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CONFIDENTIAL

Secretary's Minutes

GOVERNORS CONFERENCE

May 5 - 7, 1924.

Washington, D. C.

- Revised to the
By _____
When initialed
by those indicated
- Bliss _____
 - Martin _____
 - Ardebary _____
 - McConkey _____
 - White _____
 - Hail _____
 - Rinkleff _____
 - Glasgow _____
 - Gilmore _____
 - Adams _____
 - Hall _____
 - Stewart _____
 - Navy _____
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INDEX TO SECRETARY'S MINUTES

GOVERNORS CONFERENCE

MAY 5 - 7, 1924.

	Paragraphs in Secretary's Minutes
Acceptances - Domestic; Report of sub-committee of Gen'l Acceptance Committee - - - - -	17
Advances up to 90 days on members own collateral notes secured by U.S. Government Securities - Amendment of Federal Reserve Act to permit	13
Automobile Insurance; Report of Insurance Committee - - - - -	29
Borrowers Statements:	
Consolidated statements - - - - -	14
Practice of filing credit statements with F. R. Bank instead of with banks with which doing business - - - - -	39
Branches of Federal Reserve Banks - Principles by which establishment and serviceability are to be tested - - - - -	34
Chairman - Election of - - - - -	1
Charges for reports of examination of national banks - - - - -	33
Collections:	
Authority of a F. R. B. to accept in payment of a collection item a bank draft given in exchange for the draft of the drawee - -	22
Non-cash collection service; Report of Committee on Voluntary Services - - - - -	11
Notarial work and fees, disposition of - - - - -	35
Regulation J - - - - -	19
Report of Standing Committee on Collections - - - - -	4, 16
Should a member bank be allowed to direct route its own draft drawn on a correspondent to another F. R. B. for credit of its own F. R. B.? - - - - -	20
Should a member bank's own draft drawn on a correspondent be ac- cepted as a transit item for deferred credit by a F. R. B.? - -	21
Withdrawals from Par List - - - - -	23
Commercial Paper as Collateral to War Loan Deposits - - - - -	9
Committee Reports:	
Committee on Standardization of Supplies - - - - -	28
Committee on Voluntary Services:	
Re Non-cash Collections - - - - -	11
Re Currency, Safekeeping of securities and transfers of funds	40, 41
Committee to Study the Cost of Securing Credit Information - - -	30
General Acceptances Committee; sub-committee of - - - - -	17
Insurance Committee - - - - -	29
Leased Wire Committee - - - - -	12, 41
Open Market Investment Committee - - - - -	2

	Paragraphs in Secretary's Minutes
Pension Committee - - - - -	31
Standing Committee on Collections - - - - -	4,16
Submission of committee reports to Secretary of Conference - - -	18
Comparative table of expenses of Federal Reserve Banks for 1923- - -	10,26
Consolidated statements - - - - -	14
Credit Information - Cost of Securing; Report of Committee - - - -	30
Currency Shipments:	
Consideration of currency in transit in computing reserve re- quirements and penalties - - - - -	25
Insurance on shipments of currency for treasury account- - - -	7
Practicability of plan whereby member in one district can obtain currency from and ship currency to Reserve Bank of adjacent district where transit time shorter than between member and own F. R. B. - - - - -	37
Report of Committee on Voluntary Services regarding - - - - -	40
Deferred Credit - Should a member bank's own draft drawn on a corres- pondent be accepted as a transit item for deferred credit by a F. R. B.? - - - - -	21
Direct Routing of Drafts - Should a member bank be allowed to direct route its own draft drawn on a correspondent to another F. R. B. for credit of its own F. R. B.? - - - - -	20
Discount Rate Policy in relation to general principles discussed in Federal Reserve Board's Annual Report - - - - -	15
Dividends - payment of when earnings insufficient for both expenses and dividends - - - - -	3
Domestic Acceptances; Report of sub-committee of General Acceptance Committee - - - - -	17
Earnings of Reserve Banks - Importance of conducting open market operations without considering earnings as determining factor- -	3
Economy and Efficiency - progress made. (See various committee reports) - - - - -	27
Effect of Open Market Investment Committee's operations and desira- bility of their continuance - - - - -	3
Enlargement of Membership in System - - - - -	32
Examinations of National Banks - charges for reports of - - - - -	33
(Comparative expenses for 1923 - - - - -	10,26
Expenses - (Fiscal Agency (Reimbursement) - - - - -	5,36

	Paragraphs in Secretary's Minutes
Farm Loan Coupons - Payment of (Leased Wire Comm. Report) - - - - -	12
Fiscal Agency Expenses - Reimbursement of - - - - -	5, 36
Fulmer Bill (to reduce reserves of country banks); Report of Federal Reserve Agents' Committee - - - - -	38
Gold Holdings in Vaults of Federal Reserve Banks - - - - -	24
Gold Payments (certificates) - - - - -	8
Importance of conducting Open Market operations without considering earnings of Reserve Banks as a determining factor - - - - -	3
Insurance:	
Automobile Insurance; Report of Committee - - - - -	29
Inter-Insurance - Legality of plan - - - - -	29
Life Insurance; Report of Committee - - - - -	29
On Currency and Security Shipments for Treasury account - - - - -	7
Interest on Treasury Overdrafts - rate - - - - -	6
Leased Wire; Report of Committee - - - - -	12
Legality of Inter-Insurance Plan - - - - -	29
Life Insurance; Report of Committee - - - - -	29
Membership in System - Enlargement of - - - - -	32
Non-cash Collection Service; Report of Committee on Voluntary Services	11
Notarial Work and Fees - disposition of - - - - -	35
Open Market Operations:	
Effect of committee's operations and desirability of their continuance - - - - -	3
Importance of conducting open market operations without considering earnings of Reserve Banks as a determining factor - - - - -	3
Report of Committee - - - - -	2
Overdrafts - Interest on overdrafts by Treasury - - - - -	6
Par List - Withdrawals from - - - - -	23
Payment of Collection Item - Authority of F. R. B. to accept in payment of a collection item a bank draft given in exchange for the draft of the drawee - - - - -	22
Payment of Farm Loan Coupons (Leased Wire Comm. Report) - - - - -	12

