

VOLUME 1

PROCEEDINGS

OF A

CONFERENCE OF GOVERNORS

OF THE FEDERAL RESERVE BANKS

TREASURY BUILDING  
WASHINGTON, D. C.

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PROCEEDINGS OF A CONFERENCE OF GOVERNORS  
OF THE FEDERAL RESERVE BANKS.

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Treasury Building,

Washington, D. C.,

Monday, May 5, 1924.

The Conference of Governors of Federal Reserve Banks convened in the hearing room of the Federal Reserve Board, Treasury Building, Washington, D. C., at 10 o'clock a. m., Monday, May 5, 1924.

PRESENT:

J. B. McDougal, Governor, Federal Reserve Bank of  
Chicago, Chairman,

W. P. G. Harding, Governor, Federal Reserve Bank of  
Boston,

J. H. Case, Deputy Governor, Federal Reserve Bank  
of New York.

Geo. W. Norris, Governor, Federal Reserve Bank of  
Philadelphia.

E. R. Fancher, Governor, Federal Reserve Bank of  
Cleveland,

George J. Seay, Governor, Federal Reserve Bank of  
Richmond,

M. B. Wellborn, Governor, Federal Reserve Bank of  
Atlanta,

D. C. Biggs, Governor, Federal Reserve Bank of St.  
Louis,

R. A. Young, Governor, Federal Reserve Bank of  
Minneapolis,

W. J. Bailey, Governor, Federal Reserve Bank of  
Kansas City,

B. A. McKinney, Governor, Federal Reserve Bank of  
Dallas,

J. U. Calkins, Governor, Federal Reserve Bank of  
San Francisco, and

George L. Harrison, Deputy Governor, Federal Reserve  
Bank of New York and Secretary to the Conference  
of Governors.

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## P R O C E E D I N G S.

Governor Crissinger: Gentlemen, I would suggest that the Governors now organize themselves and get down to business. When you have gone over your program and have found a convenient place, where you would like to have the Board come in, the Board will be glad to come in then and discuss these matters which you find should be taken up with the Board. I have been talking with Mr. Harrison, who says that that has been the better policy to follow, at least, so that you will know what you want to discuss, and we will not be going over a lot of details that are not very interesting; so that if you gentlemen will proceed to organize we will be very glad to let you have this room. Who is going to be your Chairman?

Governor Fancher: I move that Governor McDougal act as Chairman of this conference.

Governor Young: I second the motion.

(The motion, having been duly seconded, was unanimously carried.)

Governor Crissinger: Governor McDougal, will you take the Chair, please?

(The Federal Reserve Board thereupon retired from the

conference room and the Conference of Governors proceeded as follows:)

The Chairman: Gentlemen, the conference will kindly come to order. This program that we have for consideration is divided, as you have noticed, into several sections under the headings "Credit Transactions and Policies", "Collections and clearings", and other matters which include some important topics that have been suggested by the Federal Reserve Board and others that have been placed upon the program by the Treasury.

I will first ask the pleasure of the conference with respect to the order of procedure. In the absence of any suggestion we will proceed with the program in the order in which it is arranged.

The first major division of the program is

Credit Transactions and Policies.

Sub-topic (a) under that is

(a) Open Market Committee Operations

1 Report of Chairman, Governor Strong.

Deputy Governor Case: In the absence of Governor Strong, there has been a report of the Open Market Investment Committee prepared, copies of it have been distributed

I think, and what is the pleasure of the Conference, that I read it?

The Chairman: You know my position with regard to those matters. I think it is well to read these reports, and the members of the conference can follow their copies as it is read.

Governor Fancher: I so move, Mr. Chairman, that Mr. Case read the report.

The Chairman: Without objection, that course will be pursued.

Governor Calkins: Mr. Chairman, is it the intention, in reading the report, that we discuss the various items as it is read, or that we wait until it is finished and discuss it afterwards?

The Chairman: I think the report had better be read, and comments made later. I will ask Mr. Harrison to read the report.

Mr. Harrison: The report of the Open Market Investment committee is as follows:

"Since the joint conference of governors and agents last November, the Open Market Investment Committee has entered a new phase of its activity by recommending and

carrying through a common policy for the Federal Reserve System in the purchase of government securities for a special investment account.

At the joint conference on November 12, 1923, the Chairman of the Open Market Investment Committee recommended the resumption of purchases of U. S. government securities by the Federal Reserve Banks in the open market in the event that business conditions proved favorable to acquiring a portfolio. On December 12, 1923, the Open Market Investment Committee met with the Federal Reserve Board and a plan was formulated for the purchase of Government securities up to 100 million dollars, as far as it could be done without disturbing the market for such securities, and under the further condition that such securities should be held for the 12 banks in a special investment account and should be subject to sale at the direction of the Federal Reserve Board. The participation of all 12 Federal reserve banks in this plan was secured and purchases were made gradually up to 100 million dollars. At meetings of the committee on January 14 and February 8 readjustments were recommended in the maturities purchased and the authorized buying prices at which purchases were

made. Following the recommendation of a meeting on February 25 the amount authorized to be purchased for this special investment account was increased to 200 million dollars, and at a meeting on April 22 it was again increased to 250 million dollars. Total purchases have amounted to 235 million dollars.

In the course of these operations decisions have been reached on a number of points concerning the distribution of securities between the reserve banks. The experience of the committee has led to the discouragement of special purchases for individual banks, apart from the regular allotments of purchases for the special investment account, because of the serious interference with the general program which was found to result from such special purchases. In order to meet the needs of banks desiring larger amounts of holdings for the purpose of maintaining the volume of their earning assets, redistribution was in several instances secured to such banks from the allotments of other banks, which were willing to forego a part of their allotments. An accompanying statement indicates the extent of such redistribution. The same principle has been applied to purchases and allotments of bankers accept-



ances.

At the meeting of the committee on April 22, 1924, it was recommended that the buying rate on three months' bills be reduced from 4-1/8 to 4 per cent, and the rate on shorter bills from 4 to 3-7/8 and 3-3/4 per cent, at the option of the banks.

Results of operation. As a result of the purchasing program a portfolio of 235 million dollars of government securities has been acquired, which may be sold to the market at any time that it seems wise. It is believed that these securities have been acquired without affecting unfavorably the general credit situation. In fact during the period when purchasing was going on, from the latter part of December until the present, the total earning assets of the Federal Reserve System have declined approximately 400 million dollars. Increases in holdings of U. S. securities have been more than offset by a decrease of 200 million dollars in holdings of bankers acceptances, and of 450 million dollars in discounts and advances. During the period there has been no stimulation of stock exchange activity or higher commodity prices as a result

of the purchases. In fact the observable effects of the purchasing program have been largely confined to the government securities market. During the period of the operations of the committee there has been a brisk demand for short term government securities, due to the fact that the demand for funds to carry on business operations has been limited. A further influence making for generally easier money conditions was the continued inflow of gold from abroad at the rate of more than one million dollars a day. It is worthy of note that the downward movement of the yield rates on short term government securities has in the main been parallel with the changes in rates for commercial paper, and the yields on Liberty bonds. This would appear to indicate that the downward movement of yield rates for certificates and notes has been ~~due~~ more largely to general conditions in the money markets than to the activities of this committee.

Future Program. Although purchases to the amount of 250 million dollars have been authorized, the committee has not been able to secure this full amount because of the scarcity of offerings of securities. The prospect for the immediate future appears to be for still easier

money conditions. Business has grown less active in the past few weeks, gold imports continue at a rapid rate, and the usual seasonal tendency at this time of year is for lower rather than higher rates. Under these circumstances further purchases of government securities may be difficult for some weeks to come.

It is clear that any further extension of purchases for this account beyond the 250 million dollars now authorized, should be carefully reviewed in the light of current business and credit conditions and the Treasury fiscal program. But with the continued influx of gold from abroad it should be borne in mind continuously that the danger of credit and price inflation and a period of undue speculative activity is always present. One of the best safeguards against any such danger is the possession by the Federal reserve banks of a large portfolio of readily saleable securities. Such a portfolio should be obtained however, without encouraging the very speculation which the portfolio is designed to combat, and without affecting injuriously the market for government securities.

## INDEX OF EXHIBITS.

(A) Statement showing United States Government Securities purchased for Special Investment Account for the Federal Reserve System and their apportionment to all Federal Reserve Banks.

(B) Statement showing purchases of bankers acceptances by Federal Reserve System and their allotment under the distribution plan.

(C) Comparison of earning assets held by all Federal Reserve Banks from December 27, 1922, to April 23, 1924.

(D) Statement showing redistribution of Open Market Investments of Federal Reserve Banks under Committee's Action of February 8, 1924.

