

CONFIDENTIAL

Secretary's Minutes

GOVERNORS CONFERENCE

May 2 - 4, 1922.

Washington, D. C.

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* "Currency Distribution & Payment Policy
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TOPICS SUGGESTED BY GOVERNOR HARDING
FOR DISCUSSION AT
JOINT CONFERENCE OF FEDERAL RESERVE BOARD WITH GOVERNORS
May 1922 Conference of Governors

1. Desirability of the adoption by Federal Reserve banks of policy of paying out gold certificates in ordinary course of business. (Board's circular letters of March 9th X-3353 and 3354).
2. Policy of some Federal Reserve banks to invest in Government securities in order to increase their earning assets.
3. Practicability of action by Federal Reserve banks, without additional legislation, looking to retirement of national bank note circulation.
4. Possible legislation affecting the par clearance system.
5. Desirability of reestablishment by Federal Reserve banks of special trade acceptance rate.
6. Extension of A. B. A. numerical system so as to make provision for Federal Reserve Banks and Branches.

I. CREDIT TRANSACTIONS AND POLICIES

A. Bankers Acceptances

1. Foreign - Operations under new regulation of F. R. Bd. (Richmond and San Francisco)

(a) General Discussion

(b) Recommended:

(1) That one officer in each F.R.B. be appointed to be responsible for such operations; this officer to keep in touch with each other bank's representatives and with Counsel of Board, all to meet when necessary as a committee; and (New York)

(2) That a sub-committee of officers representing near-by banks be appointed to meet when occasion arises. (New York)

2. Domestic -

(a) Recommended:

That Board be requested to consider advisability of extending use of domestic bankers acceptances either by regulation, or, if necessary, by amendment. (New York)

B. Purchases of Government Securities by Federal Reserve Banks For their own account, and for account of Treasury. (Board Program)

1. Should it be policy of Reserve Banks to invest in Government securities in order to increase earning assets? (N.Y. and Phila.)

C. Amendment to permit Member Banks to borrow on own Collateral Note drawn for any period up to 90 days With Government Securities as collateral. (Cleveland)

D. Kiting Operations

1. Discussion of importance of Federal Reserve Banks taking steps to detect cases of kiting. (New York)

E. Rates of Discount

1. General Policy (Boston)

2. Preferential rate on Trade Acceptances (Board Program)

A. Check Collections

1. Uniform check collection circular and procedure (Minneapolis)
 - (a) Discussion in relation to gratuitous services to member banks. (See topic VII-A) (Boston)
 - (b) Reports on recommendations of Collection Committee made at last conference. (New York)

2. Filing claims on behalf of member banks on account of checks drawn on failed banks. (San Francisco)

(Last conference voted that this be done unless express request not to do so.)

Recommended:
That no claims be filed except upon specific authorization from indorsers.

3. Par Collection System (San Francisco)
 - (a) Possible legislation (Board Program)

4. Charges to be collected by member banks from customers whose checks are cleared through the Federal Reserve Banks. (Atlanta and Richmond)

(Postponed from last conference)

5. Notation on checks of member banks indicating F. R. B. or Branch to which they should be sent for collection. (See Board's letter X-3342 Feb. 27, 1922)
 - (a) Combination with A. B. A. numerical system (Board Program)

6. Advice of No Returns

Recommended:
That uniformity in phraseology and general information such as date and total of cash letter in which items were originally listed is desirable. (St. Louis)

7. Correspondence referring to items lost and charged back.

Recommended:
That acknowledgments to correspondence referring to items lost and charged back be discontinued in view of the information given Federal Reserve Banks in daily statements on which such items appear as deductions. (St. Louis)

B. Nonmember Clearing Banks

Recommended:

That all gratuitous services, such as wire transfers, shipments of currency, etc., be withdrawn.

(San Francisco)

III. COIN, CURRENCY AND CIRCULATIONA. Report of Treasury Currency Committee

1. Board's letter X-3381 and (a), April 11, 1922

B. Gold Policy of Federal Reserve Banks

(See X-3354, Mch. 9, 1922)

1. Payments on account of Treasurer

- (a) In accordance with request of Treasury

(See Board's letters X-3353 & (a), March 6, 1922; X-3363 & (a), March 18, 1922)

2. Payments on own account

- (a) In relation to action of Treasury

3. Absorption of losses through abrasion

(November 1919 Governors' Conference voted that such losses be absorbed)

C. Currency Policy

1. Uniformity concerning

- (a) Fitness in sorting

- (b) Payments in kinds, denominations and fitness
(See Treasury Committee Report)

2. National Bank Notes

- (a) Possible means of retirement without legislation

(Board Program)

- (b) Shipments for redemption
(See Board's letter X-3364 and (a) of March 21, 1922)

3. Federal Reserve Notes

(a) Printing Program (See X-3351 and (a) of Mch. 9, 1922)

1. Minimum printing orders or stoppage of production.
2. Payment of new notes as distinguished from fit notes.

(b) Receipt for fit F. R. Notes received from Other F. R. Banks.

(1) Recommended by St. Louis

That such receipt be discontinued; some banks now require, others do not.

4. Distribution of United States Currency.

(a) Effect of instructions of Treasury Department letter (See X-3364 and (a), Mch. 21, 1922) concerning shipment of U. S. Currency direct to applying banks.

5. Redemptions of United States Currency

(a) Effect of Treasury request relative to payments in gold (See X-3353 and (a), March 6, 1922.)

IV. FISCAL AGENCY OPERATIONSA. Allotment of Certificates

(San Francisco)

1. Comparison of methods followed and results achieved.

B. Subscriptions to Treasury Certificates

(Philadelphia)

1. Could not subscriptions to Treasury Certificates be closed three days before date of issue, to avoid the calculation of one or two days interest and the making of refunds?

V. OPERATIONA. Federal Reserve Pension Fund

(Committee on Pension)

1. Advisability of urging that something be done to bring about desired legislation.

- B. Fidelity and Other Insurance (San Francisco, Chicago)
1. Are Federal Reserve Banks paying excessive premiums for fidelity, transportation, and other insurance, and should a joint fund be set up for those purposes? (Mr. Cramer, Chicago, has had this matter under consideration)

- C. Pilfering (New York)
1. General discussion

- D. Reports of Examination of National Banks (New York, San Francisco, Cleveland, Fed. Res. Board)
1. Charges for Reports -- Discussion of abandoning temporary agreement reached at April, 1921, conference to meet the then existing deficit. (See paragraph 71 Secretary's minutes).
 2. Custody and Availability of Reports -- Suggested by Governor Harding that a committee of governors be appointed by the conference to call on the Comptroller and discuss this subject. (Report of Topic No. 6, Chicago Group meeting Feb. 24-25, 1922)

VI. ACCOUNTING AND AUDITING

- A. Deduction of balances due from other banks or bankers in computing reserve (Philadelphia)
1. Recommended:

That each member bank in all cases have the privilege of deducting balances due from other banks or bankers in computing reserve. (Now under consideration by Reserve Committee of Federal Reserve Agents)
- B. Periods for reporting deposit liabilities in Reserve Cities (Philadelphia)
1. Standardization to make periods coincident desired. (See X-1584 -- June 13, 1919)

VII. UNIFORM SERVICES TO MEMBER BANKS

- A. Digest of Replies to Questionnaire. (Digest dated March 1922) (New York)
1. Consideration of adoption of uniform service in all districts.
- B. Should there be any limit to the services rendered member banks? (Philadelphia)
1. In the purchase, sale, receipt, delivery or safe-keeping of securities.

VIII. MEMBER BANKS RELATIONSA. Public Relations Work

(New York)

1. Importance.
 - (a) Desirability of vote by Governors that work is important and should be generally pursued.
2. Criticism
 - (a) Discussion of policy in regard to answering criticisms.

GOVERNORS' CONFERENCE

May 2 - 4, 1922

First Day's Session, Tuesday, May 2, 1922

Morning

Joint Conference with Federal Reserve Board

The meeting was called to order at 10:30 o'clock a. m.