	Paragraphs in Secretary's Minutes
Payment of Gold Certificates in usual course of business - - - - -	8
Pension - Report of Committee - - - - -	31
Rates of Discount - Policy in relation to general principles dis- cussed in Federal Reserve Board's Annual Report - - - - -	15
Reimbursement for Fiscal Agency Expenses - - - - -	5, 36
Reduction of reserves of country banks (Fulmer Bill) - - - - -	38
Regulation J - - - - -	19
Reports of Examination of National Banks - Charges for - - - - -	33
Reports of Committees:	
Committee on Standardization of Supplies - - - - -	28
Committee on Voluntary Services:	
Re Non-cash Collections - - - - -	11
Re Currency, Safekeeping of securities and transfers of funds	40, 41
Committee to Study the Cost of Securing Credit Information - - -	30
General Acceptance Committee; sub-committee of - - - - -	17
Insurance Committee - - - - -	29
Leased Wire Committee - - - - -	12, 41
Open Market Investment Committee - - - - -	2
Pension Committee - - - - -	31
Standing Committee on Collections - - - - -	4, 16
Submission of Committee reports to Secretary of Conference - - -	18
Reserve Requirements and Penalties for Deficiencies - Consideration of currency in transit to and from Federal Reserve Banks in computing - - - - -	25
Reserves - Reduction of (Fulmer Bill) - - - - -	38
Safekeeping of securities - Voluntary Services Committee report - - -	40
Security Shipments for Treasury Account - Insurance on - - - - -	7
Standardization of Supplies; Report of Committee on - - - - -	28
Statements of Borrowers:	
Consolidated - - - - -	14
Filing with F. R. B. instead of with banks with which doing business - - - - -	39
Submission of Committee reports to Secretary - - - - -	18
Transfers of funds - Voluntary Services and Leased Wire Committee reports - - - - -	40, 41

	Paragraphs in Secretary's Minutes
Treasury Overdrafts - rate of interest on - - - - -	6
Voluntary Services; Report of Committee:	
Re Non-cash Collections - - - - -	11
Re Currency, Safekeeping of securities and transfers of funds	40, 41
War Loan Deposits - Commercial Paper as Collateral to - - - - -	9
Withdrawals from Par List - - - - -	23
Towner Rating Bureau - Circular Letter - - - - -	42

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FEDERAL RESERVE BANK OF ST. LOUIS

PROGRAM
GOVERNORS' CONFERENCE
MAY 5, 1924
WASHINGTON

I. CREDIT TRANSACTIONS AND POLICIES.

- A. Open Market Investment Committee Operations
1. Report of Chairman - Governor Strong
 2. Effect of operations of this committee and the desirability of their continuance. (Discussion) San Fran.
 3. Importance of conducting open market operations without considering earnings of Reserve Banks as a determining factor. (Discussion) San Fran.
- B. Discount Rate Policy in relation to general principles discussed in Federal Reserve Board's annual report. (Discussion) New York
- C. Domestic Acceptances
Report of General Acceptance Committee
Mr. Kenzel, Chairman.
- D. E. ████████. - See Supplement. (Discussion) Cleveland

II. COLLECTIONS AND CLEARINGS

- A. Report of Standing Committee on Collections
Mr. Strater, Chairman.
- B. Report of Committee on Voluntary Services regarding Non-cash Collection Service
Governor Fancher, Chairman.
- C. Regulation "J" - Importance of issuing a new Regulation "J" as recommended by the November 1923 Conference of Governors.
(See paragraph 33 minutes Nov. conf.)
- D. Should a member bank be allowed to direct route its own draft drawn on a correspondent to another F.R.B. for credit of its own F. R. Bank? (Discussion) San Fran.
- E. Should a member bank's own draft drawn on a correspondent be accepted as a transit item for deferred credit by a Federal Reserve Bank? (Discussion) San Fran.

II. COLLECTIONS AND CLEARINGS (continued)

- F. Authority of a F.R. Bank to accept in payment of a collection item a bank draft given in exchange for the draft of the drawee. (Discussion) New York

G. Withdrawals from the Par List Recommended

That in order to protect both member bank and reserve bank against loss, the Standing Committee on Collections be requested to formulate a uniform procedure to be followed by all Reserve Banks in handling direct sent items drawn on banks removed from the par list between issues of the Federal Reserve Board's monthly supplement to the par list. (Action) New York

III. COIN, CURRENCY and CIRCULATION

- A. Report of Secretary relative to the recommendation of the November 1923 conference concerning the increase of gold holdings in the vaults of F.R. Banks. Mr. Harrison. (see paragraph 42 minutes Nov. Conf.)
- B. Currency in Transit To and From F.R.Bks. Letter X-3953 of Jan. 25, 1924 (Discussion) (San. Fran. New York)
- C. Payment of Gold Certificates Discussion of advisability of having all Reserve Banks make payments of gold certificates in the usual course of business. For discussion with Mr. Winston Treasury

IV. OPERATION

- A. Economy and Efficiency
1. General discussion of progress made
 2. Report of Committee on Standardization of Supplies. Mr. Worthington, Chairman
 3. Report of Insurance Committee on Life and Automobile Insurance. Mr. Kenzel, Chairman.
 4. Report of Committee to study Cost of Securing Credit Information. Mr. Childs, Chairman.
- B. Report of Pension Committee (Referred to F.R. Board by Nov. conf.) Mr. Kenzel, Chairman.

IV. OPERATION (continued)

C. Report of Leased Wire Committee
Governor McDougal, Chairman.

Recommended

That the recommendations made by the committee which met in Chicago March 12-14, 1924, in their report addressed to Mr. J. B. McDougal, Chairman of the Leased Wire Committee, as follows -

- "1. That telegraphic transfers of funds be limited to transfers of bank balances.
2. That the leased wires should not be used for any purpose in connection with handling any non-cash collection items.
3. That the leased wires should not be used for reconciling exceptions in accounts between F.R. Bks., except where a loss might be involved."

be adopted as the action of this conference, with the understanding that the identical clauses recommended by this committee will be included by all F.R. Bks. in their circulars to member banks relating to the telegraphic transfers of funds

(Action) San Fran.