(E) Statement showing estimated expenses as reported by all Federal reserve banks and amount of earning assets required to cover such expenses for the year 1924.

(F) Chart showing money rates in the New York and London Markets 1922-24.

(G) Chart showing the relation between prices, bank deposits and United States gold stock plus earning assets of the Federal Reserve Banks.

Statement Showing United States Government Securities  
 Purchased for Special Investment Account for the Federal  
 Reserve System and their Apportionment to all Federal  
 Reserve Banks at the Close of Business, April 30, 1924.

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## Apportionment.

	Cert of Ind.	Treasury Notes	Total
Boston	\$ 4,957,500	\$ 15,020,900	\$ 19,978,400
New York	15,973,500	48,370,600	64,344,100
Philadelphia	2,143,500	6,825,500	8,969,000
Cleveland	5,748,000	17,415,000	23,163,000
Richmond	972,500	2,811,700	3,784,200
Atlanta	0	0	0
Chicago	9,601,500	29,097,800	38,699,300
St. Louis	1,830,000	5,135,800	6,965,800
Minneapolis	4,120,500	8,013,200	12,133,700
Kansas City	2,741,500	7,930,700	10,672,200
Dallas	2,560,000	11,533,600	14,093,600
San Francisco	<u>5,381,000</u>	<u>16,302,300</u>	<u>21,683,300</u>
	\$56,029,500	\$168,457,100	\$224,486,600
Purchases for future delivery and apportionment			<u>10,000,000</u>
			\$234,486,600

## Recapitulation of Purchases.

Made by	Amount
Boston	\$ 8,748,500
New York	218,307,000
Philadelphia	2,029,500
Cleveland	340,000
Richmond	600,000
Atlanta	1,144,000
Chicago	7,150,000
St. Louis	761,600
Minneapolis	113,000
Dallas	130,000
San Francisco	<u>1,163,000</u>
	\$240,486,600
Sold from System a/c to Treasury	<u>6,000,000</u>
	\$234,486,600

## Recapitulation of Purchases by Maturities.

June 15-16, 1924	\$19,315,200
Sept. 15, 1924	30,840,500
Dec. 15, 1924	22,544,000
March 15, 1925	68,974,000
June 15, 1925	21,950,000
Dec. 15, 1925	25,188,000
March 15, 1926	12,289,900
Sept. 15, 1926	6,710,000
March 15, 1927	21,004,500
Dec. 15, 1927	<u>5,670,500</u>
	\$234,486,600

Statement Showing Purchases and Allotments of Bankers  
Acceptances since the Inauguration of the Distribution  
Plan December 12, 1923, to April 23, 1924, Inclusive.

(000 Omitted)

	Purchases	Allotments	Amount over or Short of Pro Rata Share.
Boston	\$ 26,174	\$ 37,403	\$ 839 Over
New York	316,081	87,550	4,941 Short
Philadelphia	62,040	40,297	5,767 Over
Cleveland	3,626	50,481	42 "
Richmond		(given to Dallas)	
Atlanta	10,078	10,647	0
Chicago	13,259	67,793	1,054 Short
St. Louis	830	8,658	144 "
Minneapolis	232	10,297	103 "
Kansas City	0	14,792	196 "
Dallas	1,766	74,609	315 "
San Francisco	<u>6,589</u>	<u>38,148</u>	<u>75 Over</u>
Total	\$440,675	\$440,675	\$6,723

Richmond began participating Feb. 20 but their allotments given to Dallas.



Atlanta began participating Feb. 20, and discontinued  
taking allotments April 9.

St. Louis began participating January 24

Kansas City began participating February 6.

Above figures include special orders during  
the period of:

\$10,000,000	for	Cleveland
3,006,000	"	Minneapolis
7,000,000	"	Kansas City
<u>55,042,000</u>	"	Dallas
\$75,048,000		

which were completed as follows:

\$ 2,500,000	Atlanta portfolio
9,001,000	Philadelphia "
3,006,000	Dallas "
16,445,000	New York "
<u>44,096,000</u>	Special purchases in N.Y. market
\$75,048,000	

Comparison of Earning Assets Held by All Federal Reserve  
Banks from December 27, 1922 to April 23, 1924.

(000 Omitted)

Monthly -1922-	Total Earning Assets.	*Government Securities	* Bankers Acceptances	Bills Discounted
Dec. 27	**\$1,322,061	\$445,883	\$246,293	\$629,885
-1923-				
Jan. 31	1,139,552	353,735	188,566	597,251
Feb. 28	1,166,512	363,074	207,678	595,760
Mar. 28	1,203,720	249,409	254,251	700,060
Apr. 25	1,104,489	193,810	274,041	636,638
May 29	1,178,156	189,288	257,318	731,050
June 27	1,114,219	134,976	204,225	774,963
July 25	1,033,697	96,284	176,864	760,539
Aug. 29	1,082,553	93,530	173,485	815,518
Sept. 26	1,126,334	91,885	172,124	862,008
Oct. 31	1,180,652	91,837	204,698	883,800
Nov. 28	1,167,999	84,460	289,004	794,381
Dec. 26	1,297,775	104,158	336,415	857,151

Monthly -1924-		Government Own Purchases	Securities Special Investment account	Bankers Acceptances	Bills Discounted
Jan. 30	914,881	73,137	47,635	271,792	522,307
Feb. 27	950,801	71,911	83,890	263,310	531,690
Mar. 26	942,080	77,463	179,793	202,458	482,315
Apr. 2	1,008,388	77,562	187,293	213,772	529,660
" 9	996,119	81,017	187,886	197,606	529,559
" 16	912,968	75,781	190,886	176,680	469,570
" 23	887,613	75,909	198,386	140,424	472,843
Net Change Dec. 27, '22 to Apr. 23, '24	434,448	171,588		105,869	157,042

\* Including sales contracts.

\*\* Excluding \$12,000,000 Pittman Act Certificates  
redeemed December 31, 1922.

Statement showing Redistribution of Open Market Investments  
of Federal Reserve Banks under Committee's Action of  
February 8, 1924.

Date	Selling Bank	Amount		Receiving Bank.
Feb. 18	N. Y.	\$4,000,000	Bills (portfolio)	Kansas City
" 20	Rich.	7,135,000	" (aggregate daily allotment of bills given up Feb.20 to date)	Dallas
" 21	Phila.	5,000,000	" (portfolio)	Dallas
" 21	N. Y.	5,000,000	" "	Dallas
" 21	Phila.	7,484,100	Gov. Sec. (aggregate daily allotment of securities given up Feb. 21 to Mar. 17)	Dallas
Mar. 1	Rich.	4,042,600	" " (aggregate daily allotment of securities given up Mar. 6 to date)	Other participating banks
" 6	Atl'a.	4,155,900	" " (aggregate daily allotment of securities given up Mar.6 to date)	Other participating banks
" 17	Dallas	3,000,000	Bills (portfolio)	Minneapolis

