FIFTEENTH CONFERENCE OF GOVERNORS

OF

FEDERAL RESERVE BANKS

AND

JOINT CONFERENCE

WITH

FEDERAL RESERVE BOARD AND CLASS B DIRECTORS

BOARD OF GOVERNORS

OF

FEDERAL RESERVE BANKS

APRIL 12 - 15, 1921

WASHINGTON, D. C.

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III Copy of the Federal Reserve Board's letter X-3070, dated March 16, 1921, inviting Class B Director, Mr. Charles A. Stone, to attend the Conference on April 14.

IV Copy of each of the programs prepared in advance, viz: "Revised List of Topics for Discussion with Treasury Department by Governors of Federal Reserve Banks."

V "Revised List of Topics (Routine) For Discussion by Governors of Federal Reserve Banks * * "

VI "Topics for Consideration at Joint Conference of Federal Reserve Board and Governors of Federal Reserve Banks."

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BY GOVERNORS OF FEDERAL RESERVE BANKS
CONFERENCE AT WASHINGTON
COMMENCING APRIL 12, 1921.

(ADDITIONAL TOPIC INDICATED BY ASTERISK)

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(2) Should requests of nonmember banks for currency and coin service, accompanied by drafts on city correspondents, be received. (Federal Reserve Bank of Cleveland).

(c) Should the Federal reserve banks receive for redemption for account of the Treasury Department unfit national bank notes and on deposit fit national bank notes. (Federal Reserve Bank of New York).

(d) Should not a uniform system policy be established with respect to the retirement of Federal reserve bank notes. (Federal Reserve Bank of New York).

(e) What arrangements should be made in cases where Federal reserve banks have presented to them Federal reserve notes unsealed and unnumbered, but otherwise duly executed, which were apparently stolen within the Treasury Department and circulated, in view of the advice by the Treasurer that there is no provision for their redemption. (Federal Reserve Bank of Richmond).

II. ACCOUNTING

(a) Uniform reconcilement form for use of the Treasurer of the United States in reconciling accounts maintained in reserve banks (report by committee on standardized forms).

(b) War loan deposit accounts. (Federal Reserve Bank of Chicago).

(c) Reimbursement of fiscal agency expenses. (Federal Reserve Bank of New York).

x (d) Assistance to be rendered to Treasury Department in connection with improving procedure relating to transactions with Federal Reserve Banks.

x (e) Progress made by the Treasury Department in the speeding up of operation of paying its checks.

III. FISCAL AGENCY FUNCTIONS

(a) As the issuance of Treasury (War) savings securities is an exceedingly expensive method of procuring funds and such securities accomplish very little toward the encouragement of thrift and as Liberty bonds of later issues are readily available in denominations of $50. and $100. at market prices, yielding an interest rate much in excess of War Savings securities, and as redemptions in the latter class of securities appear to be heavy, should the War Savings Organization activities be continued. (Federal Reserve Bank of Cleveland). (The Federal Reserve Bank of San Francisco also suggested this topic).

(b) Should the Government Loan Organizations in the several banks be transferred to Fiscal Agency Functions. (Federal Reserve Banks of New York and Chicago).

(c) Informal discussion on Subtreasury functions as they affect Cash and Fiscal Agency Departments, so that the banks which have not yet assumed Subtreasury functions might have the benefit of those banks which have. (Federal Reserve Bank of Dallas).

REVISED LIST OF

TOPICS (ROUTINE) FOR DISCUSSION BY GOVERNORS

OF FEDERAL RESERVE BANKS, AT CONFERENCE IN

WASHINGTON, COMMENCING APRIL 12, 1921.

(ADDITIONAL TOPICS INDICATED BY ASTERISKS)

1. OPERATION.

(a) Pension Fund. Committee to report. (Unfinished business)

(b) Personnel and Welfare. Committee to report. (Unfinished business)

(c) Securities left in custody.

(1) Discussion of the extent of liability of the reserve banks for such securities. (Federal Reserve Bank of New York).

(2) Should not a uniform circular be issued by the reserve banks on this subject. (Federal Reserve Bank of New York).

(3) To what extent should the reserve banks insure these custodies, with a comparison of the forms of trust receipts issued by the several reserve banks. (Federal reserve banks of New York and Dallas).

(d) Review of policy of paying extra compensation, in view of the apparently falling retail prices. (Federal Reserve Bank of New York).

(e) Should measured service be established as the basis of compensation to Federal reserve bank employes. (Federal Reserve Bank of New York).

(f) Efficiency of Personnel. This topic was referred at the last governors conference for further study to the four groups of Federal reserve banks formed for purposes of conference.

(g) Discussion of progress of standardization of salaries in the several Federal reserve banks. (Federal Reserve Bank of New York).

(h) Should there be direct pouching of mail to and from the Federal reserve banks. (Federal Reserve Bank of New York).

(i) Report by the committee on codes. (Unfinished business).

(j) Should each Federal reserve bank insure its own incoming shipments of Federal reserve notes received from other Federal reserve banks. (Federal Reserve Bank of St. Louis).

(k) Should Federal reserve banks begin to carry part of the fire insurance

on new buildings erected where the risk is slight. (Federal Reserve Bank of Cleveland).

II. ACCOUNTING AND AUDITING.

(a) Survey of the accounting and procedure systems in the several Federal reserve banks. (Federal Reserve Bank of New York).

(b) The report of the committee on "Method of Handling Collections Sent Direct by Member Banks in One District to Federal Reserve Banks of Other Districts" will be submitted by the committee on standardization of inter-Federal reserve bank forms. (Unfinished business).

x (c) Statements prepared by Federal reserve banks and submitted to Federal Reserve Board.

x (d) Standardization of methods of Auditing.

x (e) Revision of auditor's certificate subjoined to annual statement of Profit and Loss transmitted to Board.

x (f) Standardization of Inter-Federal Reserve Bank Forms.

III. COLLECTIONS AND CLEARING.

(a) Uniform indorsements upon inter-district acash and collection items sent direct by member banks in one district to Federal reserve banks of other districts. (This matter was referred to the Federal Reserve Board at the last governors conference with the request that Counsel for the Board prepare a uniform letter of instructions, or a regulation covering indorsements to be exchanged by the twelve banks - suggested by the Federal Reserve Bank of Chicago).

(b) Desirability of having adequate uniform circulars covering collection of cash and collection items (Federal Reserve Bank of New York) including direct routing of collection items payable in other Federal reserve banks and direct routing of cash items by member banks to other Federal reserve banks and branches. (Federal Reserve Bank of Cleveland).

(c) Development of inter-city and country clearing settlements in Federal reserve funds. (Federal Reserve Bank of New York).

(d) Collection of checks on banks which are in an unsatisfactory condition or from which unsatisfactory returns are being received. Discussion of the credit risk involved. (Federal Reserve Bank of Dallas).

(e) Can the amount of float carried by the Federal reserve banks as a result of the holding of Federal reserve notes by a bank other than the bank of issue be reduced. (Federal Reserve Bank of New York).

(f) Should wire transfers be limited. (Federal Reserve Bank of San Francisco).

on new buildings erected where the risk is slight. (Federal Reserve bank of Cleveland).

II. ACCOUNTING AND AUDITING.

(a) Survey of the accounting and procedure systems in the several Federal reserve banks. (Federal Reserve Bank of New York).

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x (e) Revision of auditor's certificate appended to annual statement of profit and loss transmitted to Board.

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III. COLLECTIONS AND CLEARING.

(a) Uniform indorsements upon inter-district cash and collection items direct by member banks in one district to Federal reserve banks of other districts. (This matter was referred to the Federal Reserve Board at the last governors conference with the request that Counsel for the board prepare a uniform letter of instructions, or a regulation covering indorsements to be exchanged by the clearing banks - suggested by the Federal Reserve bank of Chicago).

(b) Desirability of having adequate uniform structure covering collection of cash and collection items (Federal Reserve Bank of New York) including direct routing of collection items payable in other Federal reserve banks and direct routing of cash items by member banks to other Federal reserve banks and branches. (Federal Reserve bank of Cleveland).

(c) Development of inter-city and country clearing settlements in Federal reserve funds. (Federal Reserve Bank of New York).

(d) Collection of checks on banks which are insolvent, unsatisfactory, closed or from which unsatisfactory returns are being received. Discussion of the credit risk involved. (Federal Reserve Bank of Dallas).

(e) Can the amount of float carried by the Federal reserve banks as a result of the holding of Federal reserve notes by banks be reduced, the bank of issue be reduced. (Federal Reserve [illegible]).

(f) Should wire transfers be limited. (Federal Reserve Bank of San Francisco).