D. Legality of Insurance Plan
(Referred to Board by Nov. 1923 conf.)
Mr. Kenzel, Chairman

V. FISCAL AGENCY OPERATIONS

A. Commercial paper as collateral to War Loan
Deposit Accounts.
(see paragraph 19 minutes Nov. conf.)
For discussion with Mr. Winston

Treas'y

B. Fiscal Agency Expenses
For discussion with Mr. Winston

Treas'y

VI. RELATIONS WITH MEMBER BANKS

A. Voluntary Services performed for Members.
Report of Committee on Vol. Services
Governor Fancher, Chairman.
(see also Collections & Clearings,
Topic II B)

B. Enlargement of Membership in System
What, if anything, should be done
to enlarge membership?

(Discussion) New York

SUPPLEMENTAL PROGRAM

G O V E R N O R S C O N F E R E N C E
M A Y 5, 1 9 2 4
W A S H I N G T O N

I. CREDIT TRANSACTIONS AND POLICIES (supplemental topics)

- D. Amendment to Federal Reserve Act to permit advances to member banks on their own collateral notes secured by U. S. Government Securities and drawn for periods up to 90 days. (Discussion) Cleveland
- E. Policy of Federal Reserve Banks in considering paper of borrowers who are included in groups consisting of parent and subsidiary companies and who issue consolidated statements. (Discussion) Cleveland

SUPPLEMENTAL PROGRAM

G O V E R N O R S ' C O N F E R E N C E

M A Y 5, 1 9 2 4

W A S H I N G T O N

TOPICS PROPOSED BY FEDERAL RESERVE BOARD

1. Principles by which the establishment of Federal Reserve Branch Banks and their serviceability are to be tested. (Discussion and recommendation)
While no branch Federal Reserve Banks have been established during the past several years, the Board has been called upon to consider and has disapproved of a number of applications made by bankers' and business men's associations for the establishment of branches, and there is reason to believe that there are applications from several other points forthcoming.
2. Disposition of notarial work and fees in the Federal Reserve Banks. (X-3987 - March 6, 1924) (Discussion and expression of views)
Different practices prevail among the Federal Reserve Banks, and the Board feels that a general discussion of the matter would prove beneficial.
3. Is a plan practicable whereby a member bank in one district can obtain currency from and ship currency to the Reserve Bank of an adjacent district, where the member bank is so situated that the transit time between the member bank and its own Federal Reserve Bank is considerably greater than the transit time to the Reserve Bank of the adjacent district? (Expression of views)
From time to time, there comes before the Board, for its approval, such a plan, and the Board would like to have an expression of the Governors' views as to the practicability of such an arrangement.
4. Report of Federal Reserve Agents' Committee on Reserves to the Federal Reserve Board, concerning the Fulmer Bill, providing for the reduction of the reserves of country banks from 7% to 5% on demand deposits, and from 3% to 2% on time deposits. (Expression of views).
The Board asks for an expression of the views of the conference relative to this report, a copy of which is attached.
5. Practice of certain borrowers filing credit statements direct (Discussion) with the Federal Reserve Bank of the district, rather than with the banks with which they transact business.

REPORT ON FULMER BILL

-BY-

FEDERAL RESERVE AGENTS' COMMITTEE ON RESERVES

In accordance with the request of the Federal Reserve Board, the Committee of Federal Reserve Agents on Reserves has considered carefully the provisions of the Fulmer Bill relating to the reserves required to be carried by member banks not in reserve or central reserve cities, both as it affects that class of member banks and as it affects the total reserves carried in the Federal Reserve Banks. The Bill provides for a reduction of reserves of the country banks from 7 per cent. to 5 per cent. on demand deposits and from 3 per cent. to 2 per cent. on time deposits. The effect of this reduction, according to such investigations as we have been able to make, would be to reduce the reserve deposits maintained at the Federal Reserve Banks by approximately \$200,000,000. This \$200,000,000, if used as a basis for credit expansion, would permit country member banks to increase their demand deposits by the theoretical amount of \$4,000,000,000. On the basis of 7 per cent. reserves, one dollar of reserves theoretically supports fourteen dollars of deposits; but if reserves are reduced to 5 per cent., one dollar of reserves would theoretically support twenty dollars of deposits. Furthermore, if part of the potential increase in country bank deposits should be in the form of time deposits, the theoretical expansion permitted by the change would be still larger. In practice, however, the theoretical figure would not be realized as such additional deposits would require some additional cash to be carried in bank vaults.

With gold coming constantly into the country from abroad, with the tendency shown during the past few years by member banks to convert demand deposits into time deposits, and with the tendency to reduce the percentage of reserve balances maintained by member banks in the Federal Reserve Banks, the Committee believes it is extremely unwise at the present time to make any change in the reserve requirements which might lead to additional expansion.

The Committee, therefore, respectfully reports its unanimous opinion that the passage of the suggested legislation would be unwise.

Respectfully submitted,

PIERRE JAY

WILLIAM MCC. MARTIN

FREDERIC H. CURTISS, Chairman.

March 31, 1924.

GOVERNORS CONFERENCE

May 5 - 7, 1924

Washington, D. C.

First Day's Session, Monday, May 5, 1924
Separate Governors Session
Morning

The meeting was called to order at 10:00 o'clock a. m.

Present:

Governors Harding, Norris, Fancher, Seay,
Wellborn, McDougal, Biggs, Young, Bailey,
McKinney and Calkins,
Deputy Governor Case,
Mr. Harrison, Secretary.

Upon motion of Governor Fancher, it was (1)

VOTED that Governor McDougal act as Chairman of the Conference.

Topic I. A. 1. Report of Chairman, Open Market Investment (2)
Committee for the Federal Reserve System.

The Secretary read the report of the Chairman (printed pages 5 - 11 stenographic record), and, after a short discussion of the report and its exhibits it was approved by the conference.

(see pages 1 - 14 inclusive stenographic record)

Topics I. A. 2 & 3. Effect of operations of Open Market Invest- (3)
ment Committee and the desirability of
their continuance.
Importance of conducting open market opera-
tions without considering earnings of Re-
serve Banks as a determining factor.

At the request of Governor Calkins these two topics were discussed together, with particular reference to the question whether the Federal Reserve Banks should pay dividends out of surplus rather than subject the open market operations of the system to the influence of making earnings sufficient to cover dividends.

After considerable discussion, each member of the conference was asked to express his opinion on the following question:

Assuming that earnings are insufficient to meet expenses and dividends, would it be better (a) to curtail services, (b) to resort to the open market, or (c) to pay

dividends from surplus?

Nine of the Governors stated that their first choice would be to pay dividends from surplus, and three stated that they would prefer first to curtail services. It was the consensus of opinion that the open market operations of the system should be conducted independently of the question of earnings. It was also felt that while there is no question of the right of the directors of the individual Federal Reserve Banks to engage in open market operations if in their judgment that should become necessary, nevertheless the present policy of conducting the System's open market operations through the central committee appointed for that purpose, with the consent of the directors of the several Reserve Banks, is highly desirable and to be commended.

(See pages 14-81 inclusive stenographic record)

At 1:00 o'clock p. m. the conference adjourned to reconvene at 2:00 o'clock p. m.

First Day's Session, Monday, May 5, 1924
Separate Governors Session
Afternoon

The meeting was called to order at 2:00 o'clock p. m.

Present:

Governors Harding, Norris, Fancher, Seay,
Wellborn, McDougal, Biggs, Young, Bailey,
McKinney and Calkins,
Deputy Governor Case,
Mr. Harrison, Secretary.