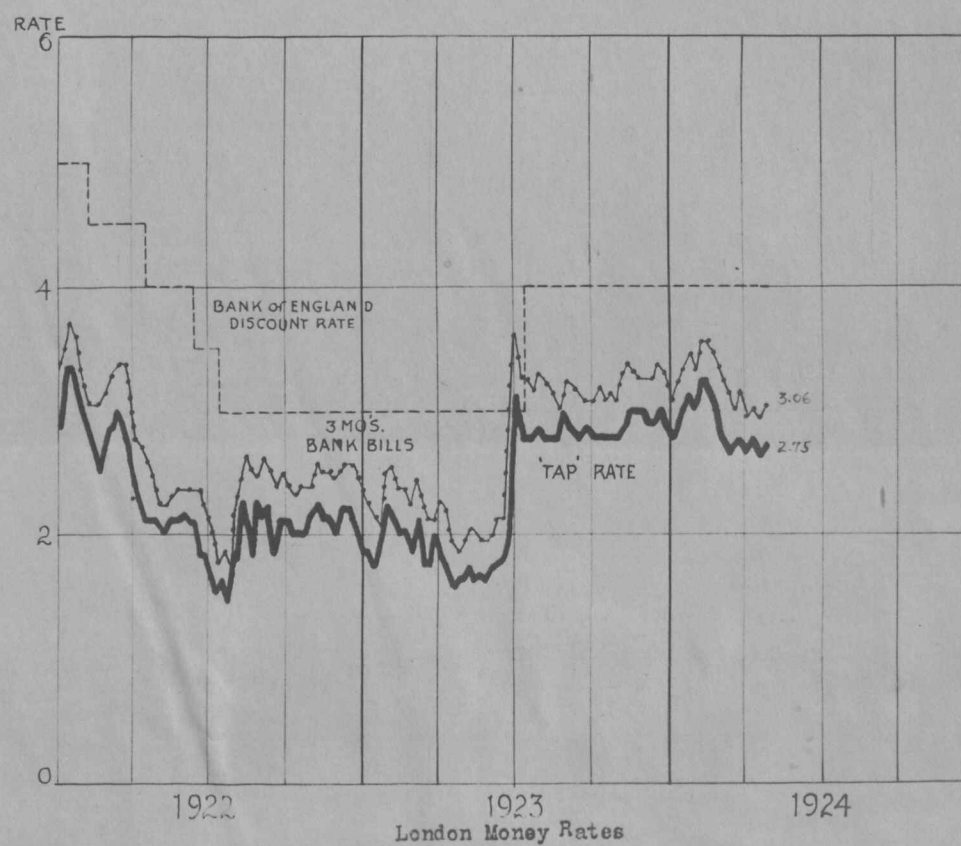
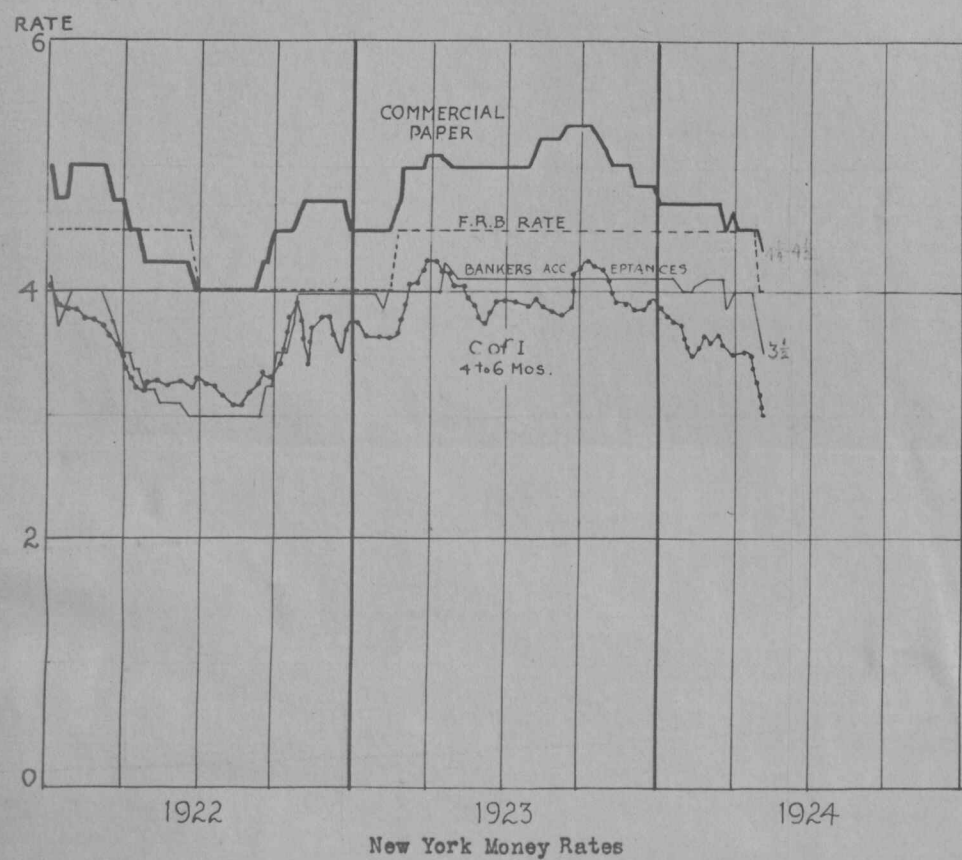
Mar. 17	Phila.	2,884,800	Gov. Sec.	(aggregate daily allotment of securities given up Mar. 17 to Apr. 2)	Minneapolis
Apr. 7	Atlanta	5,203,900	" "	(participation previously apportioned)	50 per cent Minneapolis 50% Kansas C.
" 9	St. Louis	78,000	" "	(aggregate daily allotment of securities given up Apr. 9 to date)	Other participating banks
		<hr/>			
		\$47,984,300			

EXHIBIT "E"

STATEMENT SHOWING ESTIMATED EXPENSES AS REPORTED BY ALL FEDERAL RESERVE BANKS AND AMOUNT OF EARNING ASSETS  
REQUIRED TO COVER SUCH EXPENSES FOR THE YEAR 1924

Expenses	Boston	New York	Philadelphia	Cleveland	Richmond	Atlanta	Chicago	St. Louis	Minneapolis	Kansas City	Dallas	San Fran.	Total
Estimated Current Expenses	\$ 2,132,000	\$ 6,735,000	\$ 2,632,000	\$ 2,720,000	\$ 1,650,000	\$ 1,344,160	\$ 4,405,000	\$ 1,500,000	\$ 1,230,170	\$ 2,016,248	\$ 1,380,000	\$ 3,049,000	\$ 30,793,578
Estimated Dividends	480,000	1,800,000	618,000	760,000	350,000	273,950	925,000	300,000	210,000	272,982	251,429	475,000	6,716,361
Estimated Reserve for De- preciation, etc.	<u>150,000</u>	<u>1,760,000</u>	<u>100,000</u>	<u>850,000</u>	<u>200,000</u>	<u>258,527</u>	<u>657,197</u>	<u>100,000</u>	<u>391,180</u>	<u>509,720</u>	<u>655,000</u>	<u>1,000,000</u>	<u>6,631,624</u>
Total Estimated Expenses	<u>\$2,762,000</u>	<u>\$10,295,000</u>	<u>\$3,350,000</u>	<u>\$4,330,000</u>	<u>\$2,200,000</u>	<u>\$1,876,637</u>	<u>\$5,987,197</u>	<u>\$1,900,000</u>	<u>\$1,831,350</u>	<u>\$2,798,950</u>	<u>\$2,286,429</u>	<u>\$4,524,000</u>	<u>\$44,141,563</u>
<u>Earnings</u>													
Earning Assets at 4% Required to Cover Estimated Expenses	69,050,000	257,375,000	83,750,000	108,250,000	55,000,000	46,915,925	149,679,925	47,500,000	45,783,750	69,973,750	57,160,725	113,100,000	1,103,539,075
Average Earning Assets Held Weekly Jan.2 to Apr. 23/24	<u>65,952,000</u>	<u>198,639,000</u>	<u>84,456,000</u>	<u>98,187,000</u>	<u>58,558,000</u>	<u>59,130,000</u>	<u>121,279,000</u>	<u>44,894,000</u>	<u>32,578,000</u>	<u>48,607,000</u>	<u>58,013,000</u>	<u>89,803,000</u>	<u>960,096,000</u>
Average Holdings of Earning Assets Jan.2 to Apr. 23/24 in Excess of Estimated Requirements			<u>\$ 706,000</u>		<u>\$3,558,000</u>	<u>\$12,214,075</u>					<u>\$852,275</u>		<u>\$17,330,350</u>
Average Holdings of Earning Assets Jan.2 to Apr. 23/24 Short of Estimated Requirements	<u>\$3,098,000</u>	<u>\$58,736,000</u>		<u>\$10,063,000</u>			<u>\$28,400,925</u>	<u>\$2,606,000</u>	<u>\$13,205,750</u>	<u>\$21,366,750</u>		<u>\$23,297,000</u>	<u>\$160,773,425</u>
													Average Earning Assets Short of Requirements
													<u>\$143,443,075</u>
Actual Holdings of Earning Assets April 23, 1924	\$54,258,000	\$145,147,000	\$71,377,000	\$100,538,000	\$70,120,000	\$54,129,000	\$120,000,000	\$46,653,000	\$41,021,000	\$49,678,000	\$45,851,000	\$87,901,000	\$887,613,000

