheme such as Governor Miller suggests. I have been working on a rather different idea. That is the reason I was so much interested in the bank acting as fiscal agent. There are now nine subtreasury cities in the United States. Six of the Federal reserve banks are at sub-treasury points. Three other subtreasury points are within a Federal reserve district, but not at a Federal reserve city. It seems to me that the ultimate result of having the Federal reserve banks act as fiscal agents of the Government is that the Federal reserve banks will take the place of the sub-treasuries and will perform the chief functions of the sub-treasuries, and then automatically the deposit of gold or withdrawal of gold by a Federal reserve bank, say with the Federal reserve agent, who might be the de facto subtreasury or assistant treasurer, would accomplish the same thing for all of the Federal reserve banks that is now accomplished in the

six cities where there are subtreasuries. It does seem unfortunate that six of the banks should be at a disadvantage.

The Chairman: What disposition would you like to have made of this question, Governor Miller?

Governor Miller: I would like to have Mr. Delano make a suggestion as to what dispositions should be made of it, whether to keep it on the program or appoint a committee to work it out, or just leave it up to the Board.

Mr. Delano: I should think that perhaps it is more to the interest of the six banks that are not located in subtreasury cities to try to work out the solution of this problem than it is to anybody else. I should say very cheerfully that I am sympathetic and will be willing to assist either a committee or any individual member, with that problem.

The Chairman: Would it be covered if it were taken up by correspondence between the Governors of the banks who are located in non-subtreasury cities, and when those governors have formulated some plan they can take it up with the Board.

Governor Miller: I was in hopes that they would try it out on Kansas City. We try out a good many things there. (Laughter) I was in hopes they would try it out on us to see how it worked.

Governor Seay: Mr. Delano, have you considered the question of whether or not it can be done legally?

Mr. Delano: No, I have not satisfied myself that it is legal to do what he suggests. There is a considerable question of responsibility in which all the banks would be interested, and it would require a good deal of consideration.

Governor Wold: Why not let this question be referred to the committee on fiscal agencies. That committee could take under consideration the situation of the six banks in that regard.

Governor Miller: Might it not be referred to a special committee composed of three governors representing the non-subtreasury Federal reserve cities?

Governor Wold: My thought was that it might be worked out in connection with some other relation with the government and the committee working on the question of fiscal relations might have this in mind in their deliberations.

Governor Miller: That is perfectly satisfactory to me.

The Chairman: Do you so move, Governor Wold?

Governor Wold: I so move.

Governor Miller: I second the motion.

The Chairman: Governor Wold's motion is that a solution of the difficulties arising in the case of banks located in cities in which there are no subtreasuries of the United States, be referred to the committee on fiscal agencies for consideration.

(The motion was duly carried.)

Governor McDougal: I would like to ask that an additional topic be put on the program, in order that it will not be overlooked, and that is the matter of rendering uniform bills on uniform dates to Federal reserve banks covering their charges for each month.

The Chairman: We will take a recess at this time until 8:30 o'clock this evening.

(Whereupon, at 5:30 o'clock p. m. a recess was taken until 8:30 o'clock p. m. of the same day.)

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EVENING SESSION.

The Conference reconvened at the expiration of the recess.

The Chairman: The conference will come to order. We will take some of the least important matters here pending the arrival of the full membership, because we want to get through this evening.

I have taken the liberty of asking the cashier of our bank, Mr. Howe, to come tonight. Unless there is some objection we will include him.

Let us take up for the first topic question (x).

(x) District numbers on checks.

Governor Seay: Mr. Chairman, it would greatly facili-



tate, as you all know and understand the handling of checks, if we can do anything to expedite a movement to have the number of the district printed on all checks. Checks in our district, for instance, are frequently printed by lithographers and others in other districts. In our own district we have communicated with all the printers and lithographers and requested them, when they were making new checks for any of our banks, to take up the subject with them. We have communicated not only with all of our member banks, but with all of the banks in our district, members and non-members, telling them it would greatly facilitate the handling of checks, whether they were members of the system or not; and we are trying to do everything that will save ourselves trouble. I believe that is one thing that will save us a great deal of trouble if we can take some active steps in all districts to bring that about as quickly as possible.

That was my only object in putting this subject on the program. Those districts that have not taken the trouble to communicate with the printers as well as with their member banks I believe would certainly do service to all of us if they would take it up in that way.

The Chairman: Mr. Howe, have you talked to the J. C. Hill Company?

Mr. Howe: We have in all cases. They are all doing it.

Mr. Bullen: We have taken it up with every printer and lithographer we know of that is doing any business.

The Chairman: Have you any motion you wish to offer?

Governor Seay: Nothing at all, sir. I thought it might be advantageous to call the attention of the Conference to it.

Mr. McKay: There are 16 states split out of the 48, and it would be a good idea to direct our efforts first to those sixteen states, because where the states are not split, the numbers are not so essential. If we had the sixteen split states numbered it would help a great deal.

Governor McCord: Of those 16 we have three. We are doing our best to get the numbers on our member bank checks. We are going a little bit farther: If one of our member banks draws on New York we will ask him to put a "2" on that for New York. That is on business inside of the district.

Governor Seay: That indicates the number of the district on which the check is drawn ?

Governor McCord: Yes.

Governor Seay: We have only one state that is split, and that is a small portion. We have received a number of checks from that one little state. It shows how it would facilitate things if we could carry this plan out.

Governor Hoxon: The district number, or the A. B. A. number of the bank?

Governor Seay: The district number.

Governor Fancher: We have in our district three split states, and we have circularized our banks twice, have sent sample drafts showing how to skeleton their checks and drafts, and then we have had it up with the principal lithographers and printers. We are just up to the point of making a third campaign and doing everything we can to get the district number on the checks. We have not gone as far as you have, Governor Seay, in the matter of circularizing the non-member banks, but I can see that it is very essential, and I think we will bring in the non-member banks.

Mr. McKay: Of course there is one difficulty connected with it, now, and that is that it has not definitely been settled yet as regards certain of the states in the re-districting that may occur, and if we had a lot of those checks numbered and then there should be some change in the figure, it would make more confusion than if we did not have them numbered at all.

(Informal discussion followed which the stenographer was directed not to report.)

The Chairman: Is there any further discussion of (x).

Governor McCord: I can explain, possibly, one reason why there has not been the numbering that was expected. It is a known fact that quite a number of banks laid in a heavy supply of stationery on account of the expected rise in the price of paper, and other expenses. They

have got a pretty good stock of stuff on hand. It is so in my district, I know.

The Chairman: Do you wish to make a motion, Governor Seay, expressing the desirability of activity along this line?

Governor Seay: I do not think it is necessary, Mr. Chairman.

The Chairman: We will then pass to the next topic.

(w) Double endorsement stamps.

Governor Seay: We have issued a composite stamp to our member banks, the nature of which you are all familiar with, I presume, and it greatly facilitates our work. It would still further facilitate it if the Federal reserve banks themselves would use a double endorsement stamp, and if it were universal, and there is no objection to it on the part of any member bank, it would save our handling checks once, at least, and since the number of the checks is growing so rapidly, it occurred to me that this was a subject that we might well devote our attention to and take some action upon as soon as possible.

Governor Fancher: May I inquire if you have in mind furnishing, for instance, our bank with a double endorsement stamp on items sent out to you?

Governor Seay: We would be glad to furnish anybody with a double endorsement stamp that would use it. Of course there are a great many checks that come in now in that way, along with a great many that do not, and it

seemed to nullify the convenience of the whole arrangement to have some that are not so endorsed.

Governor McCord: It would be very advantageous to have a double endorsement stamp between Federal reserve banks. I think you would run up against a considerable amount of trouble on double endorsement stamps for the member banks. They would be using your stamp on business that they did not send to you at all.

Governor Seay: I do not know about that, but when they do use it on business that they send us only, it is a tremendous business.

Governor McCord: But you are troubled with having items come back to you that never came through you at all?

Governor Seay: No; not nearly as much as we are troubled with the non-use of such stamp.

The Chairman: The Chair is curious to know how generally the double endorsement stamp is used.

Governor Fancher: We are not using it.

Governor Wold: We are not using it and do not believe in it.

Governor McCord: I am using it for the reasons stated.

Governor McDougal: We are using it. I will ask Mr. McKay to state to what extent.

Mr. McKay: One of our member banks uses it, endorsing items to us and for us, and it saves us a considerable amount of work, and we would be glad if the other member banks in Chicago did that. Their system is such that it

is inconvenient for them to use it because they endorse the items and run them all through a machine, and they do not want to make any distinction.

Governor Seay: They run them through a machine?

Mr. McKay: An endorsing machine.

Governor Seay: They do not make them payable to any Federal reserve bank?

Mr. McKay: No sir.