Present:

Honorables D. R. Crissinger, W. P. G. Harding, Edmund Platt, Adolph C. Miller, Charles S. Hamlin, John R. Mitchell, members of the Federal Reserve Board; Governors, Morss, Strong, Norris, Fancher, Seay, Wellborn, McDougal, Biggs, Young, Miller, McKinney and Calkins of the Federal Reserve Banks; and Mr. Harrison, Secretary.

Board Program #1 - Desirability of the adoption by Federal Reserve Banks of policy of paying out gold certificates in ordinary course of business. (1)

Governor Harding read to the conference copy of the program entitled "Currency Distribution and Payment Policy for Federal Reserve Banks" stating that the program would be distributed to the conference for discussion as soon as printed. (See paragraphs 33, 48, 57)

Board Program #2 - Policy of some Federal Reserve Banks to invest in Government securities in order to increase their earning assets. (2)

Governor Harding opened discussion of this matter by reading recommendation #9 of the Federal Advisory Council to the Federal Reserve Board on April 28, 1922. He, thereupon, discussed in general terms the relation of Federal Reserve Bank earnings to expenses, called attention to the fact that Mr. Gilbert, in a letter dated May 1, 1922, had advised the Federal Reserve Board that the Treasury Department is prepared to discuss with each Federal Reserve Bank the question of making reimbursement for fiscal agency expenses. (See paragraphs 56, 65) He also referred to the opinion of the Attorney General, dated April 27, 1922, upholding the opinion of the Federal Reserve Board's General Counsel that Federal Reserve Banks have authority to make payment of their current expenses and dividends out of their surplus. He concluded his remarks with reference to the

subject by calling attention to the fact that further economies in the expenses in operation of Federal Reserve Banks will undoubtedly be effected as a result of the studies of the committee of operating men of all reserve banks recently held in Chicago with the committee of the Federal Reserve Board on Efficiency and Economy. He added however that it might not be true economy to do anything with the Reserve Bank organizations that would lead to resignations of the best men in the banks. (See paragraphs 16, 17, 59, 64)

Board Program #3 - Practicability of action by Federal Reserve Banks without additional legislation, looking to retirement of national bank note circulation. (3)

Governor Harding read to the conference recommendation #2 of the Federal Advisory Council to the Federal Reserve Board on April 28, 1922, to the effect that Federal Reserve Banks should not adopt any policy which would tend to force the retirement of circulating notes of national banks by making their issue unprofitable. He then stated that the Board agrees with the recommendation of the Council that there should be no discrimination by Federal Reserve Banks against national bank note circulation. (See paragraph 62)

Board Program #4 - Possible legislation affecting the par clearance system. (4)

Governor Harding stated that it is improbable that any legislation concerning par clearance will be adopted at the present time. (See paragraphs 30, 61)

Board Program #5 - Desirability of reestablishment by Federal Reserve Banks of special trade acceptance rate. (5)

Governor Harding, on behalf of the Board, asked the conference to make specific recommendation to the Federal Reserve Board concerning the desirability of a preferential open market rate for trade acceptances. (See paragraphs 21, 25)

Board Program #6 - Extension of A. B. A. numerical system so as to make provision for Federal Reserve Banks and Branches.

(6)

Governor Harding discussed briefly the correspondence which he has conducted with the President of the American Bankers' Association, and explained that in his opinion the adoption of this amendment to the numerical system of the American Bankers' Association is more a matter for that association to determine and develop than for the Federal Reserve System, although it requires the cooperation of the Federal Reserve Banks. (See paragraphs 12 1/2, 32)

Topics suggested by Federal Reserve Board not appearing on program.

Borrowings in excess of Basic Line. Governor Harding referred (7)

to the fact that more than one-quarter of the member banks of the System are now borrowing in excess of their basic line, and called attention to the percentage of banks in each district which are borrowing in excess of their basic line. He stated that this topic had been discussed with the Federal Advisory Council and their view asked as to the best way to make a better distribution of the burden. Particular reference was made by the Board in its discussion with the Advisory Council to the possibility of adopting a modified form of the progressive rate, with a limited number of progressions and a maximum not greatly in excess of the current rate. But, he said, recommendation #11 of the Federal Advisory Council to the Federal Reserve Board on April 28, 1922, stated that the most effective way to handle the situation is by the personal influence of the Governor of each Federal Reserve Bank on the member banks borrowing in excess.

5% Redemption Fund for National Bank Notes. Governor Harding (8)

presented to the conference a form of letter to all reserve banks which has been proposed by the Board and concurred in by the Treasury Department relative to payments in the 5% redemption fund for national bank notes.

This letter was submitted to the conference for consideration with the request that it report back to the Board concerning the proposed plan.

(See paragraph 51)

Statistics concerning Federal Reserve Banks.

(9)

(a) Governor Harding submitted to the conference for its information a statement of the Statistics Department of the Board comparing gross earnings, net earnings, and current expenses of all reserve banks for the first quarter of 1922 with the same figures for 1921.

(b) He also presented to the conference a memorandum of the statistics department in reference to the publication of reserves set up by each Federal Reserve Bank for franchise tax. This memorandum stated that some banks have made such a reserve and others not. Also, there is wide fluctuation in the amounts set up from time to time by some of the banks and it was, therefore, recommended by the Statistics Department that the publication of the amounts of reserve set up for franchise tax be discontinued. The Board asked the conference to consider this recommendation, which was submitted without any recommendation by the Board itself, and to report back to the Board. (See paragraph 52a)

(c) He also submitted to the conference a recommendation of the Statistics Department that the Federal Reserve Banks close their books as of December 31 only, rather than semi-annually. This recommendation was submitted to the conference for an expression of its views without specific recommendation of the Board itself. (See paragraph 52b)

Special Savings Deposits. Governor Harding referred to the re- (10)
quest of the Federal Reserve Bank of San Francisco that Special Savings Deposits be considered as time deposits rather than as demand deposits. He advised the conference that the Federal Reserve Board has notified the San Francisco bank that it does not see its way clear to amend its existing

regulations on this subject, but he asked that the conference express its views to the Board. (See paragraph 53)

Purchase and sale of securities for member banks. Governor (11)

Harding asked that the subject of the execution of orders from member banks relative to purchase and sale of securities be considered by the conference, with a report of the present practice of each bank. (See paragraph 50)

Rediscount of notes secured by chattel mortgages. Governor (12)

Harding submitted to the conference for its consideration a letter from the Chickasha National Bank, Chickasha, Oklahoma, dated April 7, 1922 concerning the rediscount of notes secured by chattel mortgages. (See paragraph 54)

Extension of A. B. A. Numerical System. (12 1/2)

(See Board Program #6)

Governor Harding submitted his correspondence with the President of the American Bankers' Association regarding the extension of its numerical system to make provision for Federal Reserve Banks and Branches. (See paragraphs 6, 32)

Payment to Comptroller of Currency for Reports of Examination. (13)

Governor Harding suggested that the conference appoint a committee to confer with the Comptroller of the Currency with respect to making payments for reports of examination of national banks. (See paragraphs 42, 66-1)

At 11:30 o'clock a. m. the Federal Reserve Board withdrew and the separate Governors' Conference convened.

Present:

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

The conference undertook consideration of the regular program.

Topic I.A.1. - Bankers Acceptances: Foreign

(14)

There was general discussion of the operations of the several Federal Reserve Banks under the new regulation. Governor Calkins referred to the fact that while there should be no unnecessary restriction on the development of acceptances growing out of the importation or exportation of goods, nevertheless, the System should watch closely the development of the domestic acceptance business. Some comment was made with respect to the letter issued by the Federal Reserve Bank of New York announcing the issue of the new regulation of the Board. Governor Strong explained, however, that the purpose of that letter announcing the new regulations was not so much to pass upon each issue of acceptances as to advise the accepting banks that we are anxious to develop close contact with them in order to discuss general questions of acceptance policy about which they might be in doubt and to formulate a sound acceptance atmosphere. Upon motion of Governor Calkins, it was

VOTED (a) that one officer in each Federal Reserve Bank be appointed to be responsible for operations under the new acceptance regulation; this officer to keep in touch with each other bank's representatives and with Counsel of Board, all to meet when necessary as a committee:

(b) that a sub-committee of officers representing nearby banks be appointed to meet when occasion arises, and that this sub-committee keep the representatives of each of those banks not represented on the sub-committee fully informed of all their deliberations. It was informally agreed that this sub-committee is to be a standing committee with definite headquarters at some place to be agreed upon by the sub-committee.