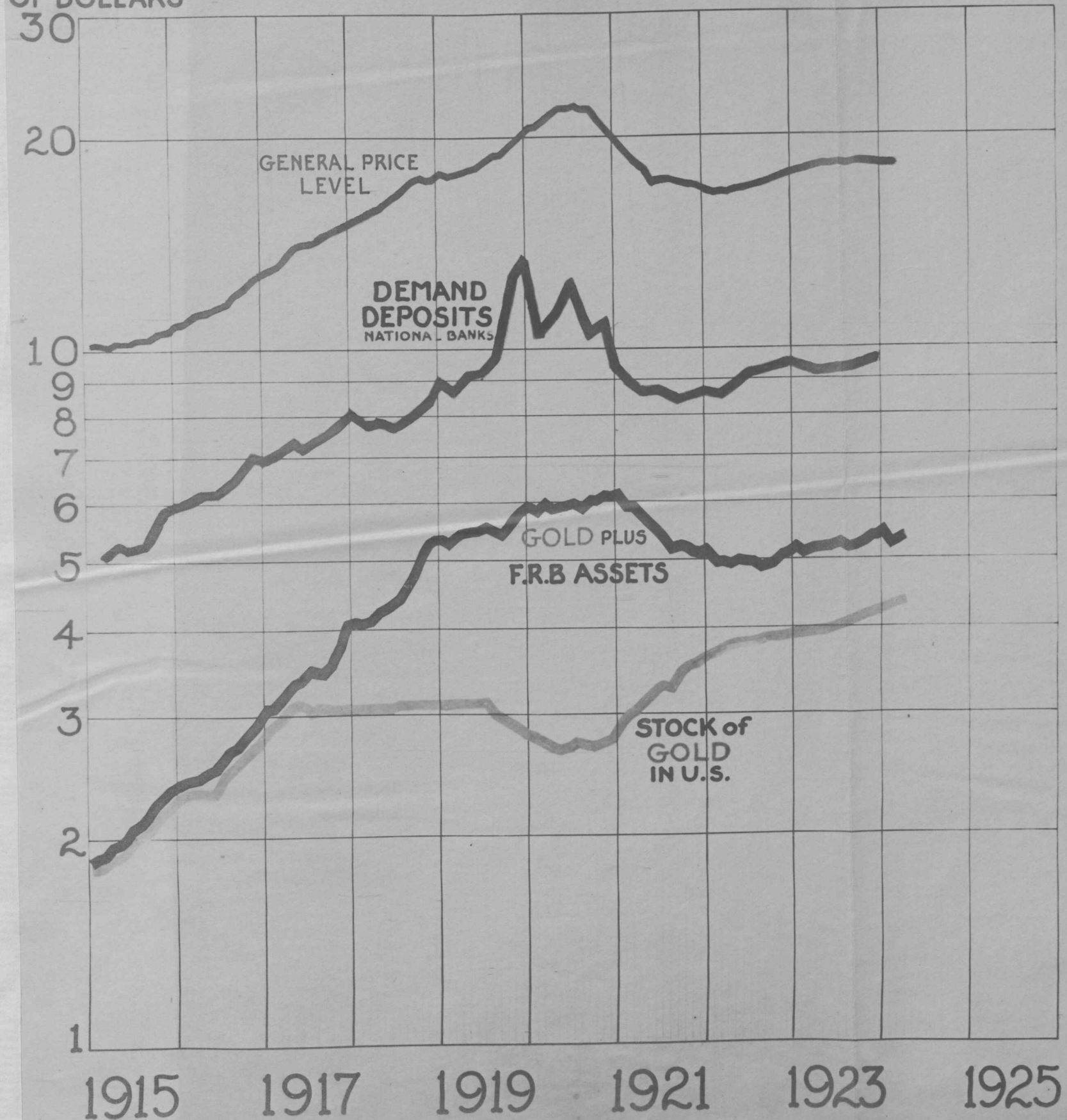
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# GOLD, BANK DEPOSITS, & PRICES

EXHIBIT "G"

BILLIONS  
OF DOLLARS





11

Governor Norris: The footing at the bottom of the page, the total of \$171,000,000 government securities should be plus instead of minus, should it not?

Deputy Governor Case: It certainly should. I notice that this dates back to December, 1922, and not 1923.

Governor Norris: Oh, I see.

Deputy Governor Case: I think that should have been December, 1923.

Governor Harding: I would like to ask about the statement in the middle of page 2, where it says the total earning assets of the Federal reserve system have declined approximately \$250,000,000, and where you say that should be \$400,000,000. It is not very clear from the text because it goes on to say: "Increases in holdings of U. S. securities have been more than offset by a

decrease of \$100,000,000 in holdings in bankers acceptances, and of \$450,000,000 in discounts and advances. That makes \$450,000,000, but taking into consideration the two hundred odd million that you have purchased, it makes that \$250,000,000 figure correct as you first had it.

Deputy Governor Case: That is not very clear. You are quite right. I did not see these exhibits until this morning. They just came in. I saw the text on Friday. It is a fact that in Exhibit C you get the complete picture, you take December 26, 1923, and it shows total earning assets of \$1,297,000,000, while in April there are \$887,000,000 a reduction of about \$400,000,000, showing the net change as compared with 1922. I think what we are interested in is a comparison with December 26, 1923, and that shows \$410,000,000.

The Chairman: Is that point cleared up to your satisfaction, Governor Harding?

Governor Harding: Yes, Mr. Chairman.

Deputy Governor Case: It is interesting to note that while purchases of Government securities from December 26 have increased so largely, the bankers acceptances have gone off from \$336,000,000 to \$140,000,000, nearly

\$200,000,000, and the total earning assets have gone off nearly \$400,000,000, so that our purchases did not increase the earnings assets of the System.

Exhibit E shows the estimated expenses reported for all Federal reserve banks and the amount of earning assets to cover such expenses. The first block there shows the total estimated expenses, including dividends, reserve for depreciation, and then, under the caption of earnings, the earning assets at four per cent required to cover the estimated expenses and the average earning assets held since January, 1922. Then below, at the foot of the page, it shows the actual holding of earning assets as of April 23rd, and practically in every instance, with the exception of Cleveland and Richmond, the amount of actual holdings is way below what the average has been. Cleveland and Richmond appear to be up, and so are St. Louis and Minneapolis, apparently.

The Chairman: What is the pleasure of the conference with regard to this report as submitted and read?

Governor Norris: Hadn't we better discuss the two questions suggested in the report before adopting any motion on it?

The Chairman: What are those suggestions, Governor Norris?

Governor Norris: Nos. 2 and 3 on the program, suggested by San Francisco.

The Chairman: If that is the wish of the conference, that is all right, Governor Norris, but I do not think it is necessary in dealing with this report.

Governor Norris: What San Francisco prefers? Would you prefer to have the report adopted and then discussed afterwards, or discuss it first, Governor Calkins?

The Chairman: If there is no objection on the part of the Conference, the report, as submitted and read, will be approved.

We will pass now to Topic 2.

Effect of operation of this committee and the desirability of their continuance.

That is submitted for discussion by San Francisco.

Governor Calkins: The sub-headings 2 and 3 are one topic. They were put on the program for the purpose of provoking, if you please, discussion of those questions, rather than for the purpose of advancing any very definite views about them. It appears to us that so long as the

operations of this committee are tied up with the question of earnings by the banks, that the operations of the committee will be hampered, and, to a considerable extent, will be ineffective. To be sure, it has been pointed out to me that the Attorney General has rendered an opinion that Federal reserve banks may pay dividends from accumulated surplus, and I have no doubt about that, that is, about the legal effect of it; that question has been put up to the Federal Reserve Board, and the Board replied in effect, as I understand it, that it would not pass upon the question as to whether a Federal reserve bank may pay dividends from accumulated surplus until the question was asked as applying to payment of dividends at a specific time.

The inevitable consequence of the consideration of the directors of the various banks of the question of earnings is that they reach, I think in all cases, a position where they are reluctant to consider the possibility of discontinuing dividends, and if they were assured by a ruling of the Federal Reserve Board that they might pay dividends from accumulated surplus, ~~then~~ the question of investment policy could be discussed without the hampering question of dividends in their minds.

I therefore think that it is practically difficult, perhaps impossible, to carry out an investment policy such as that which has been discussed, to its full and logical extent, unless the question of the payment of dividends is disposed of. It appears that the operation of the banks, when they are operated with the object in the minds of the directors to earn sufficient to pay dividends will, in most cases, interfere with the operations of this committee. In other words, if one of the Federal Reserve Banks San Francisco, for instance, is short of earning assets and requests the committee to make a special purchase for it in order to bring its earning assets up to a volume sufficient to make earnings to meet expenses and dividends the committee will then be faced with the question of whether it is at that time desirable to increase purchases or not. The committee appears to have reached the con-

clusion that it should be relieved of that obligation, which means that the banks should contemplate operation regardless of earnings.

The further suggestion is that unless the question of earnings is disregarded and the open market investment policy of the banks is carried out without considering that question, then the result will be that the system will put money into the market when it is easy, and take it out of the market when it is less easy, or when the tendency is toward tightening up, which is exactly the reverse of what is desired, as I see it. In other words, if we are to fix our minds on the question of earnings, and our earning assets get down in volume, we will want more assets probably at a time when the market should not be disturbed by the purchase of government securities or other securities. On the other hand, if the discount demands increase and we want to dispose of our earning assets at a time when they should not be put into the market, the only way that we can so carry out a logical and effective open market policy is by the entire disregard of the question of earnings.