IV. CREDIT TRANSACTIONS AND POLICIES.

(a) Establishment of uniform practice with respect to the indorsement of notes and bills discounted or bought by Federal reserve banks for or from each other. (Federal Reserve Bank of New York).

(b) Should the Federal reserve banks discontinue rediscounting for member banks notes of nonmember banks secured by Government obligations. (Federal Reserve Bank of Atlanta).

(c) Discussion of methods adopted by the reserve banks to develop and widen the discount market. (Federal Reserve Bank of New York).

(d) Report of standing committee on open bill market conditions and operations.

(e) Bankers acceptances practices (Federal Reserve Bank of San Francisco) and regulations with particular regard to accommodation of commerce and the open market (Federal Reserve Bank of New York).

(f) What should the policy of the Federal reserve banks be with respect to attempted cancellations of confirmed or irrevocable commercial letters of credit and with regard to issuers of credits who have defaulted or refused to honor their credits; especially how should the Federal reserve banks deal with acceptances of such banks. (Federal Reserve Bank of New York).

(g) Status of organization and activities of eligibility committees formed in the reserve banks. (Federal Reserve Bank of New York).

What procedure if any is followed by each Federal reserve bank to ascertain whether acceptances made by its members are made in conformity with the Board's regulations effective since October 25, 1920 and the Board's rulings, and what steps if any are taken to get similar information regarding bills accepted by either member or nonmember banks or acceptances offered either to the Federal reserve bank of the district in which the bills originate or to other Federal reserve banks. (Federal Reserve Bank of Cleveland).

(h) Desirability of developing a system program for the relief of embarrassed member banks in difficulties caused by deaths, defalcations, explosions, etc. (Federal Reserve Bank of New York).

(i) Suggestion of Mr. Puelicher, Vice President of the American Bankers Association, to Governor Harding that a conference on the form and substance of financial statements be held between the managers of the credit departments of the reserve banks and representatives of commercial banks. (Federal Reserve Bank of New York).

(j) Amendment of Section 5202 Revised Statutes so that indorsements of national banks on bankers acceptances will be excepted from the limitation of the section irrespective of the place where payable. (Federal Reserve Bank of New York)

x (k) Sales of Bills reported as rediscounts.

TOPICS FOR CONSIDERATION AT JOINT CONFERENCE OF
FEDERAL RESERVE BOARD AND GOVERNORS OF FEDERAL RESERVE BANKS
WASHINGTON, April 12, 1921.

I. RATE POLICY

(a) What considerations should be taken into account before a change is made in the present rate policy of the Federal Reserve System?

(b) Do conditions warrant any modification of existing policy at present time and should any changes of rates be made in any of the Districts?

(c) Should the present differential in favor of loans secured by Government collateral be continued? If not, should rates on such loans be uniform in all Districts?

(d) Should there be progressive rates? Should they be discontinued in the two Districts in which they are now in effect, and if continued, should a maximum rate be established beyond which there shall be no progression?

II. GOLD POLICY.

(a) What action, if any, should be taken regarding the South African gold?

(b) What action should be taken regarding gold imports other than those of South African origin?

(c) Should gold which would otherwise be imported into the United States be held abroad and earmarked with foreign agencies, such as the Bank of England, the Federal Reserve Board having ruled that gold so held can no longer be counted as reserve?

(d) Should Federal Reserve Banks pay out gold certificates in order to prevent undue increase in reserves?

III. CURRENCY POLICY (to be considered in connection with II-d)

(a) Should a policy be established for the entire System in regard to the kinds of money to be paid out by Federal Reserve Banks in response to demands of member banks for currency?

(b) Should a policy be established for the entire System as to the denominations in which silver certificates, United States notes, Federal Reserve notes, and Federal Reserve Bank notes are printed?

(c) Should steps be taken to discontinue entirely paying out Federal Reserve Bank notes?

IV. CREDIT POLICY.

(a) Discussion of policy of Reserve Banks as to rediscounting paper, the eligibility of which may be doubtful on account of condition statements of makers and discussion of feasibility of adopting a uniform policy for all Federal Reserve Banks.

(b) Discussion of so-called "direct action", that is, policy of applying pressure upon borrowing member banks to compel their customers to liquidate.

V. RESERVE POLICY.

(a) Should reserves of Federal Reserve Banks be based, as far as possible, upon holdings of gold coin and gold certificates, eliminating silver certificates and legal tenders by paying them out in lieu of Federal Reserve notes?

(b) Bearing in mind that prior to 1917 Federal Reserve notes were substantially gold certificates, because of the percentage of actual gold held by Federal Reserve Agents against them, would it be advisable to prevent any undue increase in banking reserve by depositing incoming gold with Federal Reserve Agents, thus strengthening specific reserve against Federal Reserve notes? To make such a policy effective it would seem that the Federal Reserve Board should require the Federal Reserve Banks to publish actual percentage of reserve held against deposits and actual percentage of gold held against notes. The combined reserve percentage could be published for purposes of comparison as heretofore. In order to equalize the reserve position of the various Federal Reserve Banks, and to make it to the interest of Banks to carry as large a gold reserve against notes as possible, consideration should be given to the advisability of adopting a policy that any Federal Reserve Bank whose reserve against notes falls below a certain specific minimum should be compelled to apply for permission to rediscount with other Federal Reserve Banks.

(c) What changes in policy of rediscounting among Federal Reserve Banks appear advisable on the basis of experience during the last year?

VI. EARNINGS OF FEDERAL RESERVE BANKS.

The large earnings of the Federal Reserve Banks have caused much comment and some adverse criticism. The franchise tax to be paid by Federal Reserve Banks to the United States Government is fixed by law at 90% of net profits over and above dividends. Practi-

cally all Federal Reserve Banks have now accumulated their statutory surplus. It is customary with many member banks to set aside each month a reserve for taxes. Would it be feasible and desirable to have the Federal Reserve Banks set up on their books a "Reserve for Franchise Tax", and show this item in their weekly statements. It has been suggested that an approximate reservation for franchise tax shown weekly would give the public a better idea as to the disposition of the earnings of the Federal Reserve Banks and gradually dissipate the idea that these Banks are profiteering at the expense of commerce and industry.

VII. PAR COLLECTION SYSTEM.

(a) Status of litigation.

(b) Effect of laws enacted by various Southern states.

(c) Risks and losses incurred by Federal Reserve Banks in making collections. How to minimize them.

(d) Are non-par lists necessary?

VIII. SHIPMENTS OF COIN AND CURRENCY TO MEMBER AND NON-MEMBER BANKS UPON REQUEST OF A MEMBER BANK.

(a) Why should there not be a uniform policy with respect to such transactions?

IX. FEDERAL RESERVE BANK BUILDINGS.

(a) What methods of accounting are necessary in order that uniform plan of depreciation and amortization of investment may be adopted?

X. BANKERS ACCEPTANCES.

(a) Should the Board's Regulations be modified so as to make eligible for purchase or discount acceptances of member banks having not longer than six months to run, in cases where bills are drawn against export and import transactions.

GOVERNORS' CONFERENCE
April 12 - 15, 1921

First Day's Session, Tuesday, April 12

The meeting was called to order at 2:19 p. m.

Present:

Governor Strong, Chairman,
Governors Morss, Norris, Fancher, Seay, Wellborn, McDougal, Biggs, Young, Miller, VanZandt and Calkins,
Mr. Harrison, Secretary.

(1) Appointment Of Secretary. Upon motion of Governor McDougal it was

VOTED that Mr. Harrison, Deputy Governor of the Federal Reserve Bank of New York, be appointed Secretary of the Conference.

(2) American Farm Bureau Federation. Governor Strong reported that he had been advised by Governor Harding that the representatives of the American Farm Bureau Federation present in Washington desired a meeting with the Governors of the Federal Reserve Banks. Upon motion it was

VOTED that they be invited to meet with the conference at 12:00 o'clock noon, Wednesday, April 13, (See paragraphs 4 and 36)

DISCUSSION OF TOPICS COVERING RELATIONS WITH TREASURY DEPARTMENT

(3) Treasury I - Currency and Circulation:
(a) New Currency. Report of Committee.

The Chairman read the final recommendations contained in the report of the sub-committee appointed to consider the subject of new currency: They are:

"1. That it be left with Mr. Emerson to see that distribution is continued in a fair and equitable manner.
"2. That the amount of new money paid out should not exceed the amount printed.
"3. That Mr. Emerson in cooperation with the Treasury Department should have general supervision of redemptions, in order to maintain a general standard of redemptions and to bring the currency up to a higher level of cleanliness.
"4. That the time has not yet arrived when total redemptions should exceed the issue of new notes.
"5. That each bank raise its standard of currency sent for redemption until checked by the Federal Reserve Board.
"6. That reserve stocks be gradually built up to about $2,000,000,000.