The following men were designated in accordance with sub-paragraph (a) of the last vote to be responsible for acceptance operations and to meet as a general committee when necessary:

C.C. Bullen - Boston	C.A. Peple - Richmond	W.B. Geery - Minneapolis
E.R. Kenzel - New York	L.C. Adelson - Atlanta	C.A. Worthington - Kans. City
C.A. McIlhenny - Phila.	C.R. McKay - Chicago	R.G. Emerson - Dallas
F.J. Zurlinden - Cleve.	O.M. Attebery - St. Louis	Ira Clark - San Francisco

Upon motion of Governor Morss, it was

VOTED that Mr. Kenzel act as chairman pro tem of the general committee pending its organization, and that that committee when organized appoint its own sub-committee.

Topic I.A.2. - Bankers' Acceptances - Domestic. (15)

After general discussion of the whole question of the development of domestic acceptances, upon motion of Governor Calkins, it was

VOTED to be the sense of the conference that there is no present occasion to consider the advisability of extending the use of domestic acceptances.

Governor Seay moved that the Federal Reserve Board be asked to consider whether its present regulations with respect to domestic bankers acceptances might be amended or defined with the view particularly to avoiding the abuse of domestic acceptances. This motion was seconded but, upon vote, was not carried.

Topic I.B. - Purchase of Government securities by Federal Reserve Banks for their own account and for account of Treasury. (16)

The chairman called attention to the fact that the Federal Reserve Board had asked for an expression of opinion from the Governors (paragraph 2) concerning what is their present practice in reference to investment in Government securities, and as to what is their general policy in making such investments. From the discussion of each of the Governors, it appeared that:

It has been the policy of the Federal Reserve Bank of Boston since the first of the current year to buy Government securities for income purposes. Its present holdings of certificates of indebtedness and notes aggregate about \$40,000,000. These investments were made either through local dealers or through New York.

It is the opinion of the Federal Reserve Bank of Philadelphia that it is the right and duty of a Federal Reserve Bank to invest in Government securities in amounts sufficient at least to earn expenses and dividends. Its longest maturities of these obligations are the four-year notes. Governor Norris expressed it to be his opinion that Federal Reserve Banks have unlimited power to buy Government obligations unless restricted by the Federal Reserve Board, and unless interfering with purchases for account of the Treasury Department.

It is the policy of the Federal Reserve Bank of Cleveland to purchase Government obligations in their own district and through the Federal Reserve Banks of New York and Chicago in amounts sufficient to meet earnings.

While the Federal Reserve Bank of Richmond has made no purchases of Government securities for the purpose of revenue, nevertheless, all the directors of that bank feel that the bank should be left free to buy for such purpose if it cares to do so.

While the earnings of the Federal Reserve Bank of Atlanta are sufficient to meet expenses, if they were not sufficient that bank would buy Government securities in order to cover them.

It has been the policy of the Chicago Federal Reserve Bank to purchase certificates of indebtedness (about \$8,000,000) and Victory notes (about \$28,000,000) through the local market. These amounts are estimated to be sufficient fully to meet expenses and dividends without infringing upon surpluses of the bank.

The Federal Reserve Bank of St. Louis has bought \$20,000,000 in short time certificates and one and two year notes through local dealers or from member banks, it being estimated that this amount, together with their other earning assets, will be sufficient to meet their expenses.

The Federal Reserve Bank of Minneapolis has purchased \$13,000,000 in short time certificates and a limited amount of 3 3/4% Victory notes in its own district. The bank has recently purchased some of each of the four issues of 4 1/4% Liberty bonds direct from its own member banks.

The Federal Reserve Bank of Kansas City has purchased \$25,000,000 in short time certificates in their own district and through the Federal Reserve Banks of New York and Chicago, this amount being considered sufficient with their other earning assets to meet expenses.

The Federal Reserve Bank of Dallas has bought only small amounts of Government obligations up to the present time, but is about to consider further investments to increase its earnings to take care of expenses and dividends, and to set up a small fund to meet possible losses.

The Federal Reserve Bank of San Francisco has invested from \$50,000,000 to \$60,000,000 in certificates of indebtedness, notes and a few Third Liberty Loan 4 1/4s. These investments were acquired from member banks, in the local market, or through the Federal Reserve Banks of New York and Chicago. The board of directors of the San Francisco bank favors investments in bankers acceptances in preference to Government obligations, but Governments have been purchased because acceptances are practically unobtainable at the present time. (See paragraphs 2, 17, 59, 64)

At 1:05 p. m. the meeting adjourned until 2:00 o'clock p. m.

First Day's Session, Tuesday, May 2, 1922.
Afternoon

Topic I.B. - Purchase of Government securities by Federal Reserve Banks for their own account and for account of Treasury. (17)
(cont'd)

Governor Strong called attention to the fact that the Federal Reserve Bank of New York has made investments of approximately \$170,000,000 in Government obligations, and that while one of the purposes was to assist in meeting expenses, nevertheless one of the chief purposes was to have on hand investments which would enable the bank to exert control on the money market if it should become necessary to do that without an increase in the discount rate. He explained that the New York bank in making purchases of Government obligations recognized the fact that no purchases should be made for its own account when the Treasury, for which it acts as fiscal agent, is in the market for similar obligations. He also referred to the fact that in making purchases for account of the Treasurer, the New York bank buys only through its own member banks, and not directly through dealers. In making purchases for its own account, however, orders are placed through dealers who may themselves buy through other districts, thus possibly competing with other Federal Reserve Banks who are in the market at the time.

There was a long discussion of practices of the several reserve banks and an expression of views of their obligations as fiscal agents. It was understood that the conference would, on the next day, consider the desirability of adopting a policy of buying and selling Government obligations in an orderly, systematic way, not solely with regard to earnings, but with regard to the whole credit situation and to the interests of the Treasury. (See paragraphs 2, 16, 59, 64)

At this point the conference went into executive session (stenographer absent) and confidential matters were discussed.

Topic I.C. - Amendment to permit member banks to borrow on own collateral note drawn for any period up to 90 days with Government securities as collateral. (18)

Upon request of Governor Fancher this topic was passed, after Governor Calkins had referred briefly to the unwisdom of amending the Federal Reserve Act in any manner aimed to extend reserve bank loans on Government securities.

Topic I.D. - Kiting Operations. (19)

Upon motion of Governor Calkins, it was

VOTED that it is the sense of the conference that Federal Reserve Banks should use every possible precaution to detect cases of kiting by their member banks or customers of member banks; that they do whatever may be necessary in the circumstances to break up cases of that character; and that one man in each Federal Reserve Bank and Branch be designated to look after cases of kiting and advise the man appointed in each other bank and branch of cases arising in which they may be concerned.

It was understood that each bank send to the secretary the name of the person it, and each of its branches, designates for this purpose.

Topic I.E.1 - Rates of Discount - General policy. (20)

There was informal discussion by several members of the conference concerning general discount rate policy, with particular reference to the advantage of control at the present time through open market operations rather than through a change in the discount rate. No specific conclusions were reached and no action taken or requested.