Governor Fancher: I think all the members of the

Open Market Investment Committee have fully appreciated that our operations were not on a normal basis; that we were asked, in fact, almost compelled, to divest ourselves of all of our government securities and then we determined to accumulate a substantial amount in our portfolio; that decision was arrived at at a time when money was in a period of ease, and these purchases have been made in the face of a rather easy money market, and the operation would have been more normal had we begun to accumulate the portfolio in the early part of the fall of 1923, and our position would appear to me to be more normal because we might then have been in a position to lap up some of this very easy money that is likely to appear in the immediate future, and for the sake of having something that we can exert some influence in the market with, if we really have to go into the market at times when it is not a natural operation.

Governor Calkins: That is the question exactly. Won't that be the question in almost every instance? At the time when the Federal reserve banks are disposed to go into the market, won't that be a time when they should not do so; and at a time when they are disposed to take



money out of the market, that will be a time when they should not be doing so. That will be true as long as they center attention upon earnings. That was argued at the time this policy was discussed before, that the operations of the Open Market Investment Committee might be so carried on as to avoid fluctuation in discount rates; in other words when the market was unduly easy we might take the money out of it, and when it was low we might put some money into it. As a matter of fact the operation of the committee has been along exactly opposite lines; it has put money into the market when it was unduly easy and it will, contrawise be taking money out of the market when the market is beginning to tighten. I have always thought it was a mistake for the Federal Reserve System to dispose of the large investments in government securities at the time they were disposed of and if it was a mistake to do that at that time it was also a mistake to go back into the market and buy 200 million dollars worth at a time when there was no necessity for it. The fact that it hasn't had any appreciable influence upon rates is indicated by the reduction of the New York rate to four per cent.

The Chairman: I would like to say on behalf of the committee that the questions you have raised have been very carefully considered, and that the statements you have made are approximately correct, although perhaps a little extreme. This committee had wished upon it a job of going out and making investments at a time when the market situation was not favorable. They have done the best they could. The committee was very strong in its contention that a mistake was made in reducing the holdings in Government securities from upwards of 600 millions down to practically nothing, and was also strongly of the opinion that if we had been permitted to have retained perhaps 300 million of those at that time, that on March last, when the market was **shot** to pieces and call money went down to two and a half per cent, that this committee would have been functioning and functioning beautifully along the lines that were intended. Furthermore, the committee has given very careful consideration to this whole question that you have brought out, and we have endeavored to operate with the least possible disturbance.

I feel this way about it, and I should like to go on record to this effect, that one of two things has to

be done by the Federal reserve banks! They have either got to reverse themselves with respect to the very liberal services they are offering to member banks and absorbing expenses, or they have got to ultimately go into the market and buy something for earning purposes, and that something, under present conditions, if the market were advantageous, would be government securities. I would like to say further that we feel when the time comes, not now, that the twelve units will act together--- remembering that the responsibility of this committee is broad, and that we expect the committee to be the medium through which any transactions in open market operations are carried on; and I would like to say when the market conditions do reverse themselves and opportunity presents, that it would not be a bad thing for this organization to consider following the example of Philadelphia, for instance, and possibly Minneapolis, of investing a good portion of the capital and surplus in government securities of longer maturities for earning purposes. We must either do that or reverse ourselves in the matter of undertaking to absorb expense, the aggregate of which is at present enor-

mous and is disturbing.

Governor Calkins: Let me say that my remarks implied no criticism of the committee. The committee was carrying out a policy adopted by the conference. The question is whether the policy was right, and not whether the committee's actions were right.

The Chairman: Anything I have said was not intended to convey that belief. We have had a problem which has been a very difficult thing to handle, and the committee has succeeded as best they could; but we have put money into the market at times when the market ought to have had money taken out of it. I think Mr. Case will agree to that.

Deputy Governor Case: No, I do not agree to that altogether, Mr. Chairman. If I may just say a word on that, I fully agree with what Governor Calkins says, and I believe that is the opinion of practically every one of the governors, that a mistake was made in practically forcing the Federal Reserve Banks to divest themselves of this substantial portfolio of government securities a year or two ago. That was a mistake; but we have got to keep in mind that the system is new, relatively, and I pre-

sume we shall make more mistakes, and I hope we shall profit by them.

In inaugurating this policy I recall that Governor Strong stated to the Federal Reserve Board, and I presume to this conference, that if this program be approved he felt that this portfolio of government securities would be acquired without materially increasing the earning assets of the System. In other words, it was not his purpose, in recommending this, to start out and buy a large portfolio solely with a view of increasing the earning assets. It was the thought that we might have something that could be used, sold in the market when occasion required, and it appears that the only thing that we can acquire and so use is government securities in the portfolio. Now, then, as has been shown, while we have acquired something less than 250 millions in government securities, the earning assets of the system have been materially reduced. In other words, we are in a period of business recession. Now, I do not quite agree with the Chairman's view of it. I think he takes a little pessimistic view with regard to continuing our services to member banks when we happen to be in a period such as the present one, which is not a

very happy situation. We have government assets--- we have charges, rather, that require total earning assets of ten or eleven hundred million dollars, and at the present time we have about 800 millions in earning assets; so that if we were to adopt the policy that we must have sufficient earning assets to cover expenses and dividends we would at this time have to go out and buy \$300,000,000 worth of securities, put \$300,000,000, if it were possible, additional funds into the market. I suspect that we might buy five or six hundred millions more of government securities without increasing the earning assets of the System one dollar at a time like this, because your bills and your direct loans would run off. But I do think the idea of having in the portfolio some credit instrument that can be sold is a principle that is very desirable, and, as I have stated, the short time governments appear to be the only thing that we can have in that fashion.

Governor Calkins: You have injected once more the same question into the discussion. You have stated what was said at the conference last fall, that unless the Federal reserve banks decrease what are called voluntary services and the expense incident to them, that it would

necessary to go insistently into the open market, and that comes right back to the question of whether the banks must at all times earn their expenses and dividends. If we continue to render these voluntary services--- and I inject right here the opinion that we should continue <sup>them</sup>--- that will raise the question of whether we must earn enough to carry our expenses and dividends. The Federal Reserve Bank of San Francisco, and I think this is true of most of the others--- has sufficient accumulated surplus to pay dividends from now on for forty to fifty years hence. There should be no anxiety in regard to that, and that question should be removed from the discussion, and the operations of the System should be carried on free from the hampering, and not only hampering, but from the actually determining factor of earnings, or otherwise we never could do any effective work in open market transactions.

Governor Norris: I suppose we are all familiar with the fact that the Attorney General has given an opinion that dividends may be paid from accumulated surplus. Is there any reasonable doubt about it? I understand Governor Calkins to say that the Federal Reserve Board has

said that they would not make a specific ruling on the subject until the question was actually raised; but is there, or can there be, any doubt as to what their ruling will be when the question is raised?

Governor Calkins: There can be doubt until there is a ruling, as I see it. The view seems to be held by some members of the Board, perhaps by all of them, that the broad provisions of the law will cover some things which are in doubt. The Board of Directors of the San Francisco Bank passed a resolution some time ago expressing the belief that the Bank should earn its expenses and dividends, and in advising the Board of that they were informed that the resolution might not have been adopted in the form in which it was adopted by the Board if the directors were assured that they could continue paying dividends regardless of whether they earned them or not. The Board replied, as I have stated, saying that they would not rule upon that question until it was raised in a specific case.

The Attorney General of the United States, under date of April 27, 1922, rendered an opinion, which ends "I therefore concur in the conclusion reached by the



General Counsel for the Federal Reserve Board, that a bank which has accumulated surplus has legal authority under the provisions of Section 7 of the Federal Reserve Act to pay out of such surplus funds to its stockholders, the member banks, a dividend for that year in which the current earnings of the Federal Reserve Banks are insufficient for this purpose;" but that does not dispose of the question of whether the Federal Reserve Board might, under its general authority, decline to permit it.

The Chairman: Our discussions in regard to this matter have, I think, always been based on the assumption that if necessary we could pay dividends from our accumulated surplus. Governor Calkins, I would suggest that in view of there being some doubt in your mind, and perhaps in the minds of others, that if it is agreeable to you you formulate a motion asking the Federal Reserve Board to act in advance in advising the Federal Reserve Banks as to whether they will approve of the payment of dividend from surplus in case conditions make it necessary or advisable to do so.