Topic II. A. Report of Standing Committee on Collections. (4)
(See also paragraph 16)

The Secretary read the report of the Chairman of the Committee (printed pages 86-90 stenographic record) which recommended in substance the following:

1. That the committee should not, as recommended by the November 1923 conference, prepare a uniform circular defining the terms used by the Reserve Banks in connection with the collection of non-cash items until there should be occasion, for other reasons, to issue a general circular on the subject of collections;

2. That it would not be advisable for the several Federal Reserve Banks to try to make effective the recommendation of the November 1923 conference concerning the guarantee of prior indorsements on non-cash items until that recommendation can be made effective simultaneously by all Reserve Banks. It was suggested that this matter be covered by incorporating a paragraph on the subject in the non-cash collection circular whenever it is reissued by all Reserve Banks.

3. That the revised draft of the collection circular, when re-issued, should include any additional paragraphs which might be required as a result of the action taken by the conference on the report of the Leased Wire Committee, and by the conference and the Reserve Board on the report of the Committee on Voluntary Services.

After the reading of the report, it was

AGREED that no action should be taken until the report of the Committee on Voluntary Services concerning non-cash collections and the report of the Leased Wire Committee had been acted upon. (see paragraphs 11, 12 and 16)

(See pages 83 - 91 inclusive stenographic record)

Mr. Winston, Under Secretary of the Treasury, joined the conference at this point.

Topic V. B. Fiscal Agency Expenses (5)
(see also paragraph 36)

Mr. Winston submitted for the consideration of the conference a memorandum (printed pages 124-128 stenographic record) concerning the subject of fiscal agency expenses. That memorandum reported that while in the past it has been the policy of the Treasury Department to reimburse Federal Reserve Banks for their expenses incident to new Treasury issues, and while those expenses last year amounted to about \$280,000, nevertheless it was felt that the Treasury will be justified in using the Expenses of Loans Appropriation for this purpose only up to the sum of \$200,000 in the fiscal year 1925. The memorandum pointed out, however, that in order to effect a radical curtailment in reimbursable expenses heretofore made, it is proposed by the Treasury -

1. To abandon the sales organization of the Treasury Savings Certificates on July 1, 1924.

2. Owing to the decrease in the amount of War Savings Certificates maturing, it is expected that payment of these War Savings Certificates will be handled in the same way as

any other Government security maturing, and without any special allowance for expenses in effecting their redemption.

3. Owing to the fact that the Treasury's fiscal program now contemplates issues of securities quarterly, the banks should be able to reduce their fiscal agency organizations to the extent necessary to handle just these quarterly issues and current exchanges.

4. The fiscal agency expenses of some of the Reserve Banks are so far out of proportion to the expenses of some of the other Reserve Banks, that a comparative study might be productive of further savings in this particular.

In elaborating this memorandum submitted to the conference, Mr. Winston explained that it was the purpose to continue the sale of Treasury Savings Certificates through the post offices. It was also stated that Federal Reserve Banks might properly have them for sale when requested, but without any special organization for the purpose.

(See pages 124 - 133 stenographic record)

Rate of Interest on Treasury Overdrafts.

(6)

Mr. Winston reported to the conference that the Treasury has decided, after conference with one of the Federal Reserve Banks, that it will in the future pay Reserve Banks interest at the rate of 1 per cent. less than the interest rate on the short-term certificates which are being issued by the Treasury at the time of the overdraft, with the understanding, however, that this rate paid on overdrafts shall not exceed 5 per cent., nor be less than 2 per cent.

(See page 133 stenographic record)

Insurance Covering Shipments of Currency and Securities for Treasury account.

(7)

Mr. Winston referred to the insurance policy taken by the Treasury to cover currency and securities shipped by Federal Reserve Banks for account of the Treasury to commercial banks, explaining that the policy has now been extended so as to cover the shipments from the post office to the building in which the commercial bank is located. He also called attention to the fact

that the rate on the new insurance policy has been reduced from 6 cents per \$1,000 to 4-7/8 cents per \$1,000.

(See pages 134 - 137 stenographic record)

Topic III. C. Payment of Gold Certificates

(8)

Mr. Winston discussed briefly the policy now pursued by the Federal Reserve Banks of Chicago and New York in paying out gold certificates in the ordinary course of their business, and referred to the fact that already those two banks together have made net payments aggregating approximately \$650,000,000. While he did not advocate all Reserve Banks following this policy, he stated that it would, in his opinion, be desirable to have some of the other larger Reserve Banks make such payments and that he would like to have all the other banks pay out at least as much gold as they get in, so that the purpose to be accomplished by the two banks which are now making gold payments will not be offset by redeposits in the other banks.

In the general discussion that followed, some of the members of the conference said that they are at the present time paying out approximately as much as they receive, and that they would be glad to continue to make payments at least to that extent. A majority of the Governors present, however, without any formal vote, appeared to be of the opinion that it was undesirable for them generally to pay out gold.

Mr. Winston referred to our present gold imports, amounting to about \$1,000,000 a day, and stated that the Treasury was anxious to put in circulation approximately \$500,000,000 of gold in addition to the amount of current imports, stating that in his opinion this gold in circulation would prove an excellent secondary reserve, very quickly available to the Reserve Banks and the Treasury whenever it might be needed. Those banks which have adopted the policy of paying out gold have found that it is redeposited currently, without any apparent hesitation.

(See pages 137 - 158 inclusive stenographic record)

Topic V. A. Commercial paper as collateral to War Loan (9)
Deposit Accounts.

The arguments for and against the discontinuance of the eligibility of commercial paper as collateral for war loan deposit accounts were reviewed briefly. In conclusion, nine Governors voted in favor of continuing commercial paper as collateral and three in favor of discontinuing it.

(See pages 158 - 162 stenographic record)

Mr. Winston left the meeting at this point.

Comparative Table of Expense of Operating Federal Reserve (10)
Banks during 1923.
(See also paragraph 26)

The chairman reported receipt of a letter from Governor Crissinger enclosing twelve copies of a comparative table showing the expense of operating the Reserve Banks during 1923 and requesting that the conference engage in a general discussion of the probable expense of operating the system during 1924.

(See page 162 stenographic record)

Topic II. B. Report of Committee on Voluntary Services (11)
regarding Non-cash Collection Service.

Governor Fancher referred to the fact that the report of the Committee on Voluntary Services (printed pages 92 - 120 stenographic record) had been submitted to the Federal Reserve Board with the suggestion that the Board defer formal action until the conference had an opportunity to discuss it.

Governor Calkins moved that the report and the recommendations contained therein be adopted as the recommendation of the conference.