Topic I.E.2. - Preferential rate on trade acceptances. (21)

After discussion of the recommendation of the Federal Advisory Council, Governor McDougal moved that the conference agree with the action taken by the Council. Governor Young asked that the matter go over until the succeeding day. (See paragraphs 5, 25)

Topic II. A.1.b. - Reports on recommendations of Collection Committee made at last conference. (22)

The secretary reported the results of the action taken at the last Conference of Governors concerning certain informal reports of the collection committee, (namely the draft of letter to all Federal Reserve Banks covering the direct sending of non-cash collection items, draft of letter to all Federal Reserve Banks covering the direct sending of cash items, the paragraph defining the general conditions under which Federal Reserve Banks will accept maturing notes and bills and other non-cash items for collection, the paragraph defining the general conditions under which Federal Reserve Banks will accept checks or other cash items for collection, and the draft of letter to all member banks concerning the direct routing of non-cash collection items payable in other Federal Reserve Districts) referred to each bank with instructions to report back to the secretary any suggestions or criticisms. He stated that while seven of the banks had made reports with respect to these matters, five of them had failed to do so, and that, therefore, no uniform action had yet been taken by all Federal Reserve Banks in this regard.

Upon motion of Governor Calkins, it was

VOTED that the secretary be instructed to write to each of the five banks which have heretofore failed to make reports, urging upon them the necessity of expediting action. (See paragraph 55 - Standing Collection Committee)

Topic II.A.1.a. - Discussion of uniform check collection circular and procedure in relation to gratuitous services to member banks. (23)

Consideration of this topic was postponed until consideration of topic VII.A, Digest of Replies to Questionnaire. (See paragraph 63)

Topic II.A.2. - Filing claims on behalf of member banks on account of checks drawn on failed banks. (24)

After general discussion, Governor Calkins moved that each Federal Reserve Bank file with each other Reserve Bank a general authority, somewhat in the form suggested by San Francisco, to file claims on account of checks drawn upon failed banks, it being understood that each bank will file specific requests to file claims in accordance with the terms of the general authority when necessary.

There was general discussion of this motion by several of the governors, some of whom outlined the practices in their districts and made particular reference to opinions of their respective counsel concerning their rights and obligations in filing claims on behalf of their indorsers. No vote was taken upon the motion, and without formal action it was understood (a) that each bank determine its own policy in purely intra-district claims for their own members and (b) that the secretary would prepare a form of resolution in reference to inter-district claims to be considered by the conference on the following day. (See paragraph 29)

At 6:20 o'clock the conference adjourned, to meet at 9:45 o'clock on Wednesday, May 3, 1922.

Second Day's Session, Wednesday, May 3, 1922.
Morning

The meeting was called to order at 9:45 o'clock a. m.

Topic I.E.2. - Preferential rate on trade acceptances. (25)
(cont'd)

Governor Young stated that he no longer had any desire to postpone action on this topic. Whereupon, upon motion of Governor Calkins, it was

VOTED that while no preferential rediscount rate should be established for trade acceptances, nevertheless consideration should be given by each Federal Reserve Bank, in making purchases in the open market, to the especial quality of trade acceptances in fixing rates at which

purchases would be made, and that the Federal Reserve Board should be requested to consider the advisability of amending regulations now in effect governing open market purchases of trade acceptances. (See paragraphs 5, 21)

Senate Bill 3531 - State Bank Membership in Federal Reserve System. (26)

The chairman presented to the conference a letter from Senator McLean, addressed to Governor Harding, transmitting a copy of Senate Bill 3531, introduced by Senate Harris, permitting state banks, under certain conditions, to apply for membership in the Federal Reserve System even though their capital be less than that required for national banks located in the same place. Upon motion of Governor Wellborn, it was

VOTED that the conference endorse the principles of the bill, but that subsequent action under the bill, if it becomes law, be safeguarded by regulation of the Federal Reserve Board, providing for careful supervision or examination of those banks located in states in which state supervision or examination is not of the highest standard.

Governors Young, Fancher and McKinney voted no, and Governor Norris was absent when the vote was taken.

At this point the conference went into executive session (stenographer absent)

Report of Governor McDougal. Governor McDougal made a report (27) concerning a confidential matter previously considered by the conference. (See paragraph 60)

Conference of European Banks of Issue. The chairman asked (28) the secretary to read to the conference copies of the cables exchanged between the Bank of England and the Federal Reserve Bank of New York relative to the appointment of a representative of the Federal Reserve System to attend the conference of heads of the European banks of issue to be held in London.

Topic II.A.2. - Filing claims on behalf of member banks on
(cont'd from account of checks drawn on failed banks.
para. 24)

(29)

Upon motion of Governor Norris, it was

VOTED (1) - that each Federal Reserve Bank file with each other Federal Reserve Bank a general authority in form substantially similar to that proposed by Governor Calkins to file claims on account of checks drawn upon failed banks.

(2) that those Federal Reserve Banks that wish to do so file with each other Federal Reserve Bank a general request to file such claims on account of all checks drawn on failed banks forwarded through it subject to the terms set forth in the general authority defined in 1.

(3) that each of those Federal Reserve Banks which do not wish to file such general requests make specific requests whenever occasion requires to file claims in accordance with the general authority defined in paragraph 1.

(4) that no claims be filed by any Federal Reserve Bank for checks coming from another district without either the general or specific request provided in 2 and 3.

(5) that each Federal Reserve Bank adopt its own policy with respect to filing claims for its own member banks on account of checks payable within its own district.

Topic II.A.3. - Par Collection System

(30)

Upon motion of Governor Seay, it was

VOTED to be the sense of the conference that inasmuch as Governor Harding had stated that there was little probability of legislation concerning these matters at this time, it would be unnecessary further to consider this topic and that it should, therefore, be passed over. (See paragraphs 4, 61)

Topic II.A.4. - Charges to be collected by member banks from customers whose checks are cleared through the Federal Reserve Banks. (31)

Upon motion of Governor Norris, consideration of this topic was postponed.

Topic II.A.5. - Notation on checks of member banks indicating Federal Reserve Bank or Branch to which they should be sent for collection. (32)

Upon motion of Governor Fancher, it was

VOTED that the conference recommend to Governor Harding that the American Bankers' Association should be advised that the Federal Reserve Banks would sympathize with any plan relative to the enlargement of the American Bankers' Association numerical system to include Federal Reserve Banks and Branches that may be devised to facilitate the collection of checks, but that because of the mechanical difficulties involved in the adoption of any such plan, the Federal Reserve System should have an opportunity to consider the plan before it is put into effect. (See paragraph 6, 12 1/2)

Topic III. - Coin, Currency and Circulation. (33)

Consideration of all topics under this heading, with one exception - III.B.3, absorption of losses through abrasion, was postponed until the program covering the distribution and payment policy referred to by Governor Harding (paragraph 1) was printed and submitted to the conference for consideration. (See also paragraphs 48, 57)

Topic III.B.3. - Absorption of losses through abrasion. (34)

Upon motion of Governor McDougal, it was

VOTED that while the Governors' Conference held in November 1919 had determined it advisable to absorb all losses through abrasion of gold deposited with Federal Reserve Banks, nevertheless, in view of present conditions, which have changed considerably since 1919, Federal Reserve

Banks now discontinue the practice adopted at that time and that Federal Reserve Banks do not absorb losses through abrasion of gold except in trifling amounts beginning June 1, 1922.

Governor Wellborn voted no.

Topic IV.A. - Allotment of Certificates. (35)

After informal discussion of the methods employed in various districts as to the allotment of certificates, Governor Calkins moved that the topic be passed.

Topic IV.B. - Subscriptions to Treasury Certificates. (36)

Upon motion of Governor Norris, it was

VOTED to be the sense of the conference that it would be desirable to have subscriptions to Treasury certificates close three days before the date of issue in order to avoid the calculation of one or two days' interest and the making of refunds; and that the conference recommend the adoption of this change for the consideration of the Treasury Department.

The chairman asked that Governor Norris act as a committee of one to take up these matters with Mr. Gilbert, Under Secretary of the Treasury.