Governor Calkins: I think, Mr. Chairman, that before making such a request of the Board, the question should

be more extensively examined, than it has been examined by this conference. For instance, is it the view of this conference that, if we find ourselves in such a position that we are not earning enough to cover expenses and dividends we should curtail our services? As a last resort, should we do that? Should we contemplate a radical decrease in the services rendered to member banks because of lack of earnings? Are those services justified and should they be continued, or are they without justification and should they be discontinued? I think that is the vital part of this discussion.

The Chairman: You are now touching upon a matter that will come up later in this conference, a matter that has been considered very carefully by Governor Fancher's committee on Voluntary Services, and I would assume we would like to let this matter rest in abeyance until we hear from that committee.

Governor Calkins: I have in mind the report of that committee, which I have read. It is a very excellent report and I will be glad to move its adoption without the change of a syllable in it, so far as I recall it, but I think this is the time to discuss the related question of

earning assets.

Governor Seay: The report to which you refer, Mr. Chairman, covers only one special voluntary service, and not voluntary services in general.

The Chairman: It will cover them before the committee is through. I think the Committee will have some recommendations to make, will it not, Governor Fancher?

Governor Fancher: We hope to make a supplementary report that will cover the question of expenses involved in the handling of currency, safe keeping, and leased wires. Those are the other three items specifically given to the committee to give consideration to and on which to make recommendations. There will be a supplemental report covering those three topics before the adjournment of the Conference.

Governor Calkins: In order to start the thing, if possible, I would like to express this further view: That if all twelve individual Federal reserve banks are not to be assured, or are not sure, that they may pay dividend regardless of earnings, it would seem to me to be imperative that the control of investments by these banks be returned definitely and without any restriction to the

banks themselves, and thereby these individual banks be left to handle the question of whether they will earn dividends or not free from any control by an open market investment committee. That is really the heart of the matter, as I see it.

Governor Wellborn: Since it has been suggested that we ask the Board's advice about whether we can pay dividends from surplus, I think it would be well for this body to discuss that matter very fully before we ask an opinion by the Board. I, myself, think it would not be desirable to pay dividends from the surplus, that it would undoubtedly weaken the system and there may be times when we may need that surplus. We came very near needing it in 1920; in fact we did need it. It strikes me that we should discuss that pretty fully before we ask an opinion of the Board on the subject. I feel that it would probably be better to cut off some of the voluntary services which we might be able to do, or discontinue the establishment of more branches.

The Chairman: At the previous conference the meeting was canvassed for the purpose of ascertaining, as I remember it, an expression of the views from the twelve banks as

to the policy they felt should be pursued, and at that time the banks, as I remember it, were all in favor of adjusting earning assets in such a way as to secure earnings sufficient to meet expenses and other commitments, including dividends, and they were opposed, as I remember it, in principle, at least, to the payment of dividends from accumulated surplus. It might be helpful if we can re-canvass the situation, because it is possible there may have been some changes in the minds of those present.

Governor Young: Mr. Chairman, the matters of earnings is a serious thing with the Federal Reserve Bank of Minneapolis. We have large expense there. It has cost us almost \$150,000 a year. We may get some of that back, but I doubt it. We have to rely upon the market in Minneapolis to earn sufficient to pay our dividends. As Governor Calkins says, he has a surplus sufficient to permit him to pay dividends for forty or fifty years. As near as I can estimate it the Federal Reserve Bank of Minneapolis could pay dividends for about seven years from the surplus that we have. But for the life of me I cannot see how the member banks in our district are going to borrow an average of \$40,000,000 continually

from us, and that is what we need to earn to offset just our expenses and dividends, to say nothing of the losses we might have.

Governor McKinney: When you say six or seven years you mean without regard to possible losses?

Governor Young: I am eliminating losses, and I will say this, that if the banks of our district borrow an average of \$40,000,000 from us continually that we will cease to be a Federal reserve bank, in my opinion. There is only one solution of this question, in my opinion, and that is to cut off a great number of the voluntary services that we have in the Federal Reserve System.

Governor Calkins: What is your surplus, Governor Young?

Governor Young: Seven million.

Governor Calkins: And your annual dividends?

Governor Young: About \$230,000.

Governor Calkins: And twenty times that would be---

Governor Young: That is all right, but if your average for the year of income is \$540,000 and your expenses \$1,600,000 now--- and they are going to be a hundred thousand more when we get into the new building--- there<sup>is</sup>

a million dollars short each year.

The Chairman: I will go around the table on this question to ascertain whether or not the banks here represented are in favor of paying dividends from their surplus, provided their earnings will not permit them to do so, and if they are in favor of it whether they are in favor of it as a continuing policy, or whether they are in favor of it simply once or twice or something like that. Furthermore, as to whether or not they are still in favor, or whether their views have been modified, of going into the open market in order to secure these earnings if necessary.

Governor Calkins: Mr. Chairman, I was going to ask you to add to your statement something comparable to what you have stated. The question is not one question, but two or three questions combined. I think it desirable to bring out an expression from those present as to all of those questions, because it is not simply one question.

The Chairman: I will be glad to have your suggestion as to the way in which it should be taken up.

Governor Calkins: I do not mean to say that they should not be included in one answer, perhaps, but if they

are, the answer must be given in such a way as to indicate what the policy is to be with regard to A, B, and C, for instance. A, earning enough to pay dividends without curtailment of services now rendered; B, earning enough to pay dividends with considerable curtailment of services rendered, and C, either A or B, resorting to the open market to make money.

The Chairman: I would like to see the question approached from the standpoint of continuing the services as they are now rendered.

Governor Norris: Perhaps putting the question in that form would meet both views, Governor Calkins: Assuming that earnings are insufficient to meet expenses and dividends, would you: (a) curtail services, (b) resort to the open market, or (c) pay dividends from surplus, which will enable each member here to say which of these three things he prefers doing.

The Chairman: Governor Bailey, I will ask you to start the discussion.

Governor Bailey: The Federal Reserve Bank of Kansas City is in favor of doing away with the non-cash collection service, which we find a very expensive one. While the



answers to the questionnaires sent out are rather indefinite, a close canvass of the majority of member banks shows that they are not in favor of it. It costs us \$60,000 a year and it is an annoying thing. I will just illustrate the situation we are in by what came up the other day in the northwest. Up around Seattle and Everett they have large canning factories canning fruit and fish and they have a preferential rate. They sell to concerns in southern Kansas, Wichita, Coffeyville, and towns of that kind. They send a traveling man out and he will sell goods to a wholesale house at Dodge City, 150 miles from Wichita, and another at Coffeyville, Oklahoma City, and so forth, and they will make up a carload of stuff and ship it down to Wichita to a broker, and they will make a sight draft attached to one bill of lading--- as many sight drafts as there are men who have bought the stuff and those they send to us for collection. They will send a sight draft on the First National Bank of Wichita with instructions that they are not to deliver the bill of lading until all these drafts are paid. We have to write down the towns upon which they are drawn and the amount

represented in each town, and they cannot make bill of lading until that is all done, and sometimes twelve or fifteen sight drafts against one bill of lading will be sent, which necessitates us notifying every one of these different towns where the little jobbing house is that has bought a part of the stuff--- it is a complicated thing and involves the writing of a lot of letters, and it sometimes holds up a bill of lading two or three weeks. Then another thing, this collecting business is getting to be a regular dunning agency through us. We have lots of drafts sent to us for less than a dollar. I had a list made out and I discovered that I did not have it with me and have wired for it. It ought to be here this morning. The drafts run from 50 cents and 75 cents to a dollar and two dollars--- half of them are below ten dollars, and it keeps our boys out on the streets going to those places and collecting those items. I don't believe it was ever contemplated, Mr. Chairman, that we were to be a collecting agency of that kind, where we had to go out and come in contact with the public all the time. We believed that it is a part of the regular commercial banking business and that we are taking that business away from them. I believe

it is the most unpopular of all the services that we are rendering, and it is a very expensive one. It is going to grow more and more as time goes on, and this certainly is a place where we can lop off some of the expense.

The Chairman: That is all very interesting, Governor Bailey, but I believe possibly you have misunderstood me. We cannot go into these functions separately, but we will have to consider the matter from the broader viewpoint. If I understand the matter we are going to discuss now it is a question of paying dividends. If we are going to pay them, are we going to do it through a general curtailment of the services rendered, or by resorting to the open market, or are we going to pay dividends from surplus?

Governor Bailey: I want to pay dividends out of earnings, and I want to reduce expenses to the extent of these non-cash collection items, and that is the answer.

The Chairman: And you are going to adjust your investments accordingly?

Governor Bailey: Yes, that is what we are going to do.

Governor Seay: As a rule of conduct, Mr. Chairman,

I should favor paying dividends out of accumulated earnings, if not earned.

Governor Calkins: Cannot we take the questions up in turn and ask each one to answer with regard to A, B and C?