Governor Seay: They would have to alter the type of the machine?

Mr. McKay: They have a lot of machines and they are not all alike, and it would interfere with the system.

Governor Seay: You do agree that it would save us all a tremendous amount of work.

Mr. McKay: Yes.

Governor Treman: Mr. Hendricks, are we using a double stamp?

Mr. Hendricks: No sir. The only double stamp the Corn Exchange has got.

Governor Rhoads: We use it and would not be without it.

The Chairman: Mr. Howe, we do not use it?

Mr. Howe: No sir.

The Chairman: Why not?

Mr. Howe: Because we have to endorse them, anyhow. They might as well endorse everything. I think it would be impossible to have all the banks use it and use it cor-

rectly. If we get a few that do not use it they are going to go through, and we would rather endorse everything.

The Chairman: I think it is only fair to say that we do not have to draw the checks that come through country clearing or what used to be the country clearing. We only endorse the checks that are outside the packages.

Mr. Howe: That is all.

(Informal discussion followed.)

Governor Hoxon: We should regret very much to be obliged to give up our double endorsement stamp. 90 per cent of the items we receive are so endorse~~d~~.

Governor Kains: We do not use it. It is an endorsement, in a way. As Governor Miller says, it is just simply a memorandum.

The Chairman: Is that an expression of your opinion, Governor Miller?

Governor Miller: It is a memorandum because by common consent it binds, and I think their boy can put it on as well as ours, in one motion.

Governor McCord: I had a subject similar to that up with Governor Harding today. He advised me to ask my attorney to look into the matter when I go back home. The Citizens' Southern Bank of Savannah, a state institution, not a member, has endorsed their checks with a stamp furnished by the Atlantic National Bank of Jacksonville, the Presidents of the two banks being brothers. The

stationery is furnished by the Atlantic National of Jacksonville, and the Citizens Southern Bank of Savannah, in order to save time, is sending business direct to me with endorsement of the Atlantic National of Jacksonville. Mr. Harding says that is ultra vires.

Governor Wold: I believe Chicago has the same condition with reference to the Merchants' Loan & Trust Company and the Corn Exchange.

Mr. Attebery: We have the same thing in St. Louis. There are four or five of the larger non-member banks that deposit with us on the stationery of the member bank.

Governor McCord: Governor Harding suggests that I take it up with my attorney.

Governor McDougal: I do not think it should be done unless it is distinctly understood----

Governor McCord: He says it should be done by resolution of the board of directors.

Governor Seay: It is an innovation, of course, Mr. Chairman, something that they have not been accustomed to heretofore, but the convenience of it is so great.

Governor Rhoads: It is not such an innovation. We used it at the Trust Company for over ten years.

Governor Seay: We are not afraid of the abuse of it. It is susceptible of abuse, of course, but the ends to be gained are so very great that we are willing to assume that risk. If we were to ask the attorneys' opinions on everything that is done we would be afraid to



do many things. I am perfectly satisfied to put my own knowledge against an attorney's when it comes to a banking practice.

The Chairman: Governor Seay, what action would you like to have taken on this topic?

Governor Seay: It serves every purpose to discuss matters of this kind without any definite action. I do not think they are of sufficient importance to justify a resolution on the part of our conference, but when we have full discussion of them and have aired them from every side, the purpose that I had in introducing them is served.

Governor Kains: May I ask Governor Rhoads if he supplies these things to the member banks?

Governor Rhoads: Yes, and charge them up to the Boston transit department.

Governor Seay: If you will allow me I would like to take the sense of the Conference as to whether the use of a double endorsement stamp meets with the approval of the Conference.

The Chairman: If you will offer a resolution, Governor Seay---

Governor Seay: If you will ask for the ayes and noes on it, whether or not it is the sense of the Conference that a double endorsement stamp is approved and would serve a good purpose, I think that is all that is necessary.

The Chairman: Governor Seay moves, and it is

seconded by Governor Rhoads, that it is the sense of the Conference that the use of the double endorsement stamp is desirable. Is there any further discussion?

(The motion was carried, Governors McCord, Fancher, Wold and Kains voting no.)

The Chairman: If I were voting, I should vote no.

Governor Seay: For ourselves, we trust that the banks who are willing to use it, will put it in force with us; and we should be greatly obliged if all the Federal reserve banks would use it.

(v) Currency shipments.

The Chairman: We will take up (v), Currency shipments. Governor Seay.

Governor Seay: Since that topic was proposed, Mr. Chairman, I have come to the conclusion that it is hardly worthy of discussion here, and if I had waited I should not have proposed it.

The currency shipments have increased very much as the result of the new collection system, and to such an extent that we have had to employ another teller. We have found that a great number of banks ship us currency and make no adequate attempt to provide in other ways for the checks that we send them. Of course, we took up the subject with them and we told them what the spirit and the purpose and the letter of the law were on that subject, and the only thing we can do, finally, is to explain the matter to them and leave it to their good

faith--- which is where it usually ends.

The Chairman: Governor Seay, in our bank we have suspected that that privilege was being abused, but after some discussion we decided for the present that we would let the matter go.

Governor Kains: And pay the cost.

The Chairman: And pay the cost. A great many of our shipments are coming from the banks in northern New England, and at this season of the year they are very long on currency because of the fact that there are summer resorts up there and there is a very large business done in cash. Before we took the matter up with those banks we decided we would wait and go through a winter and find out what the normal experience was.

Governor Kains: Our experience has been that member banks getting checks from us have sent us currency when they have not been doing any business with us. So I refused to handle it and charged it back.

Governor Seay: We have come to dispute with some banks which said that they could not with convenience send us currency, that they were shipping currency to other correspondents and at the same time they were sending some items to us. In such cases, as I have said, we were compelled to leave it to their good faith, after explaining it, and that is where I think we will have to leave it with all of them.

The Chairman: The situation, as I see it, is that a number of our banks are sending checks to their out of

town correspondents for their credit and are sending currency to us. Undoubtedly the privilege is being abused; but it seems to us as a matter of policy better to let it go for the present until this summer season was over, when the banks that are abusing it will be short of funds.

(Informal discussion followed which the stenographer was directed not to report.)

The Chairman: Mr. Howe, do you remember what the estimate was that we made of the express charges for currency?

Mr. Howe: About a thousand dollars a month.

Governor Wold: In express charges?

The Chairman: Yes.

Governor Wold: I think it would be interesting if each one of the Governors would state what it has cost him.

The Chairman: At this time?

Governor Wold: Yes sir. It will not take long.

Governor Fancher: I have not any exact figures, but our charges have been very small. We had a few banks who started out to ship currency in by express, and we would stand the charges. We simply credited the amount, less the charges, and referred them to our circular. Our receipts for thirty days have been a little less than \$100,000. The total amount of charges, I think, was something less than \$20.

Governor Wold: We have no currency shipped to us at our expense. We have paid the express charges only in

case there were not sufficient items to send. Then, if they were short, they could ship currency at our expense.

Governor McCord: We have had some small shipments, from state banks principally.

The Chairman: Have you any idea how much they would average a day?

Governor McCord: No; I did not think to provide myself with those statistics. It is nominal, and we have an insurance policy of 10 cents a thousand anywhere in that district. We furnish a book of advice and have special arrangements whereby that advice is received in New York and we are covered.

Governor McDougal: In Chicago we have followed the same procedure of not standing express charges in any case except where a bank has been unable to take care of the situation by sending in Chicago exchange or items; and for a thirty day period, on express charges that we paid at our end we charged back \$80, and we absorbed \$46.

Governor Treman: I have no record here, but we have been running 60 or 75, and one or two days 85 or 90 thousand currency.

The Chairman: How much would you average?

Governor Treman: The cost?

The Chairman: No; the average amount.

Governor Treman: I think it has been greatly increasing; at least it had up to the time--- I have not seen this week's figures.

Mr. Hendricks: About \$500,000 a week.

Governor Rhoads: We are quite sure there are two or three banks that are not playing fair with us, but I think we can pump their currency dry pretty soon. They have other places, like Atlantic City, where they have been overburdened with cash, especially at this time of the year, and there are certain railroad and coal towns where the pay is twice a month in cash and they have to get rid of it. I do not think the thing will be abused very long.

Governor Hoxon: We have made no extracts from our books in regard to it. We just tell them they can send us exchange that is acceptable to us, or give us currency at our expense. From the 1st of July to the 31st we paid \$16.88. We get not more than a thousand dollars a day, if that. We have had practically no money shipped in to us, Mr. Aiken.

Governor Seay: Up to the first of the month we did not have so much shipped in to us. We had quite a considerable amount that was shipped, and we charged the exchange back to the banks, and in some cases we had no dispute. But a dispute did arise in certain cases, and we settled it as I have just explained. Since the first of the month the shipments have increased very much, and our teller's cage is a very active department. I had in mind the opinion held by some banks when we put that provision in the circulars, notably Kansas City, and I was very anxious to hear the experience of the different

banks in that regard.