Topic V.A.1. - Advisability of urging that something be done to bring about desired legislation on Federal Reserve Pension Fund. (37)

Upon motion of Governor Morss, it was

VOTED that it is the sense of the conference that it is not feasible now to urge upon the Congress legislation providing for a Federal Reserve Pension Fund, and that consideration of this matter should be deferred at least until the next session of Congress, but that the committee on pensions endeavor to be prepared to present the plan in complete form whenever the opportune time should arrive.

Topic V.B. -- Fidelity and Other Insurance.

(38)

The Chairman called attention to the experience of the several Federal Reserve Banks in payments of high insurance premiums and the desirability of devising ways and means of reducing the present cost of such premiums.

Governor McDougal then presented to the conference a report prepared by Mr. Cramer of Chicago, which he read to the conference. Upon motion of Governor Calkins, it was

VOTED that the chairman appoint a committee of three to meet at once to study the report prepared by Mr. Cramer and to submit a proposal for a common fidelity insurance fund to be established by all Federal Reserve Banks, this committee to define the procedure, machinery and other necessary steps to effect completion and operation of such a fund, and to employ such assistance as they may find necessary in making their report.

It was understood that the report, when completed, should be forwarded to the Secretary of the Conference and transmitted by him to each Federal Reserve Bank.

The chairman thereupon appointed Mr. Cramer of Chicago, Mr. Taylor of Cleveland, and Mr. Kenzel of New York members of the committee, and asked that the Secretary advise them of their appointment, requesting them to get together as soon as possible at some place that may be mutually convenient.

Upon motion of Governor Calkins, it was

VOTED that this committee also extend its studies on insurance in order to ascertain whether some further savings might not be effected in other forms of Federal Reserve Bank insurance, as well as in fidelity insurance.

Upon motion of Governor Seay, it was

VOTED that the conference extend its thanks to Mr. Cramer for the report which he prepared for consideration by the conference.

Topic V.C. - Pilfering

(39)

There was general discussion of this topic with reports by some of the Governors that there had been noticeable increases in the tendency to pilfer small amounts of cash. No action was taken.

At 12:40 o'clock the conference adjourned to reconvene at 2:00 o'clock p. m.

Second Day's Session, Wednesday, May 3, 1922

Afternoon

Topic II.A.6. - Advice of No Returns

(40)

Upon motion of Governor Biggs, it was

VOTED that this topic be referred to the Committee on Standardization of Accounting Forms Used Between Federal Reserve Banks for further consideration and recommendation of a uniform practice.

Topic II.A.7. - Correspondence referring to items lost and charged back.

(41)

Upon motion of Governor Biggs, it was

VOTED that this topic be referred to the Committee on Standardization of Accounting Forms Used Between Federal Reserve Banks for further consideration and recommendation of a uniform practice.

Topic V.D.1. - Charges for Reports of Examination of National Banks.

(42)

Upon motion of Governor Morse, it was

VOTED that a committee be appointed to confer with the Comptroller of the Currency to express to him the opinion of the conference that charges for furnishing reports of national bank examinations should be discontinued, and that such reports should be furnished without charge. (See paragraphs 13, 66-1.)

Upon motion of Governor Norris, it was

VOTED that this committee also talk with the Comptroller to ask him whether there is anything further that Federal Reserve Banks might do to assist him in enforcing the maintenance of reserves by National Banks.

(See paragraph 66b)

Topic V.D.2. - Custody and Availability of Reports of examination of National Banks. (43)

Each of the Governors discussed the difficulties which they experience in handling the reports of examination of national banks furnished by the Comptroller under the restrictions prescribed in a letter addressed by the Comptroller to all Federal Reserve Banks under date of January 30, 1922. Particular reference was made to the embarrassment incident to the instructions that reports of examination of banks located in branch territory should not be furnished to the Managers of the Branch Banks. Upon motion of Governor McDougal, it was

VOTED that this matter be referred without specific instructions to the committees to be appointed in conformity with the action taken under Topic V.D.1 for general discussion with the Comptroller. (See paragraphs 42, 66-2 & 3)

The Chairman appointed Governors Norris and Young to act as the committee to discuss all of these matters with the Comptroller.

Topic VI.A. - Deduction of balances due from other banks and bankers in computing reserves. (44)

Without formal action it was understood that consideration of this topic would be deferred pending action by a committee of the Federal Reserve Agents now studying the whole question of reserves.

Topic VI.B. - Periods for reporting deposit liabilities in Reserve Cities. (45)

It was informally understood that Governor Norris will write Mr. Curtiss, Chairman of the committee of Federal Reserve Agents studying

reserves, to ask him to have this matter considered by his committee.

Topic VIII.A.1. - Importance of Public Relations Work. (46)

Upon motion of Governor Seay, it was

VOTED to be the sense of the conference that the public relations work of the member bank relations departments of the several Federal Reserve Banks is of great importance and should be generally pursued.

Topic VIII.A.2. - Criticisms of Federal Reserve System (47)

There was a long discussion of the necessity of exercising great care and caution in public discussion whether written or spoken concerning criticisms which have been made against the Federal Reserve System.

Governor Strong withdrew from the meeting at this point and Governor McDougal took the chair.

Upon motion of Governor Seay, it was

VOTED to be the sense of the conference that all of the Governors present appreciate the problem and realize the necessity of caution and prudence in connection with controversial questions, and that the higher officers of the Federal Reserve Banks should instruct their staff that that is the sense of the conference, but that it should be understood that each bank must be left to its own discretion and judgment in determining whether it shall answer criticisms.

Topic III. - Coin, Currency and Circulation. (48)

The Chairman submitted to the conference a report entitled "Currency Distribution and Payment Policy for Federal Reserve Banks." (See paragraphs 1, 33, 57)

Upon motion of Governor Morss, it was

VOTED that the report be accepted and that each Federal Reserve Bank agree to carry out its provisions, with the understanding, however,

(1) that Federal Reserve Banks should not accept new national bank notes in bulk from the issuing bank, or from any other bank to which such notes are sent direct by the issuing bank, but should accept them only in the natural and orderly course of business; and (2) that early legislation should be sought looking to the retirement of national bank note circulation.

Governor Seay voted in the negative solely on the ground that no plan had yet been presented to Congress looking to the retirement of national bank notes. He stated specifically that were there such a plan, he would have voted for the adoption of the report.

Before final vote on the acceptance of the report, Governor Seay moved that in Topic III - Order of Payment of Different Kinds of Currency, the item Federal Reserve Notes be inserted between items 2 and 3, Federal Reserve Bank Notes and Silver Certificates respectively. This motion, however, was not carried, Governors Seay, Norris and Wellborn voted in the affirmative.

Topic VII. - Uniform Services to Member Banks

(49)

There was general discussion as to the need of uniformity, Governor Morss expressing it to be his opinion that there are certain matters which can not be expected to be uniform throughout the twelve districts. Governor Calkins agreed with Governor Morss in part, but stated that he felt it necessary that there be uniformity of procedure in matters involving the absorption of expenses on account of services rendered to member banks.

Upon motion of Governor Fancher, the matter was postponed pending Governor Strong's return to the chair. (See paragraph 63)

Topic VII.B.1. - Should there be any limit to the services rendered member banks in the purchase, sale receipt, delivery or safekeeping of securities.

(50)

There was considerable discussion of the methods employed by the several Federal Reserve Banks in placing orders for their member banks for the purchase, sale, receipt, delivery or safekeeping of securities. It appeared that the majority of the banks confine the placing of orders for their member banks for the purchase and sale of securities to Government obligations and bankers bills. Three of the banks, however, New York, Boston and Philadelphia transmit orders for account of their member banks for the purchase and sale of securities other than Government obligations, it being stated that perhaps this was because these particular banks are located where so much of this business is transacted. (See paragraph 11)

There was also a short discussion of the policy pursued by various banks in accepting securities for safekeeping for account of member banks.

No action was taken or asked for.