Governor Seay: I am willing to answer them in turn.

Governor Norris: As I understand the question it is which of these things would you do? Governor Bailey says that he would curtail services. Governor Seay says that he would pay dividends from surplus.

Governor Seay: I am willing to answer all three and intended to do so.

Deputy Governor Case: As I understood Governor Bailey, he said he would curtail services, and also resort to the open market to cover, so that he has answered A and B.

Governor Seay: I will take them in order, if that is the wish of the conference.

A is, shall we curtail the services. I am of the opinion that we should not be so vacillating in our practice as to curtail services one year for the simple reason that we have failed to earn a dividend that year. There

ought to be some permanency to our practice in dealing with our member banks. When it comes to curtailing services I think it is a matter of selection as to which service we shall curtail; but I am very firmly of the opinion that because of an unfavorable year and a deficit in our earnings we ought not to be so vacillating as in that particular year to curtail our services that we have been rendering, and, perchance the following year, when our earnings are good, furnish those services. If we curtail in one year because our earnings were not good, and the following year they were good and we put them back, we would be importuned by our member banks to restore the services that we had curtailed, and therefore I do not think we should be in haste to curtail any of the services which we have been in the habit of rendering, but the matter ought to be considered very carefully.

As to the open market, I am also firmly of the opinion that the open market investments of the Federal reserve banks, if they are to be of the service which they were intended to perform, will have to be performed independently of the earnings of the banks. It is a broader principle than mere earnings which lies underneath the performance

of open market functions. There is no doubt in my mind whatever that those functions ought to be performed upon a principle which is entirely independent of our earning capacity.

With regard to question C, Paying dividends out of surplus, I am of the opinion that we should pay dividends out of our surplus when we fail to earn them. I think in the case of a particular bank it might depend upon how far short of earnings their dividends they would come. Our expenses might be very large in a given year, and it would be not only a shortage with regard to dividends, but it would be a failure to earn a portion of our expenses, which might be very large, and if the open market committee is not functioning, then of course in the absence of paper offered to us for rediscount our revenues are going to fall short. It never occurred to me, since we received the communication from the Board that the Attorney General had confirmed the opinion of counsel of the Board that the banks had the right to pay dividends out of earnings, and when under the Act the member banks have the right to receive dividends--- it never occurred to me that there was any question of the authority of the banks to pay dividends.

Of course we cannot say on what ground the Board might withhold its authority, even if it had power to do so. If a member bank has the right to receive, and, as matter of law, the Federal reserve banks have the right to pay, then it seems to me it devolves upon the directors of the Federal reserve banks to pay. As a matter of policy I believe that dividends should be paid out of earnings <sup>surplus</sup> or/ and paid continuously, but I can see how in the case of a particular reserve bank something might depend upon how far short they were.

Governor Harding: Let us assume, for instance, that the Board should take the position that the dividends should be passed if not earned. I take it that under the present dictum they would not make that ruling after some bank had ordered a dividend paid and advised the Board to that effect. But suppose the Board should acknowledge the receipt of a resolution about paying a dividend, and say, "We do not approve; we forbid you to pay this dividend because you haven't earned it." And then, in your opinion what is the probability of some member bank, or group of member banks, instituting legal proceedings on the basis of the right of the ~~reserve~~ bank to pay dividends

the objection of the Board notwithstanding?

Governor Seay: It is quite probable, and I think there would be quite good ground for it. The Federal reserve Board would be placed in the position of having given an arbitrary opinion, which was contrary to the advice of counsel, backed up by the opinion of the Attorney General. Of course, it is not my purpose to dispute the authority of the Board.

Governor Harding: I understand that, but I am just wondering what the attitude of some member bank might be.

Governor Seay: It never occurred to me to doubt the authority and the right to pay a dividend out of accumulated surplus in view of the communication received from the Board.

The Chairman: Did it ever occur to you in the event it became necessary to pay from the surplus that you would have to have permission of the Federal Reserve Board?

Governor Seay: Not after the opinion of their own counsel had been communicated to us and after the Attorney General had considered the Act.

Governor Bailey: What cumulative dividends means is that we expect to pay them, and if we didn't have them it



would go over until we did have them.

Governor Seay: That is a stronger reason why the member banks have the right to receive it if we have an accumulated surplus. It is contrary to common sense to have an accumulated surplus and then allow dividend charges to accumulate---

Governor Bailey: I think the inference is that if you don't pay it this year you will pay it next with accumulated dividends.

Governor Seay: But what is the purpose of an accumulated surplus?

Governor Bailey: To provide against losses.

Governor Seay: To protect against loss, and to give you a fund in years of prosperity out of which to pay dividends. Also it has the effect to strengthen the system, but one of the primary purposes of the accumulation of surplus is to protect yourself in prosperous years against lean years, especially since the dividend has been made cumulative.

Governor Young: I would curtail services for two reasons. One reason is that certain services I have never believed the Federal reserve banks should perform. The

second reason is that to cut expenses I would curtail certain services. As far as relying upon the open market is concerned, to secure sufficient earnings to offset your expenses, I ~~am~~ thoroughly convinced that you could not rely on the open market. We have tried to do it for the last five months and we have not been successful. If we had been successful in going into the open market we would have interfered with the Central Investment Committee, which would have been a mistake. So far as paying dividends out of surplus is concerned, if we were short any great amount at the Federal Reserve Bank of Minneapolis, as we are likely to be, I would not recommend to our directors that they pay dividends out of surplus, for a very good reason. We have five and a half million dollars at the moment tied up in closed banks. We believe the paper will pay out about \$5,000,000, but it represents slow assets at best. We have \$3,500,000 tied up in a building, which is another slow asset, and we consume our entire surplus fund with assets of that character, and I think it would be a mistake for the Federal reserve banks to pay a dividend when they really had to use the reserves of the member banks to do it.

I believe as long as we have these slow assets the Federal reserve banks should not pay any dividends against them, unless they earn them. I do not think my directors will agree with me on that, however. I think they would pay a dividend in the next six months.

Governor Fancher: I quite agree with the statement made by Governor Seay about the curtailment of service, when our earnings are low one year and we feel we have got to economize, and we begin to cut here and there on services rendered to the banks. I think if there is going to be any curtailment of service, that one of the great services we have got to give consideration to is the collecting of checks. The matter of non-cash items is only an incident in the matter of expense, it is only a small incident, while great expense is incurred in collecting the very large volume of checks. If there is going to be any curtailment whereby the Federal Reserve Banks would be benefited in earnings, it has got to be in connection with that great service of collecting the great volume of checks. I feel very strongly that there should not be any curtailment in service.

As to resorting to the open market, manifestly the

open market committee could not function as intended if the banks individually are going to resort to the open market for the sake of making earnings sufficient to meet expenses and pay dividends. If that were to be done the situation with regard to control of the open market is very much weakened. I had supposed, until the question was raised here, that the opinion of the Attorney General permitted us, in the event we failed to make sufficient earnings, to pay dividends from surplus, and I would feel strongly that we should pay from surplus rather than curtail services or resort individually to the open market.

The Chairman: Are you in favor of or opposed to earning your dividends?

Governor Fancher: Speaking for our part, Mr. Chairman, our board are committed to the policy of earning dividends, if possible.

The Chairman: They are firmly committed to it, are they not?

Governor Fancher: Yes, of earning dividends. We are not faced yet with that situation of not earning dividends, because our operations have shown a very comfortable surplus for the first four months of the year. We have

earned a dividend and are comfortable on that point, and the question of having to pay dividends for the current year from surplus does not confront us at the present time.

The Chairman: I believe, Governor Fancher, that you are considering this matter from the standpoint of conditions at the present moment. The time will come again--- we have lost our opportunity for the present. I do not believe anyone here would dare to undertake to break over this thing and go into the open market, because they are working harmoniously with the committee, but just as surely as we have had it in the past we will have it in the future, that is, opportunity to retrieve the strong position we were in a year ago, and when the time comes it should be done.

Governor Fancher: I might say this, Mr. Chairman, that if our Board would consider A and C, for the sake of having sufficient earnings to pay dividends without going into surplus or curtailing service, I do not think our Board would be in favor of discontinuing the service, but would be in favor of continuing it, and if necessary, if we fell short in earnings, pay dividends from surplus.

The Chairman: That is until your surplus was exhaus

Governör Fancher: I beg your pardon.

The Chairman: I say until your surplus was exhausted

Governor Fancher: Of course that is looking a good way into the future. I would not attempt to look ten or fifteen years ahead and say what we might do. I am looking at conditions as they exist today, or as we can judge them in the immediate future.

Governor McKinney: What effect do you think it would have on the public mind for us to encroach too much upon the surplus in order to pay dividends and expenses.