Governor Kains: Our cost in that direction has been inconsiderable. I do not know the exact figures, but it must be two or three hundred dollars, and we have declined to pay if the member bank does not do business with us.

Governor Miller: We pay little or no express charges up to this time, but this is the season of the year when our money is needed at home.

The Chairman: It has proved the other way?

Governor Miller: It has moved the other way. Probably we have not paid \$10 express charges.

I would like to ask how much in volume of money you get for your thousand dollars a month?

The Chairman: We have not been receiving more than about \$85,000 a day on the average. I think that charge of \$1,000 is estimated. I do not quite agree with the cashier and Mr. Bullen in their estimates. I think they are pretty high. I think they were liberal in making up our estimate of the cost of operation of the collection department. They were very generous in their estimates, but I figure it would cost us about \$600 a month.

Governor Miller: \$20 a day.

The Chairman: We have been confronted with a situation that has been rather different from that of the other districts, because the Boston Clearing house in their operation of their foreign department permitted banks to

remit for their checks and draw exchange, Boston or New York, or in currency at the expense of the clearing house. So that all of the banks, particularly those in the northern part of the district and on the seashore, have been in the habit of remitting large amounts of currency in the summer, and we could not bring that down in the initial stages of our operations with that department.

Governor Wold: I would like to inquire if they ship the currency in round amounts, or just sufficient to cover remittances received from you?

The Chairman: The cashier can tell you better than I.

Mr. Howe: In round amounts.

Governor Wold: You might accumulate balances in that way.

Mr. Bullen: I might say for Governor Wold's information that we checked over practically all the accounts and we found where they had been remitting round amounts that the total cash remittances and the total checks sent them came out very nearly the same amount, or within a few hundred dollars, in all cases.

Governor Wold: Are these banks sending you any items at all?

The Chairman: Most of them are not, Governor Wold.

Governor Seay: In some cases we have discovered that the banks were sending us this money and checking on us at the same time, and we felt no compunction in putting the express charges to the debit of their ac-



accounts, and we did that.

Governor Miller: Do the banks that are remitting to you from these summer resorts send you lawful money?

The Chairman: No; they send us any kind of money. We have always taken national bank notes.

Governor Miller: You are carrying out the Boston system?

The Chairman: Yes; from the beginning we have received from member banks national bank notes.

Governor Miller: So do we, but our circulars on this particular question say lawful money.

The Chairman: Our circular stated that, but we take anything.

Governor Seay, what suggestions have you as to a method of disposing of this item?

Governor Seay: I have no resolution to offer in respect to it, Mr. Chairman.

(y) No protest items.

The Chairman: We will take up item (y), no protest items. Governor McDougal.

Governor McDougal: That topic arose from a request from representatives of the American Bankers' association that, with a view to securing uniformity, we give consideration to the matter of making \$20 and over the determination of whether checks are to be protested, or whether it should be ten dollars, under our arrangements.

I have no suggestion to offer, except to transfer it to the conference.

The Chairman: Is there any discussion as to the limit which we should set as to the amount of checks to be considered---

Governor Wold: I suggest that we have already settled it.

Governor McDougal: Our limit was fixed at ten dollars. The American Bankers' Association limit is twenty dollars; and the object sought being uniformity, their thought being that we might be willing to come up to their limit.

Governor Wold: I think if we say a ten dollar limit it would avoid the returning of a great many items. I think it would be very inadvisable to make any change. We are uniform, and we are going to handle checks.

The Chairman: I would like to get some action or some motion on the record.

My feeling is it is a great restraint on the promiscuous drawing of checks on non-existing balances.

I understand that you move that no change be made?

Governor Wold: I move that no change be made, and that the practice set by the transit managers and followed by the banks up to this time be continued.

Governor Treman: I second the motion.

(There was no discussion and the motion was duly carried.)

Governor McCord: Would it not be well to communicate that to the American Bankers' Association, in order that they may get together with us?

Governor McDougal: I think it would be a nice mark of attention to the A. B. A. representative who has been in correspondence by wire, at least, with Mr. McKay, and by letter, I believe, too, to let him know that the matter has been considered at this meeting, and communicate the action of the conference.

The Chairman: Governor McCord, do I understand that you move that the Secretary be requested to communicate with the representatives of the American Bankers' Association and advise them of the fact that the matter has had consideration and the Conference is of the opinion that the limit should not be increased, giving them a statement of the reasons.

Governor McCord: Upon Mr. McDougal's statement I think it would be well to let it go through the same channel.

The Chairman: As a matter of form, should not such a communication come from the Secretary of the Conference.

Governor McCord: Yes; that is right.

Governor McDougal: I think the proper procedure would be to have the Secretary notify Mr. Thralls of the action taken, and then Mr. McKay, who has been in correspondence, can do as he sees fit.

The Chairman: Do you second Governor McCord's motion, Mr. McDougal?

Governor McDougal: I do.

(The motion was duly carried.)

(z) Should two accounts be maintained between Federal reserve banks.

(Mr. McCord.)

The Chairman: We will take up topic (z), should two accounts be maintained between Federal reserve banks.

Governor McCord: That is accorded to me, but I think Governor Seay was the originator of the subject. Governor Seay, will you lead off on that?

Governor Seay: I did offer the subject, Mr. Chairman. We wrote to the various Federal reserve banks and sent them a memorandum prepared by our auditing department, calling attention to the fact that confusion was constantly arising in making entries in the different accounts of the Federal reserve banks. We have, as I believe, an auditor who is as capable as any man in the profession, and we also have another official of our bank who was a chartered public accountant, and they agree that it is very difficult for them to determine which account many of these entries should go to. If it is difficult for them to determine, how much more difficult is it for the department which handles these items to determine. Of course, as between Federal reserve banks it is not difficult for their auditing departments to

reconcile and straighten out matters. But as things now are with the gold settlement fund, we think transactions between us would be facilitated if we had only one account.

We believe that the funds of every Federal reserve bank can be wholly within their own control, although some of the Federal reserve banks do not think so. Our judgment is that it would facilitate our work, would lessen it if one account only was used between the Federal reserve banks.

The Chairman: That is a matter of considerable importance, and I should like to have a free discussion.

Governor Wold: I submitted this matter to our auditor and he prepared a little memorandum which I would just as soon give to the stenographer and have him put into the proceedings unless you wish to hear it read.

The Chairman: Will you read it?

Governor Wold: (Reading:)

"Should two accounts be maintained between Federal reserve banks?

"Yes, for the present at least.

"One bank would have to send a statement for reconciling purposes and the other bank would be required to send advices, whereas the daily statement does away with considerable advising at present.

"The idea that 'time deferred' can be estimated so closely as to make 'due to' and 'due from' accounts offset will not work out. Too many things may happen to mail in transit, as well as within the banks themselves.

Especially is this true of items handled by other banks for account of a Federal reserve bank.

"In the case of drafts issued by one Federal reserve bank against a credit balance with another Federal reserve bank, how is the issuing bank to know how long the drafts will remain outstanding, or how will the paying bank know that drafts are issued without a special advice. It would be necessary for the paying bank to withhold the amount advised, otherwise both banks might wire in a credit.

"While it might do away with some indecision as to which account an entry belonged, in, the single account from volume of entries alone would be cumbersome. With as many as fifty credits a day in some of the accounts we prefer to keep these entries apart from our own.

"The system of double accounts in vogue with commercial banks for interest purposes and to inflate balances cannot be used as an argument against double accounts between Federal reserve banks.

"Any desired information can be more readily obtained from an account in which the entries of any one Federal reserve bank are segregated than from a consolidated account.

"Finally, the adjustment of exceptions would likely lead to correspondence with Washington, which we prefer to avoid."

Governor Seay: Mr. Chairman, I would like to say that

my own opinion is that this is a matter which is more properly to be discussed and threshed out by the auditor, and it is not my purpose to argue it here. I do not suppose there are any bodies of men who differ more among themselves than auditors do and expert accountants. They are like the doctors; they have their varying opinions. I am sure that our auditor can answer every one of the objections given by your auditor. I am prepared here with a great many comments, but I do not propose to burden this conference. I do not know that the subject need be pursued in detail, because we have our auditors to solve these questions, and periodically we have meetings of our auditors.

Governor McDougal: I do not think it is a matter for the auditors to solve. I think it is a matter of banking; and if I understand your statement correctly, one reason you advance is the desirability of maintaining control of your balances.

Governor McCord: No; I said that that was one of the arguments advanced by some of the banks, notably by your bank, as I understand, Mr. McKay.

The Chairman: I think it is a very important matter.