5% Redemption fund for National Bank Notes. (51)

The draft of letter outlining the new plan of making deposits in the 5% redemption fund for national bank notes (X-3398 of May 8, 1922) was read to the conference, and, upon motion of Governor Fancher, it was

VOTED that the conference approve the plan. (See paragraph 8)

Publication of Reserve Set up for Franchise Tax (52a)

After consideration of a recommendation prepared by the statistics department of the Federal Reserve Board, and upon motion of Governor Morss, it was

VOTED that the Federal Reserve Board be requested to discontinue the practice of publishing the amount of reserve set up for franchise tax.

(See paragraph 9b)

Closing Books Annually instead of Semi-annually. (52b)

After consideration of a recommendation of the statistics

department of the Federal Reserve Board, and upon motion of Governor Morss, it was

VOTED that the books of the Federal Reserve Banks be closed only as of December 31, and not semi-annually as at the present time, provided, however, that this action be not considered as denying the right of Federal Reserve Banks to make semi-annual payments of dividends. (See paragraph 9c)

Special Savings Deposits. (53)

As requested by Governor Harding, the conference gave consideration to the question whether Special Savings Deposits which permit the depository bank to require 30 days' notice, but which do not require the presentation of the pass book, should be considered as demand deposits or as time deposits. Upon motion of Governor Fancher it was

VOTED to be the sense of the conference that the ruling of the Federal Reserve Board that these deposits are demand deposits, and not time deposits, should be concurred in. (See paragraph 10)

Governor Calkins and Norris did not vote.

Rediscount of Notes secured by Chattel Mortgages. (54)

The Secretary read to the conference, as requested by Governor Harding, a letter from the Chickasha National Bank, Chickasha, Okla., asking that Federal Reserve Banks in rediscounting notes secured by chattel mortgages "should require a certificate of prior lien" as Federal Land Banks do at the present time. Upon motion of Governor Seay, it was

VOTED to be the sense of the conference that this is a matter which may properly be handled by each Federal Reserve Bank in its own way. (See paragraph 12)

Standing Committee on Collections. (55)

Governor Fancher called attention to the fact that at the present time there is no standing committee on collections and stated, in his

opinion, such a committee is highly desirable. Upon motion of Governor Fancher, it was

VOTED that a committee of five be appointed to which all collection matters, including forms, be referred for consideration.

It was unanimously agreed that Governor Fancher should select the committee, and arrange for its organization.

Reimbursement for Fiscal Agency Expenses. (See paragraphs 2,65) (56)

The Secretary read to the conference a letter from Under Secretary Gilbert to Governor Harding, dated May 1, 1922, in reference to the reimbursement of Federal Reserve Banks by the Treasury on account of fiscal agency expenses. Upon motion of Governor Seay, it was

VOTED ⁽¹⁾ that the Federal Reserve Board be requested to forward to each Federal Reserve Bank a copy of this letter with instructions to take up the matters referred to therein direct with the Treasury, as contemplated by the letter; ⁽²⁾ that the Board be also asked, in behalf of all Federal Reserve Banks, to advise the Under Secretary of the Treasury that each of the Federal Reserve Banks will shortly submit estimates of the amount of its fiscal agency expenses and will ask for reimbursement in accordance with the terms of the letter referred to; (3) that Governor Harding be advised that these estimates will be promptly prepared and will cover the period to be agreed upon with Mr. Gilbert; (4) that the date from which reimbursement will commence will be taken up by Governor Miller with Mr. Gilbert, Governor Harding being advised of the date when determined.

Topic III. - Coin, Currency and Circulation (57)
(See paragraphs 1,33,48)

The Secretary read Secretary Mellon's letter of May 1, 1922 to Governor Harding, transmitting the "Currency Distribution and Payment Policy for Federal Reserve Banks" memorandum as approved by the Secretary

of the Treasury. Upon due consideration of the Secretary's letter, and upon motion of Governor Seay, it was

VOTED that Governor Harding be advised that the letter was received and read and that the conference assumes that the last sentence in that letter refers to the confidential instructions issued by the Secretary of the Treasury with respect to Exchanges, Replacement and Redemptions of United States Paper Currency and Coin, and that the provisions of those instructions are not unsatisfactory to the Federal Reserve Banks.

It was informally understood that Governor Miller should report the substance of this action to Governor Harding.

Topic III.B. - Gold Policy of Federal Reserve Banks.

(58)

The Chairman referred to his discussion with officials of the Treasury Department concerning the request of the Secretary of the Treasury that Federal Reserve Banks make certain disbursements in gold in making payments for account of the Treasurer. He added that the adoption of the currency program approved by the conference (paragraph 48), together with an informal understanding between the Federal Reserve Bank of New York and the Treasury Department that the former would furnish certain amounts of gold to the Treasury Department which the Treasurer himself might disburse in accordance with the Secretary's instructions, had in substance obviated any necessity of discussing this matter formally in conference, or of trying to define the strict legal rights of the Treasury or the Federal Reserve Banks in reference to payments for the Treasurer's account.

It was informally understood by the conference that there was nothing further to be done by it in reference to this matter. (See paragraphs 4, 30)

Purchase of Government Securities by Federal Reserve Banks
for their own account and for account of Treasury. (See
Board Program #2 and Topic I.B. Regular Program)

(59)

The Chairman referred briefly to a letter from Secretary Mellon to Governor Harding, dated April 29, 1922, stating that he would be interested to know the position taken by the conference in respect to the investment in United States securities. The Chairman suggested that each Governor consider this matter and be prepared to discuss it at the meeting on the next day. (See paragraphs 2, 16, 17, 64)

At 6:35 o'clock p. m. the conference adjourned to reconvene at 10:00 o'clock a. m. Thursday, May 4, 1922.

Third Day's Session, Thursday, May 4, 1922
Morning

The conference convened at 10:00 o'clock a. m.

Present:

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

In executive session (stenographer absent) The Chairman reported (60)
the substance of his conversation with Secretary Mellon in respect to
matters which the Conference had requested him to discuss with the Secretary
(See paragraph 27).

Amendment to Federal Reserve Act in reference to Exchange Charges (61)

The Chairman presented to the conference a letter which Governor Harding had received from the Chairman of the House Committee on Banking and Currency enclosing draft of a bill proposed by Mr. Claiborne, Chairman of the Committee of Five of the American Bankers' Association, to amend the Federal Reserve Act in reference to exchange charges. In substance the bill provides for the elimination of par clearance by striking out that

proviso which prohibits such charges being made against Federal Reserve Banks.

It was informally agreed that the Chairman should express to Governor Harding the view of the Conference that no legislation on this subject is desirable, certainly until after all pending litigation is disposed of. (See paragraphs 4, 30)

Senate Bill 3255 - Perpetuation of National Bank charters.

(62)

The Secretary read that part of Secretary Mellon's letter to the Chairman of the Senate Banking and Currency Committee under date of April 29, 1922, concerning Senate Bill 3255, suggesting that if the bill is enacted at the present time to perpetuate charters of national banks, proper consideration should be given to an amendment to provide for the elimination of national bank currency.

Upon motion of Governor Seay, it was

VOTED that the conference concur in the views expressed by the Secretary of the Treasury and that the conference urge upon both the Secretary of the Treasury and the Federal Reserve Board the desirability of obtaining at this time legislation designed to do away with national bank currency on the ground that unless that legislation is enacted now it may be impossible later on to procure it. (See paragraph 3)

Topic VII, A. - Digest of Replies to Questionnaire covering services performed by Federal Reserve Banks.