"7. That the maximum and minimum figures of reserve stocks of Federal Reserve notes should be based on the average circulation of Federal Reserve notes for 1920 rather than on the basis of the volume of emergency currency and clearing house certificates during the crises of 1907 and 1914."

Before any action was taken, the Secretary read the full report. Upon motion of Governor McDougal, it was

VOTED that the report and its recommendations be adopted with the understanding that copies of the report, together with copies of the memorandum of discussions of the committee be forwarded to each Federal Reserve Bank. (This report and memorandum are contained in the stenographic minutes of conference on pages 97 - 103 and 105 - 110).

(4) American Farm Bureau Federation. Governor Strong received and reported a message from Governor Harding to the effect that the representatives of the American Farm Bureau Federation would like to have their meeting with the Conference at 5:00 o'clock p. m. on Tuesday, in lieu of 12:00 o'clock noon on Wednesday. This was agreed to by the Conference.

(5) Treasury I (a) New Currency. Report of Committee (continued).

The Secretary then read that part of the memorandum of the discussions of the Currency Committee which related to the plan for the retirement of Federal Reserve Bank notes issued under the terms of the Pittman Act. The recommendations contained in that memorandum were discussed, particular attention being directed to the rate of redemption of excess Pittman Act certificates.

Upon motion of Governor Calkins, that part of the memorandum relating to the Pittman Act certificates and Federal Reserve Bank notes was adopted, but, upon motion of Governor Norris, it was

VOTED that the rate of retirement of Pittman Act certificates be increased, so far as it may be agreeable to the Treasury Department, over the amounts mentioned in the memorandum of the committee, that is, $5,000,000 per month of the certificates deposited in excess of actual circulation. (See paragraph 7).

The recommendations in that memorandum are as follows:

"1. That the policy of the Treasury Department to issue silver certificates and United States notes in denominations of $1 and $2 be commended.

"2. That the Federal Reserve Banks accumulate silver certificates and United States notes of $5 denominations and higher and cooperate with the program of the Treasury Department in breaking them up into smaller denominations.

"3. That in meeting the demand for small notes silver certificates be paid out first, and, in case they are not sufficient, United States notes second.

"4. That no Federal Reserve Bank notes shall be paid out unless other supplies of small denominations should fail.

"Note: Inasmuch as the program outlined will cover a period of one or two years there are two things which could be done to economize on the printing program, but which are seemingly inconsistent with principles stated above:

"1. Pay out Federal Reserve Bank notes which are already printed and in stock and retire them as they are worn out. This will effect a saving in the printing of other kinds of currency.

"2. Pay out Silver Certificates of large denominations now on hand. They can be used and worn out by the time they will be needed for conversion into smaller denominations."

(6) Daylight Robberies of Bonds and Coupons. Governor McDougal made a statement with reference to the daylight train robberies of bonds and coupons in his district, suggesting that the matter be referred to Assistant Secretary Gilbert with a view to expediting recovery of the losses from the Treasury Department. (See paragraph 25).

(7) Pittman Act Certificates. At this point Assistant Secretary Gilbert joined the meeting and defined the present Treasury policy relating to the retirement of Pittman Act certificates pledged with the Treasurer to secure the issue of Federal Reserve Bank notes. He expressed his opinion that at the present time the retirement of those certificates should not be at a rate faster than $5,000,000 per month.

He also briefly outlined the program of the Treasury Department in relation to the substitution of silver certificates for Pittman Act notes.

It was

AGREED that the policy defined by him was not inconsistent with the report and recommendations of the Currency Committee previously adopted by the

Conference. (See paragraphs 3 and 5).

(8) Treasury I (b): (1) Should the Federal Reserve Banks absorb the expense of shipments of currency and coin to and from banks in their respective districts. (F. R. Bank of N. Y.)

(2) Should requests of nonmember banks for currency and coin service, accompanied by drafts on city correspondents, be received. (F. R. Bank of Cleveland).

After general discussion of the subject of transportation charges on shipments of coin and currency to and from nonmember banks, upon motion of Governor Fancher, it was

VOTED (a) to be the sense of the meeting that Federal Reserve Banks should not absorb the expenses of shipments of currency or coin to and from nonmember banks, except the expenses on incoming shipments made in payment of collection items, and except the expenses of transportation on incoming gold and gold certificates, and

(b) that requests of nonmember banks for shipments of coin and currency accompanied by drafts on city correspondents should be received and honored only at the expense of the nonmember banks and only after collection of the accompanying draft.

(9) Treasury I (c) Should the Federal Reserve Banks receive for redemption for account of the Treasury Department unfit national bank notes and on deposit fit national bank notes. (F. R. B. of N. Y.)

Upon motion of Governor Seay, it was

VOTED that Federal Reserve Banks should receive unfit national bank notes for credit and redemption by the Treasury Department, but that Federal Reserve Banks should not receive fit national bank notes on deposit except when sent in payment of collections.

After this vote was taken, Governors McDougal and Norris objected that the action of the Conference should not be binding upon all Federal Reserve Banks. Thereupon, on motion of Governor Seay, it was

VOTED to reconsider.

Upon motion of Governor Seay, it was then

VOTED that Federal Reserve Banks should be permitted, at their own option, to take or refuse fit national bank notes for deposit.

(10) Treasury I (d) Should not a uniform system policy be established with respect to the retirement of Federal Reserve Bank notes. (Federal Reserve Bank of New York.)

This matter was disposed of by action taken under Treasury I (a). (See pars 3 & 5).

(11) Treasury I (e) What arrangements should be made in cases where Federal Reserve Banks have presented to them Federal Reserve Notes unsealed and unnumbered, but otherwise duly executed, which were apparently stolen within the Treasury Department and circulated, in view of the advice by the Treasurer that there is no provision for their redemption. (Federal Reserve Bank of Richmond.)

Upon motion of Governor Calkins, it was

VOTED that the Secretary get a copy of Assistant Secretary Gilbert's letter to Governor Harding on this subject; that he thereupon confer with Mr. Logan, General Counsel of the Federal Reserve Board, and prepare a draft of letter to Mr. Gilbert for the consideration of the Conference. (The Secretary reported later in conference that Mr. Emerson had this entire file and that he, Mr. Emerson, was preparing a report with reference thereto. It had not been submitted to the Conference before adjournment.)

(12) Federal Reserve Notes Missent. Upon motion it was

VOTED that the Conference transmit, with approval, to Mr. Gilbert a letter to be prepared by Governor Young in reference to $5,000 Federal Reserve Bank of Minneapolis notes forwarded in error to the Federal Reserve Bank of Richmond and issued by the Federal Reserve Bank of Richmond. (Governor Young reported that he would prepare such a letter upon his return to Minneapolis.)

(13) Treasury II - Accounting:
(c) Reimbursement of fiscal agency expenses. (F. R. B. of N. Y.)

After general discussion it was

MOVED that after June 30, 1921, the end of the current fiscal year, Federal Reserve Banks should not ask the Treasury Department for reimbursement on account of expenses incurred in the conduct of fiscal agency operations. All of the members of the Conference voted aye with the exception of Governors Wellborn and McDougal, who wished to be recorded in the negative.

(13½) Mr. Rich's Letter in Re Federal Reserve Policies. At this point Governor Harding joined the meeting and presented to the Conference a letter prepared by Mr. Rich, Chairman of the Board of Directors of the Federal Reserve Bank of Minneapolis, to Mr. J. M. Kelly, Devils Lake, North Dakota, in response to an editorial in Wallace's Farmer of Des Moines, Iowa.

After the Secretary read the letter to the Conference, Governor Harding advised that he would have it mimeographed for distribution to each of the Governors present.

(14) Treasury III - Fiscal Agency Functions:

(a) As the issuance of Treasury (War) savings securities is an exceedingly expensive method of procuring funds and such securities accomplish very little toward the encouragement of thrift and as Liberty bonds of later issues are readily available in denominations of $50 and $100 at market prices yielding an interest rate much in excess of War Savings securities, and as redemptions in the latter class of securities appear to be heavy, should the War Savings Organization activities be continued. (F. R. B. of Cleveland -- F. R. B. of San Francisco also suggested this topic).

Mr. Gilbert outlined briefly the tentative plan of the Treasury Department gradually to reduce the War Savings Organization and to have the various Federal Reserve Banks take over that Organization after June 30, 1921 on some basis similar to that on which they now handle certificates of indebtedness for the Treasury Department.