Governor Seay: We do not see how you can lose control of it in one account, considering the activities that now prevail between the Federal reserve banks.

Governor McDougal: But you see how we can maintain

control by operating two accounts, do you not?

Governor Seay: I can see how you can, but if I could also see how you could accomplish the same result in a more convenient way, I would be in favor of that.

Governor McDougal: Yes, if that could be done.

Governor McDord: My auditor says that he agrees thoroughly with the idea of consolidating the accounts into one. There is no doubt that it would simplify the handling of the Federal reserve bank accounts very materially and facilitate the work not only of the transit and auditing departments, but also the bookkeeping department. As long as double accounts are continued, even with the greatest care, errors can always be made. In case the single account system is adopted I would think it advisable for all banks to send each other daily statements.

Governor McKay: Governor Aiken, I wrote something on this subject that I would like to read, if the meeting would care to hear it. It is in answer to a memorandum that Governor Seay has sent me, by his auditor:

"While it is true that there has been some confusion in making entries for transfers of funds, this confusion has been caused by the lack of understanding of the operation of the double accounts. As an illustration, let us consider the two accounts carried between your bank and ours. Any transaction which originates in Chicago or is initiated by a member bank of this district should go into our account with you, -- that is, our credit balance on



your books. This would apply to direct transactions you might have with your member banks. Items sent by them to you for credit would go into our account with you. Transfers of funds requested by us would go into our account with you. Items sent by them to you for credit would go into our account with you. Transfers of funds requested by us would be charged to our account with you. For transactions originating in your district, the entries would be made in your account with us. If one of your member banks desired to transfer funds to one of our member banks, upon receiving your request we would charge your account with us and credit the member bank. That is, the funds would come out of the balance which you had created here. I consider the maintenance of double accounts necessary for the following reasons.

"1. That we may have control of the funds which we have in the other Federal reserve banks.

"2. To avoid confusion in the reconciliation of the accounts.

"3. To enable us to know definitely at all times how we stand before settlement through the Gold Settlement Fund.

"4. To enable us to properly conduct our exchange transactions.

"5. To prevent one Federal reserve bank from being obliged to advance funds to another.

"6. They are necessary to enable proper settlements

to be made through the Gold Settlement Fund and such settlements are made from the advice of the Federal reserve bank which receives and collects the items and cannot properly be made by the bank which sends the items. Checks should not be settled for until payment has been received by the Federal Reserve Bank to which they are sent.

"The twelve Federal reserve banks are separate institutions and under the Federal reserve act provision is made so that one bank may advance funds to another through re-discounting. It is conceivable that one Federal reserve bank might draw on the others when it is short of funds and have a continuous overdraft, and thus obtain funds without being obliged to rediscount.

"The practice of keeping double accounts or contra-accounts, as they are called in Europe, is one of long standing and the need for it has developed in countries noted for sound banking practice. I am speaking from personal knowledge of the foreign exchange departments of the Chicago banks where contra accounts are maintained with European correspondents and further the contra accounts with Canadian banks maintained in the institution with which I was formerly connected were under my supervision.

"I may say that in regard to the large fluctuations in our daily statements, caused by the 'due to' and 'due from' Federal reserve bank accounts, this could be reduced if more frequent settlements were made through the gold settlement fund, if it is considered necessary. It is

understood, of course, that any Federal reserve bank may call for settlement from another Federal reserve bank at any time should the amount involved become large enough to warrant it."

Governor Seay: Every one of these reasons sounds conclusive, and yet I have a detailed answer here to every one of them, prepared in our auditing department. And as to the foreign custom, our auditor, who was a Canadian himself, says, I think, the Boston Branch of the Canadian bank still keeps but one account with London and another with Paris: So I am sure that we could prolong this discussion, but it is not my purpose to do that.

Governor Kains: As far as we are concerned, we would like to recommend the discontinuance of carrying current accounts between Federal Reserve Banks and settling balances periodically through the gold settlement fund, and do away with all these accounts. All interdistrict transactions should be direct with gold settlement fund for account of the Federal reserve bank concerned. The plan will eliminate necessity for carrying funds on deposit with other Federal reserve banks and make each debit or credit for account of another Federal reserve bank correctly show a shift in location of reserves instead of, as at present, a decrease or increase in net deposits.

I think we will have to come to that sooner or later, but I do not know that this is the proper time to talk about it. I agree with Governor Wold that we had better go slowly; but I think we will have to come to that.

(Informal discussion took place which the stenographer was directed not to report.)

The Chairman: Speaking for myself, I frankly admit that I am not an auditor nor an expert accountant, and while I do not spend much time on the books I like to be in a position where I can go to the books and get an intelligent knowledge of what is going on; and I admit that I cannot do that under this system of single account. It seems to me it is a much more complicated method of accounting, and in the present stage of development and activity the present method of controlling accounts is much safer and more satisfactory. Mr. Bullen, the auditor, may not agree with me at all in that, but that is my feeling. I do not think it is entirely a matter for the auditors of the banks to settle. I think that it is largely a matter for the executive officers of the banks to settle. Auditors, someone has said, are like specialists in medicine. They become obsessed with the refinements of their specialty, and it seems to me this is a matter of practical accounting and accounting in which we, as chief executive officers of these banks, have a certain responsibility. I personally would like to see some resolution on the subject. I confess I would like to have it favorable to my point of view.

Governor Seay: I can read you a letter here received from the chief of the statistical bureau in Washington;-- just an excerpt from it:

"So far as my own division is concerned it is immaterial whether the banks show gross or net figures; but Mr. Gibney seems to think that any changes in these accounts should be deferred until the daily settlements through the gold settlement fund are adopted."

The Chairman: Is there any further discussion of topic (z)? Does anyone wish to offer a resolution bearing on this matter?

(At this point Governor Harding and Mr. Delano entered the conference room.)

If there is nothing else in connection with (z) we will pass it.

Governor Harding and Mr. Delano having come in, we will take up some of the more important questions that are left. We will go back to section (t).

(t) Transfers between Federal reserve banks.

Mr. Bullen, I would like to ask you to report on the transaction that you and I discussed in this connection, in which you made a memorandum, I believe. It is a question that was raised by Mr. Hendricks and somebody else with regard to what constituted a telegraphic transfer.

Mr. Bullen: We have been requested several times by one of our local member banks to receive a deposit of Boston funds for the credit of another Federal reserve bank for use of one of their members. The supposition

in this case is that the bank for whose use the funds are deposited had arranged with its own Federal reserve bank for the conversion of the Boston funds to its own city. The federal reserve bank in question objected to this practice, claiming ~~they~~ had no right to receive the deposits without their consent.

The Chairman: This was between the Chicago Federal reserve bank and ourselves?

Mr. Bullen: Yes sir. As they take that stand, I really think we ought to confer with them because they believe we have no right to receive funds for them and place our credit in this way. But our Boston bank showed us correspondence with the Chicago bank which seemed to bear out their side of the story that everything had been arranged and a disposit of Boston funds was acceptable.

The Chairman: As I understand that particular transaction, the deposit was made with us on the order of a Chicago bank by the First National Bank in Boston?

Mr. Bullen: Yes sir.

The Chairman: And the funds were immediately made available for that Chicago bank by the Federal reserve bank of Chicago?

Mr. Bullen: It was not so ordered by the bank that deposited the funds, but the Chicago bank took it to be so.

Mr. McKay: Our understanding with the Chicago bank was that the Boston bank was to make this transfer to

Chicago for them. We had the same situation exactly with the same bank in connection with Philadelphia.

Mr. Hardt: It was day after day with us.

Mr. McKay: Suppose the bank down there had not put them through promptly enough, but it turns out the transfer was not to be made by the Philadelphia bank or by the Boston Bank at all. They did not agree to make any such. They simply deposited the funds to our credit in the Philadelphia and Boston banks. The bank at our end of the line was using that means to deposit Philadelphia exchange that was selling at a discount in Chicago.

Mr. Attebery: I might mention a case that has come up between Kansas City and ourselves. One of the banks in St. Joseph, as I understand, wired their St. Louis correspondent to deposit funds with us for the credit of Kansas City for their use. We were not asked to advise them by wire; the deposit was simply made with us. The bank said, "Here is \$25,000 for the use of the bank in St. Joe." We got advices the very next day indicating that they had credited St. Joe, on the strength of the telephone message that this transfer was being made. We have never taken it up with them. We have been handling them so far only every few days.

Governor Wold: What is the objection on the part of the Boston bank to the transaction?

The Chairman: As to whether or not we were entitled to telegraphic transfer charge.

Mr. Hardt: We have had as high as three of those a day for that particular National City Bank of Chicago, between fifty and a hundred thousand dollars, and we never considered any telegraphic charge in the matter; we never had anything to do with it.

The Chairman: Is that deposit immediately available with you, Mr. McKay?