(63)

Governor Calkins moved that it is the sense of the conference that all Federal Reserve Banks should adopt uniform practices in all matters involving the absorption of expense for services rendered to member or non-member banks. On request of Governor Calkins this motion was suspended in view of the objections of one or two of the Governors and in view of the suggestion that specific consideration of each service defined

in the questionnaire submitted by the New York bank would itself prompt the proper action of the conference. Thereupon, each topic in that questionnaire was considered and the following action taken:

- ✓ 1. Incoming and Outgoing Shipments of Coin to Members
Voted that reserve banks absorb all costs incident to the shipment of coin to and from member banks, with the exception of silver dollars and gold coin, where absorption shall be discretionary. ✓
- ✓ 2. Incoming Shipments of Coin from Nonmembers.
Voted that reserve banks absorb all costs incident to incoming shipments of coin from such nonmember banks as remit at par, with the exception of silver dollars and gold coin, where absorption shall be discretionary. ✓ +
- ✓ 3. Outgoing Shipments of Coin to Nonmembers.
Voted that outgoing shipments of coin to nonmembers be made at the expense of the nonmember bank. ✓
- ✓ 4. Incoming and Outgoing Shipments of Currency to Members.
Voted that reserve banks absorb all costs incident to the shipment of paper currency to and from member banks. ✓
- ✓ 5. Incoming Shipments of Currency from Nonmembers.
Voted that reserve banks absorb all costs incident to incoming shipments of paper currency from such nonmember banks as remit at par. ✓
- ✓ 6. Outgoing Shipments of Currency to Nonmembers.
Voted that outgoing shipments of paper currency to nonmember banks be made at the expense of the nonmember bank. ✓
- ✓ 7. Shipments of Coin and Currency to Country Correspondents in district at Request of City Member Bank.
Voted that when shipments are made at the request of a city member bank to its country correspondent within the same district such shipments be made without cost only where similar shipment would be made without cost if the request had been made direct to the reserve bank. ✓
- ✓ 8. Loss on Shipments of Light Weight Gold
In view of the fact that this topic was disposed of by the conference under Topic III.B.3 (See paragraph 34) no action was taken. ✓
- ✓ 9. Currency Shipments to Government Disbursing Officers.
Voted that cost of shipping currency to Government Disbursing Officers, either direct or to banks for credit of their account, be not absorbed. ✓

✓ 10. Collection of Cash Items.
Voted that no change be made in the procedure of all reserve banks in rendering this service free of charge. ✓

11. Telegraphic Payment or Non-payment of Cash Items.
✓ Voted that wire costs be absorbed on telegraphic advice of non-payment on items of \$500 or over. ✓

Voted that all special requests for wire information, after an item has been deposited, be made at the expense of the depositor. | X a

✓ It was informally recommended that items deposited with request of wire advice of rate be accepted only for collection as non-cash items, but by mutual agreement this topic was withdrawn from the program.

✓ 12. Supplying Cash Letter forms, Supplies, Stamped Envelopes for Remitting, Etc.

Voted that each bank decide, on the basis of local conditions, whether it will supply its member banks with forms for direct sendings, stamped addressed envelopes for remitting, and other items of this nature in connection with check collections. ✓

✓ 13. Expenses Incident to Maintaining Independent Clearing Arrangements in Outlying Districts.

Voted that the practice of absorbing clerical costs and costs of printing forms in connection with the maintenance of clearing arrangements be continued, where such practices are now in effect. ✓

✓ 14. Charges for Collection of Non-cash Items.

Voted that items of this character be handled without cost. ✓

✓ 15. Incoming Shipments of Coupons or Maturing Bonds.

Voted that shipments of this nature be made at the expense of the shipping bank. ✓

1 16. Outgoing Shipments of Coupons or Maturing Bonds.

Voted that the expense of such shipments be not absorbed except where charges are trifling. 50¢ ✓ X

✓ 17. Unpaid Coupons or Maturing Bonds Returned Unpaid by the Collecting Bank.

Voted that charges of this kind between reserve banks be absorbed by the reserve bank returning the item, and that the matter of absorbing costs between a reserve bank and its member be discretionary. ✓

✓ 18. Unpaid Coupons or Maturing Bonds Returned by Reserve Bank to Depositing Bank.

Voted that charges of this kind between reserve banks be absorbed by the reserve bank returning the item, and that the matter of absorbing costs between a reserve bank and its member be discretionary. ✓

- 19. Telegraphing Payment or Non-payment of collection (non-cash) items
Voted that Federal Reserve Banks discontinue to absorb the costs of telegraphing payment or non-payment of collection items as of July 1, 1922. ✓ X
- 20. Registration of Important Papers involved in Collections (non-cash items) For Protection of Federal Reserve Bank.
Voted that the Federal Reserve Banks absorb such charges, if they deem it necessary to register documents. ✓
- 21. Service Charges on Unpaid Collections (non-cash items)
Voted that a service charge be made on all uncollected items returned without protest, and that this service charge be retained by the Reserve Bank. ✓ X
- 22. Collection or Service Charges Made by Collecting Agents (non-cash items)
Voted that such charges be passed on to the endorser. ✓ X
- 23. Transfer of Funds.
Voted that all costs be absorbed on wire transfers of funds between Federal Reserve Banks and between a Reserve Bank and an out-of-town member either way. ✓
- 24. Transfers to the 5% Redemption Fund
While it had been recommended that the use of wires for this purpose be discouraged and that all such transfers be made by mail where practicable, the conference took no action in view of the fact that this matter had been disposed of in considering the recommendation of the Federal Reserve Board outlined in paragraphs 8 and 51. ✓
- 25. Shipments of Bills Purchased to Member Banks
Voted that the cost of such shipments be absorbed by Reserve Banks. ✓
- 26. Collateral to Advances and Rediscounts
Voted (a) Incoming Shipments that all incoming shipments be made at the expense of the member bank. ✓
(b) Outgoing Shipments that as a matter of principle outgoing shipments be made at the expense of the member bank, it being discretionary however with each Reserve Bank to absorb trifling charges. ✓

No change
made

- ✓ 27. Safekeeping of Bills and Securities
Voted (a) Incoming Shipments that all incoming shipments be made at the expense of the member bank. ✓
(b) Outgoing Shipments that as a matter of principle, outgoing shipments be made at the expense of the member bank, it being discretionary, however, with each Reserve Bank to absorb trifling costs. ✓
- ✓ 28. Shipments of Securities pledged against War Loan Deposits For Member Banks and Non-member Banks
Voted (a) Incoming Shipments that all incoming shipments be made at the expense of the depository bank. ✓
(b) Outgoing shipments that as a matter of principle, outgoing shipments be made at the expense of the depository bank, it being discretionary, however, with each Reserve Bank to absorb trifling costs. ✓
- ✓ 29. Outgoing Shipments of Securities which have been Purchased by Reserve Banks and Shipped to a Member Bank upon Request.
Voted that as matter of principle, outgoing shipments be made at the expense of the member bank, it being discretionary, however, with each Reserve Bank to absorb trifling costs. ✓
- ✓ 30. Incoming Shipments of Securities Forwarded by a Member Bank to be Sold
Voted that all incoming shipments be made at the expense of the member bank. ✓
- ✓ 31. Treatment of Securities Owned by a Member Bank or its Customer in Connection with Purchase and Sale of Securities
Voted that no differentiation be made in treatment of charges between securities which are the property of a member bank, and securities which are the property of its customers. ✓
- ✓ 32. Shipment of Government Bonds and Notes Forwarded for Exchanges from Temporary to Permanent Obligations
Voted that as requested by the Treasury Department, Reserve Banks continue to absorb shipping costs of these transactions. ✓
- ✓ 33. Shipment of Government Bonds and Notes Sent in for Exchange of Denomination
Voted that the shipping costs of such transactions be not absorbed by Reserve Banks. ✓
- ✓ 34. Miscellaneous Exchange Transactions in Government Bonds and Notes
Voted that the shipping expense of miscellaneous exchange transactions of Government bonds and notes be not absorbed by Reserve Banks. ✓

- ✓ 35. Shipments of Foreign Currency
Voted that as a matter of principle outgoing shipments be made at the expense of the member bank, it being discretionary, however, with each Reserve Bank to absorb trifling costs. ✓
- ✓ 36. Out-of-town Telephone Calls.
Voted that each Reserve Bank use its own discretion in the matter of absorbing the costs of out-of-town telephone calls, and that where absorbed the practice be watched carefully to avoid abuses. ✓
- ✓ 37. Miscellaneous Telegrams
Voted that each Reserve Bank use its own discretion in the matter of absorbing the costs of miscellaneous telegrams, and that where absorbed the practice be watched carefully to avoid abuses. ✓
- ✓ 38. Supplying Member Bank Drafts
Voted that each Reserve Bank decide for itself whether or not it should supply member banks drafts without charge. ✓
- ✓ 39. Supplying Exchange and Transfer Drafts
Voted that each Reserve Bank decide for itself whether or not it will furnish member banks with exchange and transfer drafts without cost. ✓
- ✓ 40. Supplying Miscellaneous Forms.
Voted that each Reserve Bank decide for itself the character of forms that should be furnished by it to its member banks without cost. ✓
- ✓ 41. Miscellaneous Services.
Voted that it be discretionary with each Federal Reserve Bank whether or not to absorb the cost of furnishing services which have not been mentioned in this questionnaire. ✓
- ✓ 42. Clerical Assistance in Cases of Emergency
Voted that the furnishing of clerical assistance to member banks be discretionary with each Reserve Bank. ✓

Topic I.B. - Purchase of Government securities by Federal Reserve Banks for their own account and for account of the Treasury. (64)

The chairman reported his conversation with Secretary Mellon with respect to this matter, who stated that he is much interested in the action of the conference in respect to a possible future policy.