Mr. Lewis, Director of the War Savings Organization, also addressed the Conference, saying that the proposal of Mr. Gilbert would avoid duplication of control while still assisting the floating of securities and making those monies already spent worth while. (See paragraph 20)

(15) Charges for Reports of Examination by Comptroller of the Currency. Governor Harding reported receipt of a letter from the Comptroller of the Currency, enclosing a memorandum from Mr. Davenport, Chief of the Examining Division of the Comptroller's Office, with reference to the fund for expenses of examinations of national banks.

This memorandum called attention to deficiencies of over $124,000 in that fund existing at the time the present Comptroller of the Currency took office. It was tentatively proposed by the memorandum that each Federal Reserve Bank should in the future pay a charge of $10.00 per year for each national bank to cover the cost of the reports of examinations of those banks furnished by the Office of the Comptroller of the Currency to the Federal Reserve Banks, and also a charge of $5.00 for each report of examination heretofore furnished by the Office of the Comptroller of the Currency to the Federal Reserve Banks.

It was, thereupon,

VOTED to postpone the discussion of this matter until the next meeting. (see Paragraph 16).

Upon motion duly seconded, the Conference adjourned at 6:40 o'clock p. m. to reconvene at 9:00 o'clock a. m. on Wednesday morning, April 13.

GOVERNORS' CONFERENCE
April 12 - 15, 1921

Second day's Session, Morning, Wednesday, April 13.

The Conference was called to order at 9:15 a. m.

Present: Governor Strong, Chairman
Governors McDougal, Young, Fancher, Biggs, Calkins, VanZandt, Seay, Morss and Wellborn.
Mr. Harrison, Secretary.

(16) Paragraph 15 (continued). The letter of the Comptroller of the Currency, addressed to Governor Harding, together with the memorandum of Mr. Davenport enclosed therewith, were discussed at length. Upon motion, it was

VOTED that it is the sense of this meeting that Federal Reserve Banks should make no contribution calculated to make good a deficit in the administration of the Office of the Comptroller of the Currency but that Federal Reserve Banks will pay all charges made by the Comptroller of the Currency to cover the expense involved in furnishing copies of future complete reports actually taken by them. Upon motion of Governor VanZandt, it was

VOTED that the Comptroller of the Currency be invited to join the Conference to discuss the action of the Conference in reference to the charges for reports furnished by the Office of the Comptroller of the Currency to Federal Reserve Banks.

Thereupon the Chairman appointed Governors VanZandt and Morss a committee of two to call upon the Comptroller of the Currency and Assistant Secretary Gilbert and invite them to join the Conference at their convenience. (See paragraph 21).

(17) Treasury II - Accounting: (a) Uniform reconcilement form for use of the Treasurer of the United States in reconciling accounts maintained in reserve banks (report by committee on standardized forms).

Upon motion the report of the Committee on Standardized Forms was adopted.

(18) Treasury II - (b) War loan deposit accounts. (Federal Reserve Bank of Chicago).

In a general discussion of the subject of War Loan Deposit Accounts, the question was raised whether the present plan of the payment of certificates of indebtedness by credit should be abandoned, and whether, if not, Government obligations should be made the only eligible security for War Loan Deposit Accounts.

Inasmuch as it was the sense of the Conference that both of these matters were matters coming primarily within the jurisdiction of the Treasury Department, Governor McDougal asked that no action be taken.

(19) Treasury II - (d) Assistance to be rendered to Treasury Department in connection with improving procedure relating to transactions with Federal Reserve Banks.

(e) Progress made by the Treasury Department in the speeding up of operation of paying its checks.

Both of these topics were discussed together.

The Chairman outlined to the Conference a suggestion which he had made to Assistant Secretary Gilbert that it might be advisable for the Federal Reserve Banks from time to time to offer to send a man, or men, to Washington to confer with the members of those divisions of the Treasury Department, concerned with Federal Reserve Bank operations, with a view of expediting the handling of those operations in the Treasury Department, and with a view to furnishing a close point of contact between those operating divisions in the Treasury Department and the various Federal Reserve Banks. Upon motion by Governor Fancher, it was

VOTED (II d) that the Conference indicate to Assistant Secretary Gilbert that the Federal Reserve Banks will be glad, from time to time, to send one or more men to appropriate divisions of the Treasury Department with a view to simplifying and speeding up Treasury procedure. (Mr. Gilbert later expressed his desire to cooperate in the manner proposed in this vote).

(II e) Governor Strong read an extract of a letter from Mr. Rounds, Controller of Accounts, Federal Reserve Bank of New York, addressed to Mr. Allen, Acting Treasurer, suggesting a change in the procedure of the Treasury Department calculated to assist in detecting forgeries and alterations in drafts drawn by government disbursing officers.

Inasmuch as this matter was covered by previous vote of the Conference, no action was taken. (See paragraph 19, II d).

(20) Treasury III - Fiscal Agency Functions: (a) As the issuance of Treasury (War) savings securities is an exceedingly expensive method of procuring funds and such securities accomplish very little toward the encouragement of thrift and as Liberty bonds of later issues are readily available in denominations of $50 and $100 at market prices yielding an interest rate much in excess of War Savings securities, and as redemptions in the latter class of securities appear to be heavy, should the War Savings Organization activities be continued.

Supplementing the discussion of this topic at the meeting on Tuesday, April 12 (see paragraph 14) Governor Calkins objected to the Federal Reserve Banks paying out funds to continue a "propaganda organization," the chief purpose of which is to distribute propaganda literature. Upon motion of Governor McDougal, it was

VOTED that it is the sense of the meeting that as soon as possible after June 30, 1921 Federal Reserve Banks should act only as the distributing agents for War Savings Securities, and that propaganda material should be distributed directly from Washington.

At this point Governor VanZandt returned to the meeting accompanied by the Comptroller of the Currency.

(21) Paragraphs 15 and 16 (continued). The Chairman outlined to the Comptroller the previous discussion and action of the Conference in reference

to the charges for reports furnished by him to Federal Reserve Banks.

The Comptroller thereupon discussed in some detail the conditions existing in his office, stating that he found a shortage as of March 1, 1921 of over $100,000. in the fund for the payment of examination expenses, and that while the salaries of the examiners had been paid to date, none of the expense accounts of the examiners had been paid since January 1, 1921. The Comptroller stated that he realized that the law would probably not permit of the Federal Reserve Banks making any payments calculated to make up a deficit in the administration of the Comptroller's Office, but that he felt that it would be proper for Federal Reserve Banks to pay for the future services of furnishing completed reports.

The Comptroller expressed his full agreement with the vote of the Conference in this matter. (See paragraph 16).

In view of the fact that the existing shortage in the fund in question presents a serious operating difficulty to the Comptroller's Office, it was suggested either that payment might be made in advance for reports to be furnished to Federal Reserve Banks, or that if the Comptroller's Office would furnish to all Federal Reserve Banks completed reports running back to January 1, 1921, payment might be made at once for all of these reports made since January 1, 1921.

Upon general consent, the operation of the plan of procedure, including the mode and rate of payment for the reports to be furnished for the current year, was left to the Comptroller of the Currency, with the understanding that he would report back to the Conference further developments. (See paragraph 71).

(22) Charters of New National Banks. Upon the request of Governor Calkins, the Comptroller of the Currency discussed at some length the procedure of his office with reference to the chartering of new national banks.

The Comptroller stated that in his opinion his office should be guided, so far as possible, by the recommendation of the Federal Reserve Agent of the District in which it was proposed to organize the new national bank, but that other circumstances might make it impossible to follow the recommendation of the Federal Reserve Agent. In such a case, however, he stated that before taking any action contrary to the recommendation of a Federal Reserve Agent, he would refer the matter back to him for reconsideration.

(22½) Information to Branches of Federal Reserve Banks. The Comptroller of the Currency agreed with the statement of Governor Calkins that the Branches of Federal Reserve Banks should be kept advised of examinations by representatives of the Comptroller's Office of banks located in the territories assigned to those branches.

(23) Treasury III (c) Informal discussion on Subtreasury functions as they affect Cash and Fiscal Agency Departments, so that the banks which have not yet assumed Subtreasury functions might have the benefit of those banks which have. (Federal Reserve Bank of Dallas).

Governor VanZandt inquired as to the amount of additional work imposed upon those Federal Reserve Banks which have undertaken Subtreasury functions.

The Chairman stated that, so far as the Federal Reserve Bank of New York was concerned, the additional work involved related chiefly to the handling of subsidiary coin.

Governor VanZandt asked that no action be taken with reference to this topic.

(24) Treasury III (b) Should the Government Loan Organizations in the several banks be transferred to Fiscal Agency Functions. (Federal Reserve Banks of New York and Chicago).

Upon motion of the Chairman, it was

VOTED that if and when the action of the Converence, taken in reference to Treasury III (a) -- (see paragraph 20) -- becomes effective the Government Loan Organization shall be transferred to the Fiscal Agency Functions.