Mr. McKay: It is deposited in Philadelphia, and the Philadelphia Federal Reserve Bank wired that this amount was deposited for the credit of this bank in Chicago, and we supposed that the Philadelphia member bank was transferring those funds to Chicago. But the facts are that the Philadelphia bank did not agree to do that at all; it simply deposited in Philadelphia, and we were the ones to make the transfer, and the Chicago bank did not have to pay anything; neither did the Philadelphia bank. We did not know the real facts of the case until I got to Boston the other day.

Governor Seay: Is that a burden, to do that for your member bank?

Mr. McKay: They were getting the money two days in advance.

(Informal discussion followed which the stenographer was directed not to report.)

The Chairman: Mr. Hendricks, I believe, has ideas on the subject.

Mr. Hendricks: We had this situation arise many



times, and we have reached the point now where we do not recognize a transfer when we see it. A bank in New York comes in with a check for \$300,000 and they say, "Deposit this to the credit of another Federal reserve bank by order of a member bank." They claim that is not a transfer, that they are merely making a deposit that they want us to advise by wire is deposited to the credit of another Federal reserve bank. This comes in on Wednesday morning, we will say, and on Wednesday night they transfer it. I cannot see for the life of me why that is not a telegraphic transfer. They just use the language "by order of" so they cannot call it a transfer. If they use the language "We deposit this for the credit of the First National Bank", or for the credit of someone else, that is a transfer. But they say, "By order of" just to beat the devil about the bush.

Governor Seay: The Richmond bank telegraphs to its New York correspondent, "Please deposit in the Federal Reserve Bank of New York \$200,000 to the credit of the Federal reserve bank of Richmond." You do that, do you not?

Mr. Hendricks: Yes.

Governor Seay: And yet, if you were requested to advise the Richmond bank that you have done so, you would charge for it?

Mr. Hendricks: That is a transfer.

Governor Seay: I do not think it should be done.

Mr. Hendricks : That would be an actual transfer; that is all.

Governor Seay: You have done nothing. Suppose the New York bank had an excess balance with you which was subject to its control entirely.

The Chairman: Is not the whole essence of the thing when it is available to the bank in Richmond?

Governor Seay: Yes; but what difference does it make to the Federal reserve bank of New York? It has done nothing and has lost nothing; it is performing a service for its member bank---

Mr. Hendricks: The only thing that worries us is that it is not carrying out the instructions of the Conference of Governors. They decided that all telegraphic transfers should be charged at the rate of two per cent interest over elapsed time. We are living up to that; that is all.

Governor Seay: I cannot think that those charges were made to cover any such transactions as this. It has been very difficult to explain it to some of our member banks.

Mr. Hendricks: We had difficulty explaining it to some of the other Federal reserve banks.

Governor McCord: Probably I am one of the guilty parties in the transaction. I bought a lot of foreign bills and agreed to furnish currency in Atlanta on condition that they deposit gold in the Federal reserve bank of New York. I thought I was doing a favor and pulling

gold into the Federal Reserve System, and I certainly would not like to have to pay two days' interest on that kind of a transaction.

Governor Fancher: In the matter of transfer we have, I think, in every case stuck rigidly to the action taken by the Conference of Governors. We are making mail transfers every day from New York and Boston without charge, and when we place funds by wire there is a two days' interest charge. There was deposited by two different banks in New York with one of our member banks \$600,000. \$300,000 we advised them by wire and \$300,000 we advised them by mail. They were deposited at the same time. We knew from our member banks that those deposits were to be made. However, we made an entry for the first \$300,000 and we were advised by wire---

The Chairman: Is it not true that you made \$300,000 available for one bank the day before you made it available for the other, and they should pay for that availability.

Governor Fancher: That is just exactly what we did. I think that it was the intent of the member banks to have it all available, and whether they gave instructions to the second bank I do not know, but I think it was the intent that the whole \$600,000 should be available that day.

The Chairman: I can see that if we are going to carry on such transactions without any charge, when we have an Anglo-French loan it will run into a very large volume,

and that the banks will abuse the privilege unless there is some check upon it.

Mr. Hendricks: As I recall the discussion that occurred when this action was taken by the Governors, it was stated that the charge was placed upon the telegraphic transfer to prevent the bank in San Francisco drawing a check on New York, kiting its checks, and so on. Of course at that time we were talking of Federal reserve banks for immediate credit. When it got to New York, they would buy a telegraphic transfer and make it good.

Governor Seay: Suppose you were called upon, in Boston, Governor Aiken, to make a transfer to New York, we will say. What disadvantage can it possibly place you under? Your member bank, we will say, has an excess balance. It desires you to place that excess balance to the credit of the Federal reserve bank of New York, and you will do that by mail and advise them, and there is no charge. But if they want a little quicker advice than that you will charge them for the whole thing.

The Chairman: They get the advantage of one day for the use of the money, as against a constructive shipment that we may have to make---

Governor Seay: If that is a service that we can perform for our member banks, why should we not do it? I was chairman of <sup>the</sup> committee which framed that resolution on transfers, and I have it before me. This is a memorandum that was made. It was to prevent a member bank re-

ceiving undue advantage through drawing against a balance on which it is receiving interest and then covering such draft with a telegraphic transfer. That is quite a different matter.

Mr. Hendricks: How are you going to distinguish it?

Mr. Delano: I would like to ask a question so as to clear up my own understanding of the telegraphic transfer. I understand that if I, an individual, in Washington, want to pay a bill in New York or create credit in New York I would have to go into my bank in Washington and ask them to telegraph funds to New York. That would be a telegraphic transfer for which I would pay. If, on the other hand, I had a credit in New York myself and should wire my bank in Washington to deposit so many thousand dollars at a certain point to pay my bill, I would not say that was a telegraphic transfer; that would be simply a transfer of a credit that I had in that place.

In the cases that you are criticising as being tantamount to a telegraphic transfer, they are really not making a telegraphic transfer; they are simply transferring a credit which they had. The Chicago bank apparently wired someone here in Boston with whom they had a credit to transfer a certain amount for the credit of the Chicago reserve bank.

Governor McDougal: That is right, excepting that you do not go quite as far on your transaction as we did with ours. There was a step beyond in which we were

obliged to immediately pay those funds in Chicago to the Chicago bank.

Mr. Delano: I understood Mr. McKay to say that is where they misunderstood the transaction. That was not what was intended. All the Chicago bank intended was that the funds be deposited in the Boston Federal Reserve Bank to the credit of the Chicago bank.

Mr. McKay: No; we thought the intention was that the Boston Bank would make the transfer from Boston to Chicago of those funds. The Boston member bank would not do that. They did not want to pay the cost of making the transfer. The facts are that the bank in Chicago asked us to deposit the funds in the Boston Bank for our credit and we supposed the Boston Bank had arranged to make this transfer to Chicago. They drew the money out of Chicago the same day that the money was deposited in Boston.

The Chairman: Is it not the fact that one of your banks had a lot of Philadelphia exchange that they could not get rid of, and they wanted you to convert it into Chicago exchange?

Mr. McKay: Yes.

Governor Seay: So that in this case any charge belongs against the Chicago bank and not against the Boston bank.

The Chairman: The Chicago bank should collect that money from their correspondent bank.

Governor Wold: That is the point I wanted to raise. The First National Bank of Boston wants to transfer a million dollars to the credit of the Federal Reserve Bank of Chicago. Why ought not they to pay the cost of transfer by wire?

The Chairman: Who?

Governor Wold: The First National Bank of Boston.

The Chairman: If the First National Bank gets instructions from the First National Bank of Chicago to transfer to their immediate credit by wire a million dollars, we should consider that sufficient authority to do it, and, being done for the benefit of the First National Bank of Chicago, we should think the First National Bank of Chicago should bear the expense of converting Boston exchange, which apparently is a drug, because we cannot use it, to Chicago exchange, which they can use.

(Informal discussion followed which the stenographer was directed not to report.)

The Chairman: The particular incidents, it seems to me, are immaterial; but I think we should establish a definite practice in this matter. If telegraphic transfers are going to be made for nothing as between the Federal Reserve Banks, we can do it for the convenience of a good many of our member banks in western Connecticut, and they would enjoy it. But we have stuck to the rule that was adopted and have declined to make those transfers without charge.

Governor Wold: There is no criticism on our part of

that plan. If a member bank wishes us to make a transfer we should charge them. But my thought is that you should charge your member bank----

Governor Seay: But, Mr. Wold, suppose the member bank in Boston was requested to do that. They did not originate that. Undoubtedly there is an opportunity there, theoretically, or actually, for the Federal reserve bank to make a charge if it cares to do so. It is performing a service for a member bank. It can charge or it cannot. Shall we perform that service free, give it to the member bank or not? Let us take the case again. The Richmond bank requests the National City Bank to deposit in the Reserve Bank of New York something to the credit of the Federal reserve bank of Richmond for the use of the First National Bank. If the National City Bank will wire the Federal Reserve Bank of Richmond that they have made that deposit, we want nothing else; but if the Federal Reserve Bank of New York wires us it has received that deposit or charges the First National Bank of Richmond for making the transfer, that is ridiculous.