Governor Bailey moved as a substitute that it is the sense of the conference that the non-cash collection service be discontinued by the system. This substitute motion was defeated 9 to 2, Governors Young and Bailey voting for it.

Governor Bailey then moved that the report of the Voluntary Services Committee be amended to provide that no item of less than \$100 should be accepted

for collection through the Federal Reserve Banks. While this motion of Governor Bailey was not seconded, it was debated, Governor Bailey stating that such a large percentage of the items now presented for collection through the Federal Reserve Bank of Kansas City are of such small amounts that the conference should consider placing some limit on the dollar amount of items receivable for collection. The proposed amendment was lost 10 to 2, Governors Bailey and Wellborn voting in favor of the amendment.

Thereupon, in acting on the original motion of Governor Calkins, it was VOTED that the report and the recommendations contained therein be adopted as the recommendation of the conference, Governors Young and Bailey voted No.

After final action was taken on the report, Governor Young presented for consideration what might be the effect on the non-cash collection service of the System if the Minneapolis Federal Reserve Bank should discontinue handling such collections. It was generally agreed that such an action on the part of the Minneapolis bank would be most unfortunate and would result in difficulty and confusion to the other Reserve Banks. Governor Young stated that he would not want to cause embarrassment to other Reserve Banks, but would like to have the conference consider carefully the question of limiting the kind of items now handled for collection. He stated that as much as the Federal Reserve Bank of Minneapolis wants to cooperate, it may be impossible for it to continue to handle certain classes of non-cash items because of certain local conditions.

After general discussion of the advisability of having all Reserve Banks establish a uniform procedure, giving, however, due regard to the difficulties of particular districts, upon motion of Governor Calkins, it was

VOTED that the matter be referred back to the Standing Committee on Collections for further study and such recommendation as the committee may care to make with respect both to the kind and dollar amount of non-cash

items to be handled by the Federal Reserve Banks for collection.

It was understood that the committee should be authorized to invite representatives of the interested banks to participate in its discussion or studies of the question raised. Governor Young stated specifically that he would like to have Judge Ueland appear before the committee.

(See pages 91 - 124 and 163 - 189 stenographic record)

Topic IV. C. Report of Leased Wire Committee (12)
(See also paragraphs 4, 11, 16 and 41)

The Chairman read the recommendations contained in the report of the Leased Wire Committee (printed pages 191 - 202 stenographic record) together with the recommendations of the supplemental report (printed pages 204 - 205 stenographic record) relating to the payment of farm loan coupons.

Upon motion of Governor Calkins, it was

VOTED that the report and the supplemental report, together with their respective recommendations, be approved.

It was understood, however, that approval of the report of the Leased Wire Committee, which recommended among other things that telegraphic transfers of funds be limited to bank balances, should not in any way restrict the deliberations of the Committee on Voluntary Services in respect to this and other matters, it being understood that that committee might care to devise some procedure for effecting telegraphic transfers of funds for account of individuals over the commercial wires.

(See pages 190 - 214 stenographic record)

Topic I. D. Amendment of Federal Reserve Act to permit advances to member banks on their own collateral notes secured by U. S. Government Securities and drawn for periods up to 90 days. (13)

There was a general discussion of this topic, with particular reference to the action taken at the May 1922 Conference of Governors, when "the 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."

Reference was made to the economy in time and expense in having the maturity of these advances extended beyond the fifteen day limit when secured not only by Government bonds, but also by commercial paper.

But it was generally felt by those present that inasmuch as there is no unanimity of opinion as to the desirability of the proposed amendment, the topic should again be passed without action.

(See pages 215 - 224 stenographic record)

Topic I. E. Policy of Federal Reserve Banks in considering paper of borrowers who are included in groups consisting of parent and subsidiary companies and who issue consolidated statements. (14)

Governor Fancher referred to the action of the March 1923 Conference of Governors concerning the rediscount of paper issued by borrowers making a consolidated statement. After some discussion of the progress made by the several Federal Reserve Banks during the past year in having corporations which heretofore have issued only consolidated statement make separate statement, it was

VOTED that the conference recommend to the Federal Reserve Board that the Board amend Regulation A, Series of 1923, by adding at the end of Section IV a paragraph providing in substance that in any case where the borrower has closely allied, associated or subsidiary companies, the statement therein required should be accompanied by separate statements of such allied, associated or subsidiary companies, unless the statement of the borrower clearly indicates eligibility and acceptability; and that, in order to permit of the issuance of appropriate individual statements at the usual statement periods, the Federal Reserve Banks may waive the application of this provision until May 1, 1925, in those cases where the borrower and allied, associated or subsidiary companies have not issued separate statements prior thereto.

(See pages 224 - 243 inclusive stenographic record)

At 6:10 o'clock p. m. the conference adjourned to reconvene at 10:00 o'clock a. m. on Tuesday, May 6, 1924.

Second Day's Session, Tuesday, May 6, 1924
Separate Governors Session
Morning

The meeting was called to order at 10:00 o'clock a. m.

Present:

Governors Harding, Norris, Fancher, Seay,
Wellborn, McDougal, Biggs, Young, Bailey,
McKinney and Calkins,
Deputy Governor Case,
Mr. Harrison, Secretary.

Topic I. B. Discount Rate Policy in relation to general (15)
principles discussed in Federal Reserve
Board's annual report.

Mr. Case referred briefly to the report of the Federal Reserve Board concerning the discount rate policy. It was the consensus of opinion that the Board's report was a most satisfactory and effective statement of the discount policy of the system.

(See pages 239 - 241 inclusive stenographic record)

Topic II. A. Report of Standing Committee on Collections (16)
(See also paragraphs 4, 11 and 12)

Mr. Strater, Chairman of the Standing Committee on Collections, appeared before the conference to discuss the report (printed pages 243 - 247 stenographic record) of his committee, previously submitted to the conference (paragraph 4).

Upon motion of Governor Calkins, it was

VOTED that the report of the Standing Committee on Collections be received and that the committee be continued for the purpose of studying those matters relating to non-cash collections previously referred to it for study and report by the conference (see paragraph 11), and that the committee prepare a uniform circular, covering the questions of uniform indorsements, guarantee of prior indorsement, and defining the terms used by Federal Reserve Banks in effecting non-cash collections, as well as any limitations as to amount or kind of non-cash collections, if any, which the committee feels should be made as a result of the study it makes in accordance with the recommendation of this conference.

It was understood that a draft of this uniform circular, as finally recommended by the committee, be sent to each Federal Reserve Bank for its approval, and if all banks agree, then the circular should be issued, but if there is no unanimous agreement, then the circular should be referred to the next Conference of Governors for its consideration.