(25) Paragraph 6 (continued). Governor McDougal reopened the discussion of the loss of bonds and coupons from daylight train robberies, suggesting that the Treasury Department organize an Insurance Division whose sole function shall be promptly to handle losses of Government securities in transit with a view to expediting payment on those losses in some manner commensurate with the time involved in making similar recoveries from outside insurance companies. Upon motion of Governor McDougal, it was

VOTED that the Conference recommend to the Treasury Department the establishment of a separate insurance division to deal with claims arising from the loss, theft, or destruction of bonds in transit, including mail robberies, with the understanding that the Federal Reserve Bank of Chicago will offer to furnish a man to assist the Treasury Department in making some solution of this problem, and with the further understanding that the Federal Reserve Bank of Chicago will make a detailed report of the results obtained to all other Federal Reserve Banks.

DISCUSSION OF ROUTINE MATTERS

At this point the Conference, having disposed of all matters upon the program relating to topics for discussion with the Treasury Department, entered upon a consideration of the routine topics for discussion by the Conference.

(26) Routine I - Operations

(a) Pension Fund. Committee to Report.

The Chairman referred to the report of the committee appointed at the last Conference of Governors to consider the Pension Fund.

There was a preliminary discussion of the age limit fixed by that report, Governor Calkins expressing it to be his opinion that it would be advisable that there be no optional age limit, as proposed by the committee, since such a limit might result in embarrassment to the Board of Directors of any bank having to consider whether or not it would permit a man to continue in the employ of the bank until the mandatory retirement age.

(27) Review of Treasury Program. At this point Assistant Secretary Gilbert joined the Conference and Governor Strong reported to him the action of the Conference on the various topics contained on the program relating to matters concerning the relations between the Treasury Department and the Federal Reserve Banks.

Thereupon Assistant Secretary Gilbert discussed at some length with the Conference matters which he requested be considered strictly confidential.

GOVERNORS' CONFERENCE

April 12 - 15, 1921

Second Day's Session Afternoon, Wednesday, April 13.

The conference was called to order at 3:20 p. m.

Present:

Governor Strong, Chairman, Governors Morss, Wellborn, Norris, Miller, Young, Fancher, Biggs, Calkins, VanZandt, and Seay. Mr. Harrison, Secretary.

Consideration of the routine topics was continued.

(28) Routine I-Operation:
(a) Pension Fund, Committee to Report.

Upon motion of Governor Biggs, it was

VOTED to request Mr. Kenzel and Mr. Sayer to be present at the meeting of the Conference on Friday morning, April 15.

(29) Routine II (b)- Personnel and Welfare. Committee to report.

The Committee on Personnel and Welfare not being prepared to submit a final report, offered a progress report. Upon motion of Governor Fancher, it was

VOTED that this progress report be received and filed.

(30) Routine II (c)- Securities left in custody.

1. Discussion of the extent of liability of the reserve banks for such securities. (F.R.B. N.Y.)
2. Should not a uniform circular be issued by the reserve banks on this subject. (F.R.B. N.Y.)
3. To what extent should the reserve banks insure these custodies, with a comparison of the forms of trust receipts issued by the several reserve banks. (Federal Reserve Banks of New York and Dallas).

After considerable discussion it was moved and

VOTED that Mr. Hart be requested as promptly as possible to canvass all Federal Reserve Banks, first in order to ascertain their views as to the proper procedure to be followed in order to safeguard the Federal Reserve Banks against liability for securities deposited with them either as collateral or for safekeeping, and second, if the procedure approved of is to be in the form of a circular, to ascertain their views as to the form of that circular.

The question was left open for decision later as to whether this subject should be finally disposed of in this manner by correspondence, or whether it should be postponed for ultimate decision at the next Conference of Governors.

(31) Routine I (d) Review of policy of paying extra compensation, in view of the apparently falling retail prices. (Federal Reserve Bank of New York).

There was general discussion of the policies of the different Federal Reserve Banks with reference to the payment of extra compensation to their employes. No action was recommended.

(32) Routine I (e) Should measured service be established as the basis of compensation to Federal Reserve Bank employes. (Federal Reserve Bank of New York).

Upon motion of Governor Fancher, it was

VOTED that this topic be referred to the Committee on Personnel and Welfare.

(33) Routine I (f) Efficiency of Personnel. This topic was referred to at the last Governors' Conference for further study to the four groups of Federal Reserve Banks formed for purposes of conference.

Upon motion this topic was referred to the Committee on Personnel and Welfare.

(34) Routine I (g) Discussion of progress of standardization of salaries in the several Federal Reserve Banks. (Federal Reserve Bank of New York).

There was general discussion of the question of salary standardization, upon the conclusion of which it was

AGREED that, pending further developments, this topic go over until the next conference.

(35) Routine I (h) Should there be direct pouching of mail to and from the Federal Reserve Banks (Federal Reserve Bank of New York).

It was suggested by the Chairman that the Federal Reserve Banks take steps to consider (1) the question of the establishment of a contract station in each Federal Reserve Bank, if that is deemed advisable, and (2) a plan by which mail might be pouched and routed direct from one Federal Reserve Bank to another.

The Chairman called attention to the fact that the Federal Reserve Bank of New York has already presented this matter to the Postmaster General, who has evidenced both interest in its development and a desire to facilitate the handling of Federal Reserve Bank mail wherever it is possible to do so.

It was understood that someone in the Federal Reserve Bank of New York, designated by Governor Strong, would prepare a memorandum on the matter of direct pouching of mail by the Federal Reserve Bank of New York and submit it to each other Federal Reserve Bank for an expression of its views. (Continued in paragraph 37)

(36) American Farm Bureau Federation. At this point Governor Harding, Mr. Platt, Mr. Miller and Mr. Hamlin joined the conference and presented to the Governors the following representatives of the American Farm Bureau Federation: Mr. George A. Mansfield, Dr. W. H. Walker, and Mr. O. E. Bradfute, who presented their views to the Conference with reference to the present difficulties of farmers and farm interests in different sections of the country.

At 7:00 o'clock p. m. the Conference adjourned to reconvene at 10:30 a.m., Thursday, April 14.

GOVERNORS' CONFERENCE
April 12 - 15, 1921

Third Day's Session, Morning, Thursday, April 14

The Conference convened at 10:30 a. m. for the purpose of having a joint session with the Federal Reserve Board and the Class B directors of the Federal Reserve Banks. One of these directors from each bank except the Federal Reserve Banks of New York and Cleveland, was present and addressed the meeting on general business conditions prevailing in his district.

At 1:00 o'clock the conference adjourned for luncheon at the Metropolitan Club.

GOVERNORS' CONFERENCE
April 12 - 15, 1921

Third Day's Session, Afternoon, Thursday, April 14.

The Conference reconvened at 4:25 p. m. to continue the discussion of routine topics.

(37) Routine I (h) - Should there be direct pouching of mail to and from
(Par. 35 cont'd) the Federal Reserve Banks. (Fed. Res. Bk. of New York.)

In continuing consideration of this topic, which had been introduced at the last session, it was moved and

VOTED that each Federal Reserve Bank forward to Mr. Harrison, upon request from him, information as to the volume and present method of handling its mail.

(38) Routine I (i) Report by the Committee on Codes.

The progress report of the committee indicating that the code would be ready on or about May 15 was received without action.

(39) Routine I (j) Should each Federal Reserve Bank insure its own incoming shipments of Federal Reserve Notes received from other Federal Reserve Banks. (Fed. Res. Bank of St. Louis.)

It was moved and

VOTED that a uniform practice be established in each Federal Reserve Bank with reference to the shipments of fit notes to other Federal Reserve Banks, the receiving bank to insure and pay shipping charges.

Upon motion, it was

VOTED that each Federal Reserve Bank absorb the postage and shipping charges upon all unfit Federal Reserve Notes sent by it to Washington for redemption, whether or not those unfit notes were issued by another Federal Reserve Bank.

(40) Routine I (k) Should Federal Reserve Banks begin to carry part of the fire insurance on new buildings erected where the risk is slight. (Federal Reserve Bank of Cleveland.)

There was general discussion of the policy of each Federal Reserve

Bank with reference to fire insurance on new bank buildings. No action was taken.

(41) Routine II - Accounting and Auditing:

(a) Survey of the accounting procedure systems in the several Federal Reserve Banks. (F. R. B. of N. Y.)

It was requested that each Federal Reserve Bank study a copy of the report on this matter prepared by the Federal Reserve Bank of New York and advise Mr. Harrison of suggestions and comments.