Governor Fancher: We might have to change the policy at that time; but we are not facing that.

Governor Biggs: The first question is as to curtailing services. I am not in favor of curtailing any of the services at the present time. I think we can do away with some expenses that we have, and I think we ought to do away with a great many expenses. Perhaps we have been spending too much money for some of the services, but in a general way I do not think we should curtail them.

With regard to the open market, I feel that we should be permitted to go into the open market as we have been in the last year, not for the purpose of making expenses

altogether, but we are permitted by the Act to do that. I think it was contemplated that we would have fat years and lean years. We are probably going through a lean year now, and maybe in a year or two we will have other fat years, and it is in the fat years that we lay up a surplus. In my judgment the surplus should be used to pay dividends, so long as our surplus is not impaired by frozen loans or bad losses. I would not want to commit myself on a five year proposition, but we would go along in the best possible way and take each year as it comes. At the present time in the Eighth District, I am sure that our directors would pay a dividend even if we did not earn it. I have never felt that we ought to go into that question every day or every week and try to make earnings for a particular week, a particular month or for a year. We are maintaining our dividend at the present time and have a little surplus. Probably we will have some losses in the fall of the year, but we will come back and recoup them no doubt. We do not expect to make money in the fall of the year. If we had a lot of banks that were in bad condition, with frozen loans, to the extent of \$10,000,000 or so, then I would say we would not pay dividends, but we

should operate the bank just as we should operate a commercial bank or any other business, and when conditions were such that I did not think it advisable to pay a dividend I would not pay it.

Deputy Governor Case: With regard to question B, the question of going into the open market, I do not know that I quite got your position, Governor Biggs.

Governor Biggs: I was in favor of going into the market and acquiring investments, not for the purpose of paying dividends, but from time to time buying in the open market as we felt conditions warranted, just as this committee has been functioning in the last year. We have not been participating in it recently.

Deputy Governor Case: Do I understand you to say you think the twelve banks should be permitted to go in separately and buy?

Governor Biggs: Not the twelve banks; no, I do not think so.

Governor Bailey: I do not want to be of record as wanting to do that. We want to function with the committee.

Governor Biggs: I think the committee has functioned all right. They have made some mistakes, but in time



I think it is going to be necessary for us to do that very thing.

Governor Norris: Mr. Chairman, we would not curtail services, we would not resort to the open market, in the sense in which I take it we are discussing it here, but we would pay dividends from surplus. I think the question of paying dividends from surplus is one on which there is scriptural authority, "That all things that are lawful are not expedient." I think that is the situation with regard to the payment of dividends. In the opinion of the counsel of the Board, and in the opinion of the Attorney General there could not be any doubt about the legal right to pay dividends from surplus; but of course conditions might arise where although the legal right to pay dividends would exist, it would be extremely inexpedient to do it. If your surplus was tied up in buildings, in free loans, or if the bank anticipated losses that were going to absorb a large part of its surplus, then, although they had the legal right to pay dividends from surplus, it would be very unwise for them to do it. The same consideration would apply to the Federal Reserve Banks that would apply to any business corporation. We have a trifling

investment in buildings; we have no bad loans, and we anticipate no losses. We have enough surplus to pay our dividends for over thirty years, so we undoubtedly would go on paying dividends for quite an indefinite period.

Governor McKinney: Unless you fail to earn your expenses; but then that would be different.

Governor Norris: We were paying dividends and the residue of expenses out of surplus until the surplus got down to a pretty small amount, although I think that is looking unnecessarily far ahead. Five or ten years from now, if conditions remain just the same as they are now, we might change our opinion; but I do not think it is worthwhile for any of us to look too far ahead. We are really discussing this question with the expectation that within the next three to five years we might have to continue to pay dividends, and would not resort to either of the other expedients.

Governor Wellborn: I think it would be well to curtail some of the voluntary services, and also to cut down some of the expense. We would not be in favor of paying dividends out of surplus. The law provides for accumulated dividends. I do not think it was ever intended that

they should be taken out of surplus. I think the law intended that if we did not earn one year, that is, if we had a lean year, that a good year would make up for it, and therefore they provided for accumulated dividends. I do not know the minds of the Reserve Board but I should not think that they would authorize the Federal reserve banks to pay dividends out of surplus, because, as I understand it, the surplus really belongs to the Government.

Governor Seay: Subject to the right of the banks to receive accumulated dividends.

Governor Wellborn: I think the surplus was really created so as to strengthen the Federal Reserve System.

Governor Harding: Mr. Chairman, at the meeting of our stockholding banks last December by unanimous vote the voluntary services rendered by the Federal reserve banks were approved. The resolution also contained a provision that if possible they should be extended. I think, however, that we would have no difficulty in reconciling our member banks with respect to curtailment of some of the voluntary services, such as the non-cash collection, if we had good reason for it. So far as the dividend is concerned, that has never been very seriously considered

by our board of directors for the reason that so far we have always been able to earn the dividend and we are ahead of our dividend requirements for the past four months

I am quite sure, in view of our position, which is quite like the position of Philadelphia, so far as slow loan and bad debts are concerned, that there is no occasion to hold the surplus intact to provide for any unforeseen contingency. I feel quite certain that our directors, in the event there should come a six months period where the dividends have not been actually earned during that six months, to go ahead and order the dividend paid in any event.

So far as open market affairs are concerned, I express my opinion quite fully at the conference in March, 1923, and I have nothing further to add on that subject except to say that we are entirely in accord with the idea that its operations should be conducted in a broad way as system operations, just as they are now being conducted by the open market committee. That, however, is without any intention on the part of our Board of directors to waive what they regard as a statutory right of the Federal reserve banks to engage in these open market operations.

By their own voluntary act the directors have ordered the operations to be engaged in through the medium of this central committee, but that does not accept the principle that the bank has not the right to engage in open market operations.

The Chairman: Governor McKinney?

Governor McKinney: Mr. Chairman, we do not favor curtailment of any voluntary services. The four items for consideration by the committee at this time, reports concerning which are to be made at this conference, involve rather a negligible amount of expense and require only a negligible amount of earnings. I think about a million dollars in earnings <sup>assets</sup> in our case, will take care of our -- or \$2,000,000--- will take care of the free service that we render, and for the system as a whole I think forty or fifty million dollars will take care of the four items. It seems to me, therefore, in line with Governor Seay's statement, that we should not get panic stricken just because of one year and do away with this free service that we probably would be glad to renew when we again began to expand and more favorable times came again. So far as the open market operations are concerned, the Federal

Reserve Bank of Dallas wants to subordinate its position as much as possible without, as Governor Harding said, waiving any of its legal rights, to the interest of the general situation. We want to help the committee. I might say, though that, as this is a system matter, some of the more fortunately situated banks might grant Governor Young and me some special favors once in a while in order to take care of our peculiar situation.

We have at the present time about three million dollars tied up in assets of failed banks, that is, paper acquired from failed banks, and we have a million set up for losses at the present time. At the present time our demands from member banks are only about thirteen million dollars, and at that rate we are only behind a million dollars a year as against those particular items, of our assets short of dividends and expenses. I apprehend probably our earning assets will not reach over \$25,000,000 this year, and therefore, we are under the necessity, so far as practical, of holding our earnings up to a fairly substantial amount. As Governor Young has said, if we go up in rediscounts in order to earn dividends and expenses in our district, it would be a rather unhappy situation

at this time.

I believe our directors would favor payment of dividends out of accumulated surplus, at least for a while. If, by reason of loss of operating expenses it should become too great, I think probably we would have to change our policy.

The Chairman: Mr. Case, we would like to hear from you.

Deputy Governor Case: Mr. Chairman, with regard to item A, I feel that if the Federal Reserve System is to continue to have the public confidence which it now enjoys, it should not be jumpy. We hold ourselves out as an organization that is designed to produce a certain amount of stability in the situation. We undertake to do that in the matter of interest rates and I certainly think that inasmuch as we must have the good will of our member banks we should be fairly stable in the matter of services that we render. I think if we are rendering any service about which there is some doubt, it is very well, as a matter of principle to consider that; but I am in favor of continuing the present services and not curtailing them in any particular at all, and that unless the matter is

taken up from the viewpoint of principle, it is the wrong thing to do. So I should not be in favor of curtailing services in any respect.

The New York Federal Reserve Bank would not be in favor of going into the open market and attempting to acquire sufficient earning assets to enable it to cover all its expenses and dividends. At the present time we are \$100,000,000 short of the amount sufficient to do that. Our average thus far has been somewhat higher.

We think that would be a mistake. It seems to us that the open market functions, that is, the operations in the open market through the functions