(a) Estimate of Earnings and Expenses

Upon motion of Governor Young, it was

VOTED (1) that each Federal Reserve Bank immediately prepare an estimate of expenses for the current year, allowing for accrual of reserves to be set up, allowing for an increase in the surplus on account of possible future increases in capital of the Federal Reserve Banks, allowing for dividends, and allowing for the elimination of fiscal agency expenses to be reimbursed by the Treasury Department;

(2) that each bank estimate the amount of income from all earning assets if held to maturity, or to the end of the year if maturity is beyond that period, and estimate the amount of income from probable future discounts for member banks during the balance of the year; and

(3) that each bank calculate the amount of additional investments upon a 4% basis that would be necessary to make good the deficiency in earnings to meet expenses in the event that there is such a deficiency.

(b) Investments by Reserve Banks when Treasury is in market

Upon motion of Governor Young, it was

VOTED that the chairman be requested to arrange with Under Secretary Gilbert that suitable notice, properly safeguarded, be given to each governor whenever the Treasury is in the market for purchases or sales of Government securities, and that each Federal Reserve Bank will stay out of the market for its own account either for the purchase or sale of these same securities until advice is given of the completion of the Treasury's orders, it being understood that notice of the execution of orders will be given in the same manner as original notice.

(c) Policy as to amount of investments

The secretary then read to the conference Secretary Mellon's letter of April 25, 1922, addressed to Governor Harding, in respect to the investment of Federal Reserve Banks in Government securities. The chairman

referred to another letter addressed by Secretary Mellon to Governor Harding, dated April 29, 1922, stating that the Secretary is interested in what the Federal Reserve Banks' position will be in regard to investments in Government securities in view of the further deliberations of the conference, and in view of the recommendations of the Federal Advisory Council.

After a long discussion of the letters referred to and of the policy of the several Federal Reserve Banks in respect to the purchase of Government securities, it was, upon motion of Governor McDougal,

VOTED to be the sense of the conference that each governor recommend to his directors that it be the policy of the bank to invest in Government securities only to the extent that it may be necessary from time to time to maintain earnings in amounts sufficient to meet expenses, including dividends and necessary reserves.

Governor Norris voted "yes" with the understanding that his action carries no reflection on anything that the Federal Reserve Bank of Philadelphia has already done in respect to the purchase of Government securities.

(d) Disposition of Present Investments in Excess of Earning Requirements

Upon motion of Governor McDougal, it was

VOTED that if the estimates of expenses and earnings for the current year to be made by each Federal Reserve Bank in accordance with the vote taken under sub-paragraph (a) of this paragraph, show that the present investments will give an excess of earnings over expenses, it will be the policy of the Federal Reserve Banks to permit these investments to run off, rather than to sell them in the market.

related to another letter addressed by Secretary Nelson to Governor
Harrington, dated April 22, 1932, stating that the Secretary is interested in
that the Federal Reserve Bank's position will be in regard to investments
in Government securities in view of the further deliberations of the Com-
mission, and in view of the recommendations of the Federal Advisory
Council.

After a long discussion of the letters referred to and other
matters of the Federal Reserve Bank in respect to the purchase of
Government securities, it was, upon motion of Governor McLaughlin,

Resolved, that in the course of the conference that each Governor
should endeavor to be the policy of the bank to invest
Government securities only to the extent that it may be necessary
to the time to maintain earnings in amounts sufficient to meet operating
expenses and necessary reserves.

Resolved, that the undersigned hereby
do hereby reflect on anything that the Federal Reserve Bank of
St. Louis has already done in respect to the purchase of Government se-
curities.

(M) Disposition of Excess Investment in Excess of Reserve
Requirements

Upon motion of Governor McLaughlin, it was
Resolved, that in the estimation of expenses and earnings for the
current year to be made by each Federal Reserve Bank in accordance with
the vote taken under paragraph (a) of this paragraph, that the
present investment will give an excess of earnings over expenses, it
will be the policy of the Federal Reserve Bank to permit these investments
to run off, rather than to call them in the market.

(e) Transactions direct with member banks

Upon motion of Governor McDougal, it was

VOTED that the principle should be adopted that nothing should prevent Federal Reserve Banks from buying Government securities from or selling them to their own member banks, provided there is no violation of the principles defined in previous votes.

(f) Centralization of purchases and sales

In order that Federal Reserve Banks, in placing both buying and selling orders for their own account will not destroy the market or compete with one another, it was moved by Governor Norris, that all orders to buy and sell for account of any of the Federal Reserve Banks shall be given to a committee which shall execute such orders in accordance with its best judgment, and which shall distribute the execution of the orders among the different markets as circumstances might prompt, and that orders so executed be pro rated among those banks having placed orders with the committee.

In discussion of this motion it was felt that the methods by which this committee should act might best be determined after further consideration by the committee itself. Whereupon, upon motion of Governor Calkins, it was

VOTED that the governors of the Federal Reserve Banks of Boston, New York, Philadelphia and Chicago be made a committee for the purpose of studying this question and working out an orderly program for handling the buying and selling of Government securities by Federal Reserve Banks through some centralized control.

Reimbursement for fiscal agency expenses

(65)

Governor Miller reported that he had consulted with Governor Harding and Mr. Gilbert with reference to reimbursement of fiscal agency expenses by the Treasury, and that Mr. Gilbert and he had agreed that reimbursement for such expenses should begin as of July 1, 1922, and not be retroactive. (See paragraphs 2, 56)

Topic V. D. - Reports of examination of national banks

(66a)

Governor Young reported to the conference that he and Governor Norris had discussed with the Comptroller of the Currency those matters referred to his committee. (See paragraphs 13, 42)

The Comptroller advised the committee (1) that in order to meet expenses necessary to bring examinations up to the highest standard he would like to charge the banks for furnishing reports of examination; (2) that he had received innumerable complaints about the use of the information contained in the reports furnished to reserve banks and that he would not modify his previous orders that these reports were not to be shown to directors and that copies of the reports were not to be furnished to the Branches; (3) that he had no objection, however, to having the deputy governors, other officers and men in the discount or credit departments in the parent bank having access to the reports and that he had no objection to the substance of the reports being furnished to the Branch managers.

Deficiency in reserves of national banks

(66b)

Governor Young reported that he had discussed this topic with the Comptroller of the Currency, who had stated that admonitory letters were mailed from his office to the national bank in question in all cases reported of deficient reserves, but that he was quite willing to go further than this if any specific cases were reported by Federal Reserve Banks.

Report of standing committee on open market operations

(67)

The report of the standing committee on open market operations was submitted, ordered accepted and placed in the record.

Election of chairman and secretary.

Upon motion of Governor Fancher, it was

(68)

VOTED that Governor Strong and Mr. Harrison be chairman and secretary respectively of the next conference.

At 1:25 p. m. the conference adjourned sine die.