(42) Routine II - (b) The report of the committee on "Method of Handling Collections Sent Direct by Member Banks in One District to Federal Reserve Banks of Other Districts" will be submitted by the committee on standardization of inter-Federal reserve bank forms.

Upon motion of Governor VanZandt, it was

VOTED that the report of the committee be approved.

(43) Routine II - (c) Statements prepared by Federal Reserve Banks and submitted to Federal Reserve Board.

It was stated that this topic was placed upon the program merely to promote suggestions or criticisms of the present reports. Upon motion of Governor Young, it was

VOTED that the Federal Reserve Board be requested to require reports of the basic lines of borrowing banks twice a month, instead of every ten days as at present.

(44) Routine II - (d) Standardization of methods of Auditing.

The Chairman referred to the memorandum prepared by the Auditor of the Federal Reserve Bank of New York with reference to the standardization of the methods of auditing. Upon motion of Governor Calkins, it was

VOTED that that memorandum be referred to the Auditors of the Federal Reserve Banks for consideration at their next conference.

(45) Routine II - (e) Revision of auditor's certificate subjoined to annual statement of Profit and Loss transmitted to Board.

In view of the objections raised by auditors of several of the Federal Reserve Banks to the form of certificate subjoined to the annual statement of Profit and Loss transmitted to the Federal Reserve Board, it was

VOTED that this matter be referred to the auditors for consideration and for the preparation of a uniform certificate agreeable both to them and to the governors who have to countersign the certificates.

(46) Routine II - (f) Standardization of Inter-Federal Reserve Bank Forms.

Upon motion, the report concerning standardization of inter-Federal Reserve Bank forms was adopted.

(47) Routine III - Collections and Clearing:
(a) Uniform indorsements upon inter-district cash and collection items sent direct by member banks in one district to Federal reserve banks of other districts.

Upon motion of Governor Fancher, it was

VOTED that the Federal Reserve Board be requested at its convenience to advise the Federal Reserve Banks of its conclusions upon the question of uniform indorsements upon inter-district cash and collection items sent direct by member banks in one district to Federal Reserve Banks of other districts, this being a matter which had been referred to the Federal Reserve Board at the last conference of Governors with the request that its Counsel prepare a uniform letter of instructions.

(48) Routine III - (b) Desirability of having adequate uniform circulars covering collection of cash and collection items, including direct routing of collection items payable in other Federal reserve banks and direct routing of cash items by member banks to other Federal reserve banks and branches.

Upon motion of Governor Calkins, it was

VOTED that a committee be appointed to consider the entire question of uniform circulars, procedure, and forms involved in the collection of both cash and collection items throughout the twelve Federal Reserve Districts.

Thereupon Mr. Harrison, Federal Reserve Bank of New York, Mr. Logan, Counsel of the Federal Reserve Board, and Mr. J. S. Walden, Federal Reserve Bank of Richmond, were, with the approval of the conference, requested to serve on this committee, Mr. Harrison to act as chairman.

(49) Routine III - (c) Development of inter-city and country clearing settlements in Federal Reserve funds. (F. R. B. N. Y.)

The development of inter-city and country collection settlements in Federal Reserve funds in the various districts was discussed informally as interesting and helpful to the general collection program. No action was taken.

(50) Routine III - (d) Collection of checks on banks which are in an unsatisfactory condition or from which unsatisfactory returns are being received. Discussion of the credit risk involved (Federal Reserve Bank of Dallas)

Governor VanZandt, who proposed this topic for the consideration of the conference, suggested that it should be referred for consideration to the Collection Committee appointed with reference to topic Routine III (b) above. (See paragraph 48)

There was a lengthy discussion by the various Governors present of the difficulties presented at the present time in collecting checks on banks which are known to be in an unsatisfactory condition or from which unsatisfactory returns are being received. It was the concensus of opinion that the question was one of such importance as to require most serious consideration by the committee. (See paragraphs 51 and 65)

Upon motion of Governor Seay the Conference adjourned to reconvene at 9:00 a. m. Friday morning, April 15.

GOVERNORS' CONFERENCE
April 12 - 15, 1921

Fourth Day's Session, Morning, Friday, April 15.

The conference was called to order at 9:15 a. m.

Present:

Governor Strong, Chairman,
Governors McDougal, Young, Biggs, Fancher, Norris, Morss, Calkins, VanZandt, Seay and Wellborn.
Mr. Harrison, Secretary.

The conference proceeded with the consideration of topics on their routine program.

(51) Routine III (d) (Para. 50 cont'd) Collection of checks on banks which are in an unsatisfactory condition or from which unsatisfactory returns are being received. Discussion of the credit risk involved. (Federal Reserve Bank of Dallas).

Upon motion of Governor Calkins, this matter was referred for consideration to the Collection Committee, composed of Messrs. Harrison, Logan and Walden. (See paragraph 65)

(52) Routine III (e) Can the amount of float carried by the Federal Reserve Banks as a result of the holding of Federal Reserve notes by a bank other than the bank of issue be reduced. (Federal Reserve Bank of New York).

The Secretary read the memorandum prepared by Mr. Rounds, Federal Reserve Bank of New York relative to this subject. Upon motion by Governor McDougal, it was

VOTED that it is the sense of this conference (1) that Federal Reserve Banks should adopt the plan proposed by Mr. Rounds, whereby each Federal Reserve Bank shall wire each night the amount of notes of each other Federal Reserve Bank counted and shipped by it, whether shipped to Washington or back to the bank of issue, and that credit for the amount of these notes be given by the respective banks of issue as of that date; and (2) that the Governors' Conference recommend to the Federal Reserve Board that it consider the advisability, and if legally possible, the adoption of a plan whereby each

Federal Reserve Bank may deduct from the amount of its own notes outstanding the total amount of all Federal Reserve notes held by it, those issued by other Federal Reserve Banks as well as its own. The reason for this suggestion is that in no other way is it possible to obtain an accurate statement of the net Federal Reserve note circulation of the System as a whole.

(53) Routine III (f) Should wire transfers be limited. (F. R. B. of San Francisco)

There was general discussion of the overcrowded condition of the leased wires and a concensus of opinion that all Federal Reserve Banks should be careful to eliminate from those wires all unnecessary messages and unnecessary words.

Upon motion of Governor Calkins, it was

VOTED (1) that free wire transfers over the leased wire system be limited to a minimum amount of $1,000, and that anything below that minimum be transferred over commercial wires at the expense of the member bank, and

(2) that telegraphic advices relating to collections be limited to a minimum of $100., and that advices relating to collections below that minimum be transmitted over commercial wires at the expense of the member bank.

(54) Pension Plan. At this point Messrs. Kenzel and Sayer joined the meeting, in accordance with the request of the Conference, to confer on the subject of the pension plan, topic I (a).

The Chairman stated that the Conference appeared to be in accord with the present pension plan with some reservations as to certain suggestions made by Senator Smoot, which Mr. Sayer was asked to explain.

It was the sense of the Conference that two of the four main suggestions made by Senator Smoot might properly be approved by the Conference at once, but that there were substantial objections to his proposals relative (1) to taxation, and (2) to contributions to be made by the employes on

account of liability accrued to date.

Mr. Sayer explained that while Senator Smoot felt that there was no objection to the Federal Reserve Banks making payment on account of their own share of the accrued liability, nevertheless he felt that such banks should not be permitted to make payment on account of the employes' share of those liabilities. Mr. Sayer pointed out that it was almost the universal custom, wherever pension plans of this character were inaugurated, not to impose upon the employes to be benefited thereby any obligation to make payment on account of accrued liability. Some of the governors expressed their opinion there would be considerable doubt of the success of the plan if the employes were compelled to pay for that liability.

Upon motion it was

VOTED that Governors Calkins and Norris, Mr. Kenzel and Mr. Sayer be appointed a committee to confer with Senator Smoot to discuss all of the suggestions made by him, with the understanding that Governor Harding be requested to join the committee if possible.

Upon motion it was

VOTED that it is the sense of the Conference that the proposed pension plan be approved and that it be referred to the Federal Reserve Board for action, subject to such satisfactory adjustment of the suggestions made by Senator Smoot as might be effected by the sub-committee appointed by the Conference.

The Secretary was requested to advise the Salary Standardization Committee of the appropriateness of taking into consideration the benefits of the pension plan in connection with salary standardization.

(55) Routine IV (a) CREDIT TRANSACTIONS AND POLICIES ~~Establishment~~ of uniform practice with respect to the indorsement of notes and bills discounted or bought by Federal reserve banks for or from each other. (Federal Reserve Bank of New York).

Governor Strong recommended that this topic, proposed by the Federal Reserve Bank of New York, be passed.