(See pages 243 - 268 inclusive stenographic record)

Topic I. C. Domestic Acceptances - Report of sub-committee of General Acceptance Committee. (17)

Upon motion of Mr. Case, it was

VOTED that since the sub-committee which filed the report on Domestic Acceptances reached no common understanding and made no definite recommendation, the matter be referred back to the committee for further report and recommendation.

(See pages 82 - 83; 268 - 295 stenographic record)

Reports of Committees (18)

Upon motion of Mr. Case, it was

VOTED that all committees that have matters referred to them by the Governors Conference be requested to file their reports with the Secretary of the Conference within three months from the date on which the matters are referred to them.

(See page 294 stenographic record)

Topic II. C. Regulation "J" (19)

Before discussing the proposed draft of Regulation "J" (X-4025), Mr. Wyatt, Counsel for the Board, was invited to attend the conference. (Section V. of Regulation "J" printed pages 328 - 330 stenographic record).

He explained that the regulation proposed by the Board was an effort not only to cover the existing practices of the Federal Reserve Banks in the matter of making collections, but also to protect them from loss as a result of the decision of the Supreme Court of the United States in the case of Malloy v. Federal Reserve Bank of Richmond.

There was a lengthy discussion of the various phases of the proposed regulation, with particular reference to its effect on local conditions in different districts. Subsequently, upon motion of Governor Fancher, it was

VOTED that, if agreeable to Mr. Wyatt, the proposed draft of Regulation "J" be referred back to him with the request that he permit the Standing Committee on Collections to confer with him relative to its provisions before finally adopted.

Mr. Wyatt having expressed his approval of that suggestion, it was later, upon motion of Governor Harding,

VOTED that in order to expedite final consideration of Regulation "J" Mr. Strater, Chairman of the Standing Committee on Collections, who was present in Washington, be requested to represent that committee in conferring with Mr. Wyatt relative to the form of the regulation.

(See pages 295 - 332 stenographic record)

Topic II. D. Should a member bank be allowed to direct (20)
route its own draft drawn on a correspondent
to another Federal Reserve Bank for credit of
its own Federal Reserve Bank?

Governor Calkins, who proposed this topic, and other Governors referred to possible dangers of this practice, but it was suggested that it might be a matter properly to be decided by each bank for itself. It was, therefore,

INFORMALLY AGREED that the question be left to the management of each Federal Reserve Bank for determination.

(See pages 332 - 336 stenographic record)

Topic II. E. Should a member bank's own draft drawn on a correspondent be accepted as a transit item for deferred credit by a Federal Reserve Bank? (21)

This topic is so closely related to Topic II. D. (paragraph 20) that it was

INFORMALLY AGREED that it, also, should be left to the determination of each bank.

(See page 336 stenographic record)

Topic II. F. Authority of a Federal Reserve Bank to accept in payment of a collection item a bank draft, given in exchange for the draft of the drawee. (22)

Upon motion of Mr. Harrison, it was

VOTED that the Standing Committee on Collections be requested to study this topic in connection with its consideration of Regulation "J", as voted by the Conference (paragraph 19).

(See page 337 stenographic record)

Topic II. G. Withdrawals from the Par List (23)

Upon motion of Governor Fancher, it was

VOTED that in order to protect both member bank and reserve bank against loss, the Standing Committee on Collections be requested to formulate a uniform procedure to be followed by all Reserve Banks in handling direct sent items drawn on banks removed from the par list between issues of the Federal Reserve Board's monthly supplement to the par list.

It was understood that the report of, or the procedure recommended by the Standing Committee on Collections, be referred to each Federal Reserve Bank when available.

(See pages 337 - 339 inclusive stenographic record)

Topic III. A. Report of Secretary relative to the recommendation of the November 1923 Conference concerning the increase of gold holdings in the vaults of Federal Reserve Banks. (24)

Mr. Harrison reported that this matter had been referred to him by the November 1923 Conference of Governors for consideration with the Treasury

Department and report back to the conference. He requested that there be inserted in the record a copy of the report prepared by him and Mr. Hand of the Treasury, acting as a sub-committee of a currency committee appointed in February 1924, by Mr. Winston to study this and related topics. (Report printed pages 340 - 347 stenographic record).

Mr. Harrison stated that while this report had been submitted to the Treasury Department, the Treasury has never, so far as he had been advised, formally approved of its recommendations. It was reported, however, that gold is now being minted in accordance with the recommendation of the sub-committee. It was also understood that Mr. Winston looked favorably upon the recommendation of the committee concerning the reserve stock of unissued gold certificates.

(See pages 340 - 351 stenographic record).

Topic III. B. Currency in Transit To and From Federal Reserve Banks. (25)

Governor Calkins, who presented this topic for discussion, stated to the conference that, as a result of a canvass which he had made, it appeared that seven banks at the present time are considering currency in transit in the computation of reserves and assessing penalties and five are not doing so.

In the ensuing discussion, it appeared that the counsel of some of the reserve banks have stated that in their opinion the practice in question is illegal, and it was accordingly suggested that in the event that any Reserve Bank cares to make inquiry, there would be no objection to such individual bank or banks asking the Federal Reserve Board for a formal opinion of its counsel relative to the matter.

(See pages 351 - 368 inclusive stenographic record).

Comparative Table of Expense of Operating Federal Reserve
Banks during 1923. (See also paragraph 10)

(26)

It was the concensus of opinion that the blueprint containing the comparison of the expenses of the several Federal Reserve Banks for 1923 presented an interesting study of the relative expense of operating those banks, although not on a precisely comparable basis.

Upon motion of Governor Seay, it was

X VOTED that in furtherance of the purposes of the Economy and Efficiency Committee, this blueprint analysis of the expenses for 1923 be submitted to the local Economy and Efficiency Committee in each Federal Reserve Bank for such study as it may see fit to give it, but with the suggestion of the conference that each local committee give consideration to the question of the adoption of a budget system.

(See pages 368 - 376 inclusive stenographic record)

Topic IV. A. 1. Economy and Efficiency - Progress Made.

(27)

The several Governors commented on the fact that much attention is given by their organizations in analyzing the reports of the Board's Economy and Efficiency Committee, and that they are working constantly to increase the efficiency of their organizations in order further to reduce expenses.

It was

VOTED to be the sense of the conference that all of the Reserve Banks are giving careful consideration at the present time to the matter of economy and efficiency in operation.