The Chairman: I think the point is well taken. The New York Federal Reserve Bank has charged the City Bank with the transfer.

Governor Seay: Yes; and the City Bank is making the deposit at the request of somebody.

(Informal discussion followed which the stenographer was directed not to report.)



Governor Seay: I move that when a member bank makes a deposit in a Federal reserve bank for the credit of another Federal reserve bank, it be not construed as a transfer of funds, and that no charge be made therefor.

Mr. Hardt: Governor Aiken, in this case there is no deposit; it is simply charged to their account. There is no deposit of funds.

The Chairman: Will you repeat that resolution.

Governor Seay: That when a member bank makes a deposit in a Federal reserve bank for the credit of another Federal reserve bank it be not construed as a transfer of funds, and that no charge be made therefor.

Governor Kains: I second the motion .

Governor Wold: I do not know that I am prepared to vote on that. It might put the banks at a great disadvantage. We are entitled to a charge for transfers by wire. It is too broad.

Governor McDougal: It would give the large city banks in Chicago a great advantage, anyhow. I believe that since I have heard from Governor Aiken on this transaction it is clearly a transfer of funds, and somebody ought to pay for it.

The Chairman: I am very clear in my own mind about that.

(Further informal discussion took place which the stenographer was directed not to report.)

Governor McCord: I call for the question. I think

we have discussed it long enough.

(The question was put and declared lost.)

(Further informal discussion followed.)

20x. The Chairman: We do not seem to have made much progress with topic (t). If there is no further discussion we will pass it.

The next topic is (aa).

(aa) Charges to be collected by member banks from their patrons, and charges to be imposed for clearing or collecting by Federal Reserve Banks.

Governor Kains: I put that on the program because of the action of the Fresno clearing house, which notified its members that on and after a certain date in August they would charge their customers' accounts five cents a hundred if bearing endorsements inside of the district No. 12, and 10 cents a hundred if outside. I do not know whether they are justified in doing that or not. I thought perhaps we might recommend to the Board to take some definite action in that matter. I would like to have it discussed, that is all.

The Chairman: The question being whether they were within their rights in establishing that charge?

Governor Kains: Yes.

The Chairman: The Federal Reserve Board has the power to establish such charges, has it not?

Governor Harding: We seem to have power to fix, by rule, the charges that may be imposed by banks upon customers whose checks are cleared and collected through the

Federal reserve banks. We have fixed no maximum charge so far. There are two theories as to what that section means. "Its patrons whose checks are cleared through Federal reserve banks". That "its" clearly is a mistake. Probably it should be left out or it should be "their" patrons. Then the question is what is meant by "whose checks". What is meant by "whose"? Is it the theory that Mr. McKay advanced two years ago that where the customer of a member bank wrote a check on the member bank and that check reaches a member bank for payment through a Federal reserve bank--- and there is a reversed process in there--- that the member bank is deprived of any exchange that it has been in the habit of getting on a check from some other bank? Is it that the member bank might go ahead then under one construction and make a charge against the drawer of that check, saying, "You have drawn a check on us payable to our account and we have to cover that in San Francisco funds, or Chicago funds, as the case might be, and we are charging you accordingly. Another construction is that the word "whose" has another significance. You might have a jobber doing business with a member bank. The jobber deposits 50 or 75 checks, drawn by various people on various banks, and the member bank would say, "Well, these checks foot up \$1500; they are payable at about 40 different places, and we think we ought to have \$15 exchange before putting those checks to your credit. We are going to collect these

through the Federal reserve bank." The Board might say that any member bank shall have the right to charge customers depositing checks with it, providing the member bank is going to collect those checks through the Federal reserve bank, say a maximum charge of 50 cents a thousand. That is the other way of looking at it.

Governor Seay: Yes; there are two horns to the dilemma. The Board is not going to do anything just now?

Governor Harding: I think the first thing to do is to get clear as to what that statement means and whose checks it refers to.

Governor Miller: Is that made clear in the amendments which the Board has before Congress now?

Governor Harding: I do not know. I gave Mr. Glass a draft of that about two weeks ago, making it clear. He said it was satisfactory to him, but I do not know how it is going to come out of the conference committee.

Governor Seay: Which way did you make it, Mr. Harding?

Governor Harding: That the Board should have the right to fix, by rule, the maximum charge that might be imposed by member banks upon their patrons who are depositing miscellaneous checks with them, which checks they were going to clear through the Federal reserve bank. I did that believing that the other charge was an impracticable one.

Mr. McKay: It is much easier to charge the

depositor than it is the drawer.

The Chairman: Governor Kains, is that satisfactorily disposed of?

Governor Harding: We have hopes that the amendment will be passed this week and we will know just exactly what Congress has done about it.

The Chairman: The next topic is (bb).

(bb) Compensation to member banks for collecting items on non-member banks.

Governor Kains: Where it is necessary or expedient to collect items on non-member banks through member banks in the same location, it seems equitable to offer to member banks reasonable compensation for such service. With the full development of the clearing and collection system this would result in, say, nine tenths of checks on non-member banks being collected through their competing member banks; it would be agreeable to the member banks in that it would afford some profit, and in many cases would operate in a strong leverage to bring eligible state banks into the system. In other situations this arrangement would enable us to collect through member banks items on state banks in contiguous towns which we are at present unable to collect without cost.

If we could induce the First National Bank of San Jose to collect all the rest of the checks in San Jose and give them a little something for it, the other banks would say, "Oh, no, send your checks direct to us and we will pay them at par." That is what I want to get at.

Governor McCord: May I ask you a question, Governor Kains.

The Chairman: Governor McCord.

Governor McCord: Take a city like New Orleans, where you have the Hibernia Banking & Trust Company and the Hibernia National Bank. How do you think it would work out there. You know the relation of those banks?

Governor Kains: Yes, I do.

Governor McCord: It would be a very dangerous proposition down there.

Governor Kains: Of course they are under the same ownership, but that is not the way it is done in our district. There are a few state banks that are independent. I want to lick these state banks into shape, and that is the way to do it.

Governor McCord: I am opposed to allowing anybody any exchange under any circumstances.

Governor Seay: There are evidently two opinions among our member banks. A great many of them wish us to collect without expense checks on non-member banks, and on the other hand a great many of them wish us to charge for collecting on state bank items, which will give the depositors, the member banks, the advantage. We have encountered that, and I speak from experience.

Governor Kains: But the object is to par this country. This is the way to do it.

Governor Seay: In order to do that, however, we

would have to take the back track on a great deal that we have done up to the present, in fact on everything that we have done with respect to non-member bank checks up to the present time.

The Chairman: Is there any further discussion of this topic (bb)?

Governor Kains: I would like to know if it would be all right to do it. I would like to do it, but I do not want to do anything that is not proper.

The Chairman: I would like an expression from some of the Governors here as to the desirability of beginning the payment of such a charge.

Governor Kains: It would not be very much, but it would be just enough.

The Chairman: It is a matter of principle, not a matter of amount, Governor Kains.

Governor Kains: I realize that, Mr. Chairman.

Mr. Delano: In order to get a concrete consideration of it, suppose you could collect these San Jose items by appointing an agent in San Jose to whom you send the checks, and who would go around and collect them at their counters. Suppose the cost of running the agency there would be a hundred or two hundred dollars a month. Suppose that instead of doing that you went to the principal bank there and said, "Well, now, I am perfectly willing to give you what it will cost you to collect these items and let you make that money; you have the machinery here

for doing it." I can see the advantage of doing that. The real disadvantage is that if you do that with the First National of San Jose you cannot very well refuse to do it for every other national bank in the district which will agree to collect non-member bank items.

Governor Seay: Governor Kains was not at our last Conference of Governors and he perhaps does not appreciate the travail we had over that measure among others. It was decided, as one of the principles, that Federal reserve banks should pay no exchange for the collection of items.

Mr. Delano: But I do not think you could call that exchange.

Governor Kains: It is compensation, not exchange.

Governor Delano: It amounts to compensation for the fellow that does the work. You are not paying it to the bank that is remitting the funds.

Governor Seay: However you might term it, the bank that deposited the items would feel that it was paying exchange for collecting them.

Mr. Delano: Of course it would be a tremendous lever on the state banks.

Governor Wold: I am not so sure it would be such good leverage.

(Informal discussion followed.)

The Chairman: Governor Kains, in the interest of progress, will you offer a resolution?