(56) Routine IV - (b) Should the Federal Reserve Banks discontinue rediscounting for member banks notes of non-member banks secured by Government obligations. (F. R. B. Atlanta)

Upon motion of Governor VanZandt, it was

VOTED that this topic be passed for consideration at the next conference.

(57) Routine IV (c) Discussion of methods adopted by the reserve banks to develop and widen the discount market. (F. R. B. N. Y.)

(d) Report of standing committee on open bill market conditions and operations.

(e) Bankers acceptances practices (F. R. B. San Francisco) and regulations with particular regard to accommodation of commerce and the open market (F. R. B. N. Y.)

Upon motion of Governor Fancher, it was

VOTED that these topics be considered in connection with topic X on the Board's program relating to purchase of acceptances growing out of export and import transactions having a maturity in excess of three months but not in excess of six months. (Note: In the rush incident to the closing hours of the joint conference, these topics, though referred to, were not considered specifically.)

ADVANCE NOTICE OF GOVERNORS' CONFERENCES

(58) Upon motion of Governor Calkins, it was

VOTED that the Federal Reserve Board be requested to give to the Governors as much advance notice of Governors' Conferencesas might be possible in the circumstances. It was suggested that five weeks' advance notice is desirable.

(59) Routine IV (f) What should the policy of the Federal reserve banks be with respect to attempted cancelations of confirmed or irrevocable commercial letters of credit and with regard to issuers of credits who have defaulted or refused to honor their credits; especially how should the Federal reserve banks deal with acceptances of such banks. (F.R.B. N.Y.)

This topic was temporarily passed.

(60) Routine IV (g) Status of organization and activities of eligibility committees formed in the reserve banks (F.R.B. N.Y.)

Upon motion, it was

VOTED that the recommendation of the last Conference on this subject be affirmed and carried out by each of the Federal Reserve Banks, that is, that each Federal Reserve Bank appoint an eligibility committee which shall report to all other Federal Reserve Banks any paper of general circulation which it holds to be ineligible.

At 11:45 a. m. the conference adjourned to meet in joint session with the Federal Reserve Board.

(60a) Joint IV - Credit Policy:

(a) Discussion of policy of Reserve Banks as to rediscounting paper, the eligibility of which may be doubtful on account of condition statements of makers and discussion of feasibility of adopting a uniform policy for all Federal Reserve Banks.

Governor Harding addressed the meeting expressing the views of the Federal Reserve Board with reference to proper credit policies to be pursued by the Federal Reserve Banks at this time. He outlined in some detail the difference between technical eligibility and goodness of paper offered for rediscount, emphasizing the necessity of extreme liberality on the part of the Federal Reserve Banks in determining both of these questions. It was pointed out that conditions at the present time are such that an undue restriction of credit on the part of the Federal Reserve Banks might enforce a disastrous calling of loans on the part of member banks, a course which must be avoided if possible.

(60b) Joint V - Reserve Policy:

(a) Should reserves of Federal Reserve Banks be based, as far as possible, upon holdings of gold coin and gold certificates, eliminating silver certificates and legal tenders by paying them out in lieu of Federal Reserve notes?

Governor Harding expressed it to be the clear opinion of the Board that it is desirable that the reserves of the Federal Reserve Banks be based as far as possible upon gold coin and gold certificates, and that this should be accomplished by the elimination of silver certificates and legal tenders

from the reserves by paying them out in lieu of Federal Reserve Notes.

(60c) Joint II - Gold Policy:

(c) Should gold which would otherwise be imported into the United States be held abroad and earmarked with foreign agencies, such as the Bank of England, the Federal Reserve Board having ruled that gold so held can no longer be counted as reserve?

Joint V - Reserve Policy:

(b) Bearing in mind that prior to 1917 Federal Reserve notes were substantially gold certificates, because of the percentage of actual gold held by Federal Reserve Agents against them, would it be advisable to prevent any undue increase in banking reserve by depositing incoming gold with Federal Reserve Agents, thus strengthening specific reserve against Federal Reserve notes? To make such a policy effective it would seem that the Federal Reserve Board should require the Federal Reserve Banks to publish actual percentage of reserve held against deposits and actual percentage of gold held against notes. The combined reserve percentage could be published for purposes of comparison as heretofore. In order to equalize the reserve position of the various Federal Reserve Banks, and to make it to the interest of Banks to carry as large a gold reserve against notes as possible, consideration should be given to the advisability of adopting a policy that any Federal Reserve Bank whose reserve against notes falls below a certain specific minimum should be compelled to apply for permission to rediscount with other Federal Reserve Banks.

The Conference then considered the topic presented under II (c), with reference to the desirability of holding gold abroad, earmarked with foreign agencies, instead of importing it into the United States, in conjunction with the questions of reserve policy presented in topic V (b).

While Governor Strong favored holding a limited amount of gold earmarked in the Bank of England instead of importing it into this country each of the other Governors present, either for political or practical reasons, voted against the adoption of this policy at this time.

Governor Harding, thereupon, asked the Conference whether, if, assuming that the gold is to be permitted to come into this country, it would

be desirable to change the present method of calculating reserves so as to show to the public two different sets of reserves, one against notes, and the other against deposits, in the manner proposed in topic V (b).

Each of the Governors present voted against such a change in the method of reporting reserves with the exception of Governor Fancher who voted in favor of it. Governor Norss expressed it to be his belief that it was an academic question rather than a practical one and that the combined percentage was sufficient to satisfy the needs of the public. Governors McDougal and Wellborn expressed it to be their belief that the proposed plan would have no practical effect.

(60d) Soviet Gold. Governor Harding read to the Conference copies of letters exchanged between Mr. Gilbert and the State Department. It was the conclusion of the State Department, expressed in Mr. Dearing's letter of April 9, 1921, that to Mr. Gilbert,

1. The State Department cannot give any assurance that the title to Soviet gold will not be subject to attack, internationally, or otherwise.
2. The State Department perceives no necessity for the Treasury Department inquiring into the origin of gold which bears the official coinage or mint stamp of a friendly nation. It is not considered that the purchase of gold of this description is fraught with the likelihood of international complications, as the purchase of gold of known Soviet origin would be.
3. The State Department considers that the observations made in (2) are applicable to gold bearing the official German or Mexican mint stamps.

GOVERNORS' CONFERENCE
April 12 - 15, 1921.

Fourth Day's Session, Afternoon, Friday, April 15.

The Conference reconvened at 2:35 p. m.

Present:

Governor Strong, Chairman, Governors Morss, Norris, VanZandt McDougal, Fancher, Biggs, Calkins, Young and Seay. Mr. Harrison, Secretary.

(61) Routine IV - Credit Transactions and Policies:
(k) Sales of Bills reported as rediscounts.

It was

MOVED AND CARRIED that the Federal Reserve Board be requested to change the caption in the weekly statement of the Federal Reserve Board showing the amount of "Acceptances Rediscounted With or Sold To" other Reserve Banks so as to indicate more correctly the true nature of the transaction, that is, so that will not purport to include only those bills rediscounted or sold by one Federal Reserve Bank for its own benefit. It should read "Acceptances Rediscounted with or Purchased by."

(62) Date of Consolidated Statement. Upon motion of Governor Norris, it was

VOTED that the Federal Reserve Board be requested, if possible and convenient, to publish the consolidated statement of the Federal Reserve Banks on some day other than Saturday.

(63) Routine IV (f) What should the policy of the Federal Reserve Banks be with respect to attempted cancellations of confirmed or irrevocable commercial letters of credit and with regard to issuers of credits who have defaulted or refused to honor their credits; especially how should the Federal Reserve Banks deal with acceptances of such banks. (Federal Reserve Bank of New York.)

Upon motion, it was

VOTED that acceptances made by banks who have defaulted or refused

to honor their credits be referred to the eligibility committee of the Federal Reserve Bank to which they are presented for discount or purchase for the ascertainment of the facts relating to the alleged default or dishonor; and if the accepting bank is found to have been guilty of such default or dishonor with respect to other credits, all Federal Reserve Banks be advised of that fact with the understanding that such Federal Reserve Banks will not purchase any acceptances of such a bank.

(64) Routine IV - (g) What procedure if any is followed by each Federal Reserve Bank to ascertain whether acceptances made by its members are made in conformity with the Board's regulations effective since October 25, 1920 and the Board's rulings, and what steps if any are taken to get similar information regarding bills accepted by either member or nonmember banks or acceptances offered either to the Federal reserve bank of the district in which the bills originate or to other Federal Reserve Banks (Federal Reserve Bank of Cleveland)

There was a short discussion of the existing practices in the several Federal Reserve Banks with reference to procedure to be followed in order to discover the eligibility of acceptances under the new regulations of the Federal Reserve Board. It was generally agreed that the best method of insuring compliance with those regulations is to have each acceptance show on its face the nature of the transaction out of which it grows, but that in the absence of such evidence the new forms of certificate required to be made upon acceptances not presenting such evidence on their face, will do much to obviate the purchase of ineligible acceptances.