(See pages 377 - 379 inclusive stenographic record)

Topic IV. A. 2. Report of Committee on Standardization
of Supplies
(See also paragraph 30)

(28)

The report of the Committee on Standardization of Supplies (printed pages 380 - 390 stenographic record) stated, among other things, that the committee had sent out a questionnaire to each Federal Reserve Bank concerning the matters

within its jurisdiction and that the committee would tabulate these replies as soon as received and furnish a copy to each Federal Reserve Bank for its information, together with any suggestions the committee may have to offer at that time.

Upon motion of Mr. Case, it was

VOTED that these matters be left with the Committee on Standardization of Supplies for further report to the conference.

(See pages 380 - 390 inclusive stenographic record)

Topic IV. A. 3. Report of Insurance Committee (29)
(See also paragraph 30)

Mr. Case read to the conference the report of the Chairman of the Insurance Committee (printed pages 390 - 402 stenographic record) and, upon motion of Governor Seay, it was

VOTED that the report be received and the committee be requested to continue its study of the entire subject of insurance.

(See pages 391 - 403 inclusive stenographic record)

At 1:00 o'clock p. m. the conference adjourned to reconvene at 2:00 o'clock p. m.)

Second Day's Session, Tuesday, May 6, 1924
Separate Governors Session
Afternoon

The meeting was called to order at 2:00 o'clock p. m.

Present:

Governors Harding, Norris, Fancher, Seay,
Wellborn, McDougal, Biggs, Young, Bailey,
McKinney and Calkins,
Deputy Governor Case,
Mr. Harrison, Secretary.

Topic IV. A. 4. Report of Committee to Study the Cost of (30)
Securing Credit Information.

The report of the Committee to Study the Cost of Securing Credit Information (printed pages 405 - 411 stenographic record) was presented by the Secretary. The committee stated that after giving full consideration to the

questions before it, it appeared impossible to reduce credit operations to a unit cost basis because of the fact that credit operations are not mechanical or clerical operations which can be measured by the same standard in each bank. The committee reported, however, that while the methods used vary in elaborateness, nevertheless they appear to be consistent with the character of the business done and the requirements of the local boards of directors. The committee stated that a careful study of its report by each bank might result in a greater degree of uniformity in the character of their operations.

Upon motion of Mr. Case, it was

VOTED that the report be received and accepted and that each Governor be furnished with a copy of it for the use of the respective Reserve Banks.

Upon further motion of Mr. Case, it also was

VOTED that the reports of the Committee on Standardization of Supplies (paragraph 28), The Insurance Committee (paragraph 29) as well as the Committee to Study the Cost of Securing Credit Information be referred to the Board's Committee on Economy and Efficiency for its advice, each of these reports having been prepared as a result of a recommendation made by the Board's committee to the November 1923 Conference of Governors.

(See pages 405 - 412 inclusive stenographic record.)

Topic IV. B. Report of Pension Committee. (31)

The Chairman stated that the Pension Committee would have a meeting and make further recommendations to the conference as soon as it was possible for it to have a meeting with its advisers, Messrs. Thayer and Curtis.

(See pages 412 - 413 inclusive Stenographic record.)

NOTICE OF TUBE STATION CLOSING
.....

The Station to which these
papers were routed, is closed
for the day.

PNEUMATIC TUBE EXCHANGE.

Topic VI. B. Enlargement of Membership in System.
What, if anything, should be done to
enlarge membership?

(32)

Each of the Governors present was asked for an expression of his views concerning this topic. It was felt generally to be of great importance to the System, and while it appeared that none of the Federal Reserve Banks is making any active campaign to solicit new membership at this time, nevertheless the member bank relations departments of the various banks are continuing their usual program of advising member banks, and any others who may be interested, of the work and advantages of the System.

While no action with respect to this topic was taken by the conference, it was the consensus of opinion that it is important for the Reserve Banks to continue their public educational program. It was also suggested that it would be helpful if capable public writers would present the subject of the Reserve System to their readers in some popular and non-technical manner.

(See pages 413 - 433; 456 - 467 inclusive stenographic record.)

Charges for Reports of Examination of National Banks by Comptroller. (33)

Mr. Dawes, Comptroller of the Currency, joined the conference and stated that he would like to have the Governors consider the question of increasing the price now paid for the reports of examination of national banks furnished by the Comptroller to the Federal Reserve Banks. He suggested that that increase should be from the present flat rate of \$4.50 for each report to \$10.00 for each report. He pointed out that while he hopes to effect further economies in the cost of examinations of national banks, nevertheless it is difficult to retain good examiners in the service at the salaries now paid to them and that some of them will unquestionably resign unless they are paid more. He stated that he believed the increased revenue resulting from the increased charge to the Federal Reserve Banks for reports of examination would result in better reports and that from the point of view of the Reserve Banks the extra payment will be fully justified. He explained

that while he would have no objection to making a graduated schedule of charges for the reports of examination, an average of less than \$10.00 for each report would not serve his purpose.

In the discussion that followed, reference was made by some of those present to the action previously taken by the conference, when it was unanimously agreed "that payment for reports of examination of national banks should be based not upon any probable or estimated deficit in the operation of the Comptroller's office, but rather upon the cost of preparing the reports." Some of the Governors also referred to the fact that the Federal Reserve Act contemplates that the cost of examining national banks should be assessed against the banks and not met in any other way.

Finally, upon the suggestion of Governor Harding, it was

UNDERSTOOD that the Comptroller would submit his proposal to the Federal Reserve Board with a view to having some definite plan agreed upon by the Board and notice thereof forwarded to the executives of the Reserve Banks who might discuss it with their directors.

Topic Board 1. Principles by which the establishment of Federal Reserve Branch Banks and their serviceability are to be tested.

(34)

There was a general discussion of the principles which should be controlling in the matter of the establishment of branch banks of Federal Reserve Banks. It seemed to be the consensus of opinion that branch banks should be established only when the Federal Reserve Banks were not able to provide distant member banks with satisfactory service, and only if the aggregate resources of the district to be served and the saving of time to member banks in that district in the matter of collections, discounts and supplying currency justify it. In other words, essential service, rather than expense, is the prime consideration. It was felt, however, that in

no case should branches be established if agencies can satisfactorily answer the purpose.

(See pages 468 - 483 inclusive stenographic record)

Topic Board 2. Disposition of notarial work and fees in the (35)
Federal Reserve Banks.

Seven of the Reserve Banks reported that their notarial work is handled by outside notaries, four stated that notaries holding positions in the Reserve Bank do the protesting, and one Reserve Bank reported that while the protesting work is handled by an outside notary the fees are collected by him and deposited to the credit of a trustee, the notary retaining only what the Reserve Bank has agreed to give him. Each Reserve Bank, however, stated that the method by which its notarial work is conducted has been approved by counsel.