Governor Kains: I move that where it is necessary or expedient to collect items on non-member banks in the



same locality with a member bank that it is the sense of this body that Federal reserve banks be accorded discretion to deal with that in a way of offering member banks some compensation for collecting items on non-member banks.

The Chairman: You have heard the motion, gentlemen. Is there a second?

Governor Seay: For the sake of getting it to a vote I will second it, although I do not expect to vote for it, for the following reasons, among others. It would involve a turn-about with regard to what we have just done, and that, coming so quickly upon the establishment of the system, would create a misunderstanding and produce some demoralization among our banks.

Governor Delano: Why not let Governor Kains do this in his own district in a few localities. He need not get out any circular about it, but may simply make private arrangements and not make it a precedent; he need not say that because he did it in one case he intends to adopt it as a policy; but simply to try it out.

Governor Kains: All I want is the permission.

Governor Delano: It seems to me that if it is going to cost him \$200 or \$300 a month to collect items in certain places, I cannot see how it makes much difference how he spends that \$200 a month. If he thinks he can get it done more efficiently and effectively in one way, why not let him try it out.

(Informal discussion followed.)

The Chairman: I will put the motion.

(The motion, having been duly seconded, was lost.)

Gov. Harding: May I be permitted to explode a little boomshell right here in that connection, in the way of a possible amendment that may be added to the Act. I know it has been discussed by some members of the Banking and Currency Committee of both houses. I do not know whether it is now in the pending amendments, or whether it will be deferred until next winter, or whether it will be brought out then or not; but it has been discussed, not so much by the Board, but in the committees. It is a section like this: "Any non-member bank may, for exchange and collection purposes, be permitted, subject to regulations to be prescribed by the Federal reserve Board, to maintain an account with the Federal reserve bank for the district in which it is located, and may deposit to the credit of its account in the Federal reserve bank lawful money, Federal reserve notes and checks on other Federal reserve banks", the idea being that these non-member banks will not be extended any rediscount privileges or voting privileges, but that they may, subject to regulations prescribed by the Federal reserve board, which regulations would set forth the amount of balance that should be required, be allowed to maintain that balance, and furthermore that they will permit the Federal reserve banks to charge their accounts with checks on themselves at par

without any cost. That they shall have the privilege of carrying an account with the Federal reserve bank and shall be permitted to send to the Federal reserve bank direct not only lawful money and Federal reserve notes, but also checks that they may have on other banks. It is thought a number of state banks would do that because, in most cases, the state banking departments would rule that this money with the Federal reserve banks would count as a part of the state bank's lawful reserves, and the state bank, finding that the tendency is that they, in getting the benefit of the collection system through the medium of the member banks, would show the competing member banks what its business was, that they would prefer to deal directly with the Federal reserve banks. That is something that has been considered, and it may be quite seriously considered next winter. It may be well for the Governors to think that over and let the Board know what you think about it.

Mr. McCord: We had a proposition from one of our largest state banks that if we would permit them to carry a balance with us--- although I told them we could not legally do it--- they would not only do all their transit business through us, but they would try to bring into the system quite a few of their small correspondents.

Governor Wold: Bring into the system?

Governor McCord: Into the collection system.

Governor Wold: But they get all the benefits now without putting up any money.

(Informal discussion followed.)

The Chairman: The next topic is (cc).

(cc) Service charge for items forwarded direct by member banks for Federal reserve banks.

b

Governor Miller: Mr. Chairman, that came up owing to the fact that at the Transit Managers' Meeting in Chicago it was understood that items sent by member banks to Federal Reserve Banks outside of the district were to come under the service charge. We have had considerable correspondence with the banks in St. Louis and Chicago with reference to a multitude of checks which St. Louis and Chicago local banks are sending to the Federal reserve bank in Kansas City and placing them to the credit of their respective Federal reserve banks. We find that neither St. Louis nor Chicago local banks have a service charge on such checks. It is quite a volume of our business. We think there ought to be a service charge when we receive checks direct from the St. Louis and Chicago banks.

Governor McDougal: The checks that you have in mind, I believe, were Kansas City checks only?

Governor Miller: Yes.

Governor McDougal: No out of town checks, of course.

Governor McCord: We have always put those on the free list.

The Chairman: There is no service charge on those checks because of the established principle that a

Federal Reserve Bank would not charge on items on its own city, as I understand it. Is not that the case, Governor Miller? These are all checks on banks in Kansas City, are they not?

Governor Miller: Yes. That is where we get them direct from other Federal reserve banks, but these checks come to us from the member banks.

The Chairman: It makes no difference in the handling operations.

Governor Miller: I suppose not.

The Chairman: The theory upon which that decision was reached was that it was a matter of inter bank comity, that there should be no charge for that.

Governor Miller: We are not very anxious about the charge, but we want to conform to the transit managers' regulations, and that is what it says.

(Informal discussion followed, during which discussion Mr. Hendricks read from the stenographer minutes of the Transit Managers' Conference in Chicago.)

The Chairman: What do you want, Governor Miller?

Governor Miller: Nothing. (Laughter)

The Chairman: Then we will pass topic (cc).

The next topic is (dd).

(dd) Uniformity in billing service charges between Federal reserve banks.

Mr. Treman: That topic is suggested simply for the purpose of having uniformity; that is, that each Federal reserve bank should render on or before the 5th or 10th

of each month its service charge, the same as to the member banks. If it is done in the middle of the month or some other time it complicates matters, and I think it would be better to have a definite date.

The Chairman: Will you make a motion embodying your ideas on that so as to bring it before the meeting?

Governor McDougal: Mr. Chairman, I have a recommendation here made by one of our officers, Mr. Cramer, bearing on that in which he says: "I recommend that bills be rendered from the 26th of one month to the 25th, inclusive, of the next, and that they be mailed so as to reach the other Federal reserve banks on or before the last day of the current month. This would enable the banks to get this cost for the full month in the current month's expenses.

The Chairman: I will ask Mr. Treman to make a motion embodying his ideas, so as to bring it before the conference for action.

Mr. Treman: I move that on or before the fifth day of each month a service charge be rendered to each Federal reserve bank for services rendered in the preceding month.

(Informal discussion followed as to the date.)

(Mr. Treman's motion, after discussion was as follows:)

Mr. Treman: I move that on or before the 10th day of each month a service charge be rendered to each Federal

reserve bank for services rendered in the preceding month.

Governor McCord: I will second that.

Governor McDougal: I would like to offer an amendment to that by including a provision under which the banks are to render bills in a uniform manner so that they can be reconciled by the banks receiving them.

Governor McCord: Have you a form to suggest?

Governor McDougal: I have a form which is of course subject to criticism.

(The forms referred to were thereupon handed to the Governors.)

Governor Wold: I have a little matter that I wanted to bring up, and I think this is about the only place I can interject it. Some of the banks are including in their remittances to us charge slips for currency shipments. It seems to me that inasmuch as there are going to be regular bills rendered at the end of each month for collection charges that these bills might include these expense charges on currency. When the bill is sent through with the remittance letter it is unbusiness like.

Governor Fancher: Do you mean for Federal reserve notes returned?

Governor Wold: Yes. They put in a debit slip and include it in remittance letters. It seems to me that all bills of this kind should be rendered on the 10th of each month.

The Chairman: Would you offer that as an amendment to the motion?

Governor Wold: I would amend it so as to provide that any charge for insurance, postage, shipment of Federal reserve notes, and so forth, be included in the bills rendered for exchange at whatever time in the month it is deemed best.

(Informal discussion followed.)

Mr. Treman: Why not make a blanket resolution that any and all charges against the other Federal reserve banks should be rendered by the 10th or on the 10th of the month?

Mr. Wold: I would be satisfied with that.

Mr. Curtis: That would not include charges for making investments, and things of that sort?

Governor Wold: Oh, no.

Mr. Treman: Service charges.

(The motion, being duly seconded, was carried.)

The Chairman: Would it not perhaps be advisable to appoint a committee to devise some uniform form of bill?

Governor Wold: I will offer such a resolution.

The Chairman: Governor Wold moves that the Chair appoint a committee of two transit men of the Federal reserve banks to draft such a uniform form.

Governor Fancher: I will second that motion.

The Chairman: Is there any further discussion?

(There was no further discussion and the motion, having been duly seconded, was carried.)

The Chairman: The Chair will appoint Mr. Hendricks and Mr. Hardt on that committee.



The next topic is (ee)

(ee) Service charge on Government checks deposited with Federal Reserve Banks.

a

Governor Rhoads: I raised that point because a check coming to us on the Treasury of the United States, payable at Washington, D. C., technically is just the same as an item payable on a member bank, so far as the amount of work is concerned. I would like to know whether we are entitled to make a charge on a check of that kind for collecting it from the depositing bank. Several of our member banks are willing to pay a service charge on those checks.