(64½) Visit of Federal Reserve Bank officers to New York bank in re acceptances.

It was suggested by Governor Fancher that in view of the many difficulties surrounding the acceptance business and the relations of the Federal Reserve Bank to the acceptance market, it might be desirable for the various Federal Reserve Banks to send one or more of their officers to the Federal Reserve Bank of New York for the purpose of informing themselves of its practices

and policies in these matters. Governor Strong advised the Conference that the Federal Reserve Bank of New York would be only too glad to cooperate in so far as it is possible in the development of a mutual understanding of these questions.

(65) Routine IV - (h) Desirability of developing a system program for the relief of embarrassed member banks in difficulties caused by deaths, defalcations, explosions, etc. (Federal Reserve Bank of New York.)

It was suggested by the Chairman that this topic was put upon the program merely for the purpose of provoking a discussion of what the various Federal Reserve Banks are doing to aid or assist member banks that are embarrassed because of the absence or inefficiency of their personnel.

The discussion evidenced the fact that practically all of the Federal Reserve Banks make it a policy in such cases to assist their members in so far as it may be feasible, but that most of them assiduously avoid any arrangement which might impose upon the Federal Reserve Bank the obligation of actively running their member banks.

(At the joint conference between the Federal Reserve Board and the Governors held later on, on the afternoon of Friday, April 15, the question of Federal Reserve Banks receiving for collection checks drawn on weak member banks was discussed at length, the suggestion being made by Governor Harding that it might be proper for Federal Reserve Banks to take such checks not as cash items, but as collection items. It was agreed that this matter should be considered by the Collection Committee -- III (b). (See paragraphs 50 and 51)

(66) Routine IV - (i) Suggestion of Mr. Puelicher, Vice President of the American Bankers Association, to Governor Harding that a conference on the form and substance of financial statements be held between the managers of the credit departments of the reserve banks and representatives of commercial banks. (Federal Reserve Bank of New York.)

Upon motion of Governor Seay, it was

VOTED that no action be taken with reference to this topic.

(67) Routine IV - (j) Amendment of Section 5202 Revised Statutes so that indorsements of national banks on bankers acceptances will be excepted from the limitation of the section irrespective of the place where payable. (Federal Reserve Bank of New York.)

Upon motion of Governor Calkins, it was

VOTED that the Federal Reserve Board be requested to procure an amendment to the terms of Section 5202 of the Revised Statutes by eliminating the words "payable abroad" from the terms of the seventh exception of that section.

(68) Coupon Collections. After discussion, it was understood by the Conference that the matter of coupon collections is one which should come within the jurisdiction of the Collection Committee appointed by the Conference.

(69) Telegraphic Transfers. Governor Calkins called attention to the fact that certain of the Federal Reserve Banks are not conforming to the recommendations of the last conference with reference to the question of telegraphic transfers, and, after discussion, it was

AGREED that the following recommendation, made at the last Governors' Conference, should be complied with: that is, that Federal Reserve Banks should receive orders for telegraphic transfers only from member banks.

At this point, the routine program of the Governors having been completed, the Federal Reserve Board joined the Conference to continue discussion of the Joint program.

DISCUSSION OF TOPICS ON PROGRAM FOR
JOINT CONFERENCE WITH FEDERAL RESERVE BOARD.

(70) Federal Reserve Bank Procedure in handling Discounts. Governor Harding called upon each Governor present to describe to the Federal Reserve Board the routine followed by his Federal Reserve Bank with respect to paper offered for discount, showing the precise procedure followed within the Bank in passing upon applications for rediscounts. Each Governor in response to this request outlined briefly the procedure prevailing in his district.

(71) Charges for reports furnished by Comptroller of Currency. Paragraphs 15 and 21 continued. Governor Harding called upon the Comptroller of the Currency to present to the Conference his report with reference to the charges to be made by him for furnishing to Federal Reserve Banks copies of the completed reports of national banks. After some discussion of the reasons prompting his request that Federal Reserve Banks pay for these reports, he stated that the fund to cover examination expenses of the Office of the Comptroller of the Currency showed a deficit on March 1, 1921 amounting to $118,215.21.

While it is intended to ask Congress for an appropriation to make this deficiency good, the Comptroller feels it advisable in order to procure funds in the immediate future to make a charge for completed reports to be furnished currently to the Federal Reserve Banks. The charges proposed by him are as follows:

No. of Banks	Amount of Capital	Proposed Charge Per Report.
4601	$ 25,000 - $ 50,000	$ 5.00
2750	50,000 200,000	10.00
550	200,000 500,000	20.00
161	500,000 1,000,000	30.00
99	1,000,000 5,000,000	40.00
18	Over $5,000,000	50.00

Upon motion of Governor Strong, it was

VOTED that the charges suggested by the Comptroller of the Currency be approved and that the directors of the respective Federal Reserve Banks be recommended to pay those charges for all completed reports furnished by the Office of the Comptroller of the Currency.

It was informally understood that the charges proposed by the Comptroller should relate to all reports furnished since January 1, 1921, provided that those reports be supplemented by the so-called "pink" or confidential sheets.

(72) Joint V - Reserve Policy:

(c) What changes in policy of rediscounting among Federal Reserve Banks appear advisable on the basis of experience during the last year?

Upon motion of Governor Strong, it was

VOTED that there be no changes in the policy of rediscounting among Federal Reserve Banks.

(73) Upon motion of Governor Seay, it was

VOTED that the Federal Reserve Board be requested, if it be legally possible, to permit Federal Reserve Banks to rediscount with other Federal Reserve Banks under some plan not requiring a transfer of individual notes or bills covered by the rediscount.

(74) Joint VI - Earnings of Federal Reserve Banks:

The large earnings of the Federal Reserve Banks have caused much comment and some adverse criticism. The Franchise tax to be paid by Federal Reserve Banks to the United States Government is fixed by law at 90% of net profits over and above dividends. Practically all Federal Reserve Banks have now accumulated their statutory surplus. It is customary with many member banks to set aside each month a reserve for taxes. Would it be feasible and desirable to have the Federal Reserve Banks set up on their books a "Reserve for Franchise Tax" and show this item in their weekly statements. It has been suggested that an approximate reservation for franchise tax shown weekly would give the public a better idea as to the disposition of the earnings of the Federal Reserve Banks and gradually dissipate the idea that these banks are profiteering at the expense of commerce and industry.

Upon motion by Governor Strong, it was

VOTED that each Federal Reserve Bank set up on its books a "Reserve for Franchise Tax" and that it show this item in its weekly statement.

(75) Joint VIII - Shipments of Coin and Currency to member and non-member banks upon request of a member bank.

(a) Why should there not be a uniform policy with respect to such transactions?

Upon motion of Governor Seay, it was

VOTED that this topic be passed without action inasmuch as it involves a matter for local consideration by each Federal Reserve Bank and does

not require a uniform policy throughout the System.

(76) Joint VII - Par Collection System:
(a) Status of litigation
(b) Effect of laws enacted by various Southern States
(c) Risks and losses incurred by Federal Reserve Banks in making collections. How to minimize them.

Governor Harding reviewed briefly the status of the litigation on the subject of the par collection system, and recited in some detail the effect of the laws enacted in various Southern States upon this question.

The Governors advised the Federal Reserve Board that the questions raised in topic VII (c) are ones which will be considered by the Collection Committee previously appointed by the Conference. Governor Harding stated that this course of action would be agreeable to the Federal Reserve Board.

(77) Joint IV - Credit Policy:
(b) Discussion of so-called "direct action," that is policy of applying some pressure upon borrowing member banks to compel their customers to liquidate.

Upon the request of Governor Strong, the Conference discussed at some length the propriety of "direct action," that is the policy of applying pressure upon borrowing member banks to compel their customers to liquidate.

It was stated by several present that now is not the time for the application of pressure of that character.

(78) Joint X - Bankers Acceptances:
(a) Should the Board's regulations be modified so as to make eligible for purchase or discount acceptances of member banks having not longer than six months to run, in cases where bills are drawn against export and import transactions.

Upon motion of Governor Strong, it was

VOTED that the Federal Reserve Board be requested to modify its regulations so as to make eligible for purchase or discount in the open market acceptances of member banks having not longer than six months to run, in cases where they are drawn against transactions involving the importation or exportation of goods.

(79) Joint V - Reserve Policy:

At 6:40 p. m., after a detailed discussion of the Reserve Policies of the Federal Reserve System chiefly by Mr. Miller and Governor Strong, the conference adjourned sine die.