In view of the fact that the amount of protest work in the several Federal Reserve Banks appears to be increasing steadily, consideration was given to the question whether the present limit of \$10.00 might not be raised to \$20.00 or \$25.00.

Upon motion of Governor Fancher, it was

VOTED to be the sense of the conference that the Standing Committee on Collections should make a study of the cash items protested by all Reserve Banks for a period of three months, and that they should divide all checks protested into different classes as to amount, specifying particularly those that are under and those that are over \$20.00 or \$25.00.

(See pages 483 - 496 stenographic record)

Topic V. B. Fiscal Agency Expenses (36)
(see also paragraph 5)

The Secretary read a letter (printed pages 496 - 497 stenographic record) from Mr. Winston to Governor McDougal, dated May 6, and just presented to the conference. This letter confirmed the statement made by Mr. Winston to the conference that during the fiscal year 1925 reimbursement will be made only on account of expenses arising from new issues, either during that year or during the fiscal year 1924, and that such expenses in the aggregate shall not exceed \$200,000.

It was

UNDERSTOOD that the Secretary should provide a copy of this letter to each Federal Reserve Bank, and to the Federal Reserve Board, and so advise Mr. Winston.

(See pages 496 - 499 inclusive stenographic record)

Topic Board 3. Is a plan practicable whereby a member bank in one district can obtain currency from and ship currency to the Reserve Bank of an adjacent district, where the member bank is so situated that the transit time between the member bank and its own Federal Reserve Bank is considerably greater than the transit time to the Reserve Bank of the adjacent district? (37)

Upon motion of Governor Seay, it was

VOTED to be the sense of the conference that there are many objections both theoretical and practical to the proposed plan and that it should be resorted to only in emergency cases, or in isolated cases, where, for geographical or other reasons, it is peculiarly advisable to do so, but only then upon agreement by both Reserve Banks concerned.

(See pages 499 - 504 stenographic record)

Topic Board 4. Report of Federal Reserve Agents' Committee on Reserves to the Federal Reserve Board concerning the Fulmer Bill, providing for the reduction of the reserves of country banks from 7% to 5% on demand deposits, and from 3% to 2% on time deposits. (38)

The Secretary read into the record a copy of the report of the Federal Reserve Agents' Committee on Reserves (printed page 505 - 507 stenographic record) concerning the Fulmer Bill, and, after discussion, upon motion of Governor Norris, it was

VOTED to concur in the report of the Agents' Committee that the passage of the proposed legislation would be unwise.

The Secretary then referred to the conference a letter from Mr. Eddy of the Federal Reserve Board (printed page 508 stenographic record) stating that Congressman Fulmer proposed to amend his bill by permitting country member banks to count as reserve the cash in their own vaults and

balances with correspondents.

It was the unanimous opinion of the conference that this proposed change in the bill was also unwise.

(See pages 504 - 508 inclusive stenographic record)

Topic Board 5. Practice of certain borrowers filing credit statements direct with the Federal Reserve Bank of the district, rather than with the banks with which they transact business. (39)

Mr. Case requested that the topic be passed, inasmuch as the only instance which gave rise to this topic no longer exists.

(See pages 508 - 509 inclusive stenographic record)

At 6:10 o'clock p. m. the conference adjourned to reconvene at 10:00 o'clock a. m. on Wednesday, May 7, 1924.

Third Day's Session, Wednesday, May 7, 1924.
Separate Governors Session
Morning

The meeting was called to order at 10:00 o'clock a. m.

Present:

Governors Harding, Norris, Fancher, Seay,
Wellborn, McDougal, Biggs, Young, Bailey,
McKinney and Calkins,
Deputy Governor Case,
Mr. Harrison, Secretary.

Supplemental report of Committee on Voluntary Services (40)
(See also paragraph 41)

Governor Fancher presented the supplemental report (printed pages 510 - 527 stenographic record) of the Committee on Voluntary Services concerning the following topics: (1) currency, (2) safekeeping of securities, and (3) transfers of funds.

Mr. Case moved that the report be received and approved, but when it was stated that some of the Governors would like to have an opportunity to study the third topic, -- that is the subject of transfers of funds, Mr. Case amended his motion, and it was

VOTED to approve all of the report except that part relating to the transfer of funds.

Governor Young, who was not present at the time the report was read, asked to be recorded as not voting.

(See pages 510-536 inclusive stenographic record)

At 11:00 o'clock a. m. the Governors adjourned their separate session to convene in joint conference with the Federal Reserve Board.

Third Day's Session, Wednesday, May 7, 1924
Separate Governors Session
Afternoon

The meeting was called to order at 4:45 o'clock p. m.

Present:

Governors Harding, Norris, Fancher, Seay,
Wellborn, McDougal, Biggs, Young, Bailey,
McKinney and Calkins,
Deputy Governor Case,
Mr. Harrison, Secretary.

Supplemental report of Committee on Voluntary Services
(see also paragraph 40)

(41)

The conference considered that part of the supplemental report of the Committee on Voluntary Services relating to the transfer of funds. It was the consensus of opinion that the services afforded by the Federal Reserve Banks in transferring funds, not only for account of member banks, but at the request of member banks for account of individuals, was of very great value and that while, as reported by the Leased Wire Committee, it was impossible to continue this service over the leased wires for individual account, on account of the crowded condition of those wires, it was generally thought advisable to afford the service over the commercial wires at the expense of the member bank.

In order to avoid any possible misunderstanding, upon motion of Governor Harding, it was

VOTED to amend the supplemental report so as specifically to provide that the cost of the messages requesting the transfers and advising the credits as well as the cost of those messages effecting the transfers should be at the expense of the member bank.

Upon motion of Governor Young, it was, thereupon,

VOTED that that section of the supplemental report of the Committee on Voluntary Services relating to transfers of funds, as amended, be approved.

In view of the action taken by the conference concerning this report, it was

UNDERSTOOD that the Leased Wire Committee would be requested to revise the proposed regulations attached to its report, previously approved (paragraph 12), so as to make them conform not only to that report, but also to the supplemental report of the Committee on Voluntary Services so far as it relates to the transfer of funds.

(See pages 536-554 inclusive stenographic record)

Circular Letter from Towner Rating Bureau.

(42)

Governor Young reported that he had received a letter from the Towner Rating Bureau expressing concern about the losses that they have had to pay on forged paper. The other Governors present stated that they, too, had received a similar letter.

Upon motion of Governor Young, it was

VOTED to refer the letter of the Towner Rating Bureau to the Insurance Committee for its consideration and attention.

(See pages 554-555 inclusive stenographic record)

Upon motion of Governor Young, the conference adjourned sine die at 5:15 o'clock p. m., after giving a rising vote of thanks to the Chairman.