Mr. Hoxon: I think the Government would make trouble if you tried to do that.

The Chairman: Is there any comment on this inquiry of Governor Rhoads? (After a pause) Will you offer a resolution to bring the matter in definite form before the conference?

Governor Rhoads: I will move that we are entitled to a service charge on such checks deposited by member banks.

The Chairman: Do you not wish to make that a little broader than that.

Governor Rhoads: I move that we make a service charge on Government checks deposited with us by member banks.

The Chairman: Mr. Delano suggests that it would be impracticable to collect any such charge, and consequently

unless you insist upon it, we will consider it settled.

Governor Rhoads: There is no second to the motion and I will withdraw it.

Governor McCord: I do not want to prolong the discussion, but since I have come to the Conference I have considered the matter of railroad vouchers, which are stamped and payable at certain banks. Are they to be treated as checks on a bank. For instance a railroad voucher is stamped on its face, "Payable at the Lowry National Bank", we will say, at Atlanta, Georgia. Will that be considered as a check and handled by the Federal Reserve Bank?

Governor Seay: Will the Lowry National Bank pay it?

Governor McCord: Yes.

Governor Fancher: Through the clearing house?

Governor McCord: Yes.

Governor Seay: We have some such vouchers that have come to us through the banks, and notwithstanding that phraseology on the checks the banks will not pay it but require that it be presented at the railroad office, and the railroad office also requires that the bank shall present it.

Mr. Hoxon: We collect them frequently in Louisville and St. Louis and in the little towns in Arkansas. The banks never decline to pay them.

The Chairman: Why raise the question, Governor McCord, if you are able to collect them?

Governor McCord: I can do it in Atlanta, but when we get them payable in Richmond I cannot do it.

(Informal discussion followed.)

Governor S eay: In one case I can explain the railroads' view of it. The railroad has stamped on the voucher, "Payable through such and such a bank", but it does not authorize that bank to charge it to its account, and the definition of the phrase used by the railroad is this: That it desires the check to be sent to the bank upon which drawn for collection; but it does not necessarily have the funds there to pay it and it does not authorize the bank to pay it. That is a misleading phrase.

The Chairman: Have you any resolution to offer, Mr. McCord?

Governor McCord: No. I just thought it would bring it up as I thought of it. I have nothing to offer.

Mr. McKay: I would like to say that in Chicago we have perhaps thirty or forty railroads and express companies, and some mercantile firms, whose vouchers clear through the Chicago clearing house and are paid by the members of the Chicago clearing house. I would see no objection to handling those items as long as they can collect them in that manner.

The Chairman: You would handle them where you could and would not handle them where you could not. Is not that about the size of it?

Mr. McKay : Yes.

(Informal discussion followed.)

The Chairman: Mr. Hendricks, there is a matter that you wish to bring up, is there not?

Mr. Hendricks: We have a slight difference of opinion with the Clearing house in New York with regard to items drawn that are payable in the Boston or Philadelphia Districts, which are one-day points. We advised the clearing house that we would accept checks and other cash items, and they claim--- and I guess it is the custom in New York--- that they accept all demand items as cash. It is therefore necessary for us to find out from Boston, Philadelphia and Richmond whether they will take all cash items from us.

Governor Seay: Do you refer to drafts on individuals payable on demand?

Mr. Hendricks: Any demand item which is payable on presentation. The principal drafts of that kind that would arise in New York would be stock and bond drafts and bills of lading drafts which are payable on sight and demand. I do not think the Boston sight drafts would be included. I am talking about demand items payable on presentation.

The Chairman: Mr. Howe, will you answer that question.

Mr. Howe: I do not think we would undertake to handle them.

The Chairman: You would like to know what the volume is.

Mr. Howe: We get a lot of express company paper and that of sheet banking houses, and we send them out and collect them.

The Chairman: Mr. Hardt?

Mr. Hardt: A draft on a banking house in Philadelphia would cause no difficulty at all. A draft with stock attached may be paid that day and may not be paid that day. It is necessary to determine whether the power of attorney is correct, and other things, and it may be held up for a day, and frequently is. I do not know about bills of lading -- originating in New York on Philadelphia, in any volume.

The Chairman: Governor Seay?

Governor Seay: I suppose, Mr. Chairman, that we are coming to that after a while, but it is a departure from the practice at present and I feel that I would like to know something of the nature of the business before handling it. We are disposed, however, to do almost anything within reason that can be done.

Mr. Hendricks: Their contention is that a bill of lading draft drawn on John Smith is just as easy to collect as a check on the Cosmopolitan Bank of New York that has to be presented by hand.

Governor Seay: ~~Governor Seay~~: Suppose it is a no-protest draft given for immediate credit. You charge it to us on one day and we return it. When a settlement

comes up between us we may be paying you for a great deal of stuff that is being returned.

Mr. Hendricks: You do not pay on what we charge you

(Informal discussion followed.)

Governor Seay: I would like to ask Mr. Hendricks if that would disturb the relation that exists between the clearing houses of the three cities you mentioned?

Mr. Hendricks: No. If the opinion is that we ought not to do it we can easily arrange that.

(Further informal discussion followed.)

Governor Fancher: Mr. Chairman, I would like to bring up a matter. At the meeting of the Governors on yesterday, Mr. Kains, as Chairman of the committee to which was referred the questions submitted by the Federal Reserve Board touching on foreign relations, submitted his report, and as I remember it no action was taken, or action was deferred. I think some action should be taken.

I would move that the report made by Mr. Kains' committee be referred to the Committee on Foreign Relations for such use as they may deem proper.

The Chairman: Is there a second to that motion?

Governor McCord: I will second the motion.

(The motion was duly carried.)

The Chairman: Is there any further business before the Conference?

Governor Wold: There are some inconsistencies with

regard to collection matters in the various banks which I would like to call to the attention of three or four banks, for the benefit of all.

Boston, Philadelphia, Atlanta and St. Louis have placed St. Paul on four days deferred time, after repeated notice that it should be the same as Minneapolis, which is two days.

Governor McCord: I have corrected that.

Governor Wold: Richmond places both Minneapolis and St. Paul on a four days basis when it should be a two day basis.

Governor Seay: Do you mean that the circular does that?

Governor Wold: Yes.

Governor Seay: Did you take into account the fact that the circular was issued long before you called attention to that fact.

Governor Wold: But it didn't take any longer to reach Minneapolis from Baltimore <sup>before</sup> that circular was issued than it does now. (Laughter)

San Francisco places Minneapolis and St. Paul on a nine days deferred time.

Governor Seay: How do you know they do?

Governor Wold: I am taking the circular for it.

Governor Kains: I believe the circular was issued before we received advice, and you have since been advised to the contrary.

Governor Wold: This memorandum was handed to me by the transit manager just before I left home.

Governor Seay: He should be set right on the subject.

Mr. Hoxon: St. Louis has corrected that.

The Chairman: Boston has not corrected it, but I will see that it is done.

Governor Wold: Kansas City apparently gives facilities down there in their district to make other Federal reserve banks carry the float by reason of deferring the time beyond the period within which they can collect these items. It seems to me if one bank is going to unduly defer credit upon another bank that we have got to reciprocate.

(Informal discussion followed.)

Mr. Hardt: The Philadelphia bank was mentioned as one of those banks. We have determined to make no revision of the transit schedule until after this Conference in the hope that these things would be cleared up, in that if any more banks were added to the immediate availability points we would not have to be continually making revisions in the schedule. I do not believe we are ready to make them yet.

Governor Wold: St. Paul was on the immediate availability list from the time we started.

The Chairman: The point raised about San Francisco has been raised often by our bank. Transit time, that is, the real transit time to San Francisco is five days.



from Boston. Some of the banks feel that it is quite a hardship to have the time deferred as long as it is.

Is there anything else to come before the meeting?

Governor Fancher: If I may take just a moment, along the line about which Governor Wold has been speaking, I want to say that in making available items on Cincinnati and Pittsburgh we have been very careful to indicate that they were items on member banks. That in some cases, however, has been misinterpreted, and from some of the Federal reserve banks we have been getting all items, both on state and member banks in Cincinnati and Pittsburgh for immediate availability. I have written to several of the banks to caution their transit departments and give instructions to be careful in sorting the items. I know it makes a little confusion, but the availability of Pittsburgh is for member banks, and likewise Cincinnati.

The Chairman: Is there anything else to be considered? (After a pause:) If not, the Chair will entertain a motion to adjourn.

Governor Fancher: I so move.

The Chairman: I now declare this conference adjourned, subject to call.

(Whereupon, at 11 o'clock p. m. on the 23rd day of August, 1916, the Eighth Conference of Governors of Federal Reserve Banks was adjourned subject to call.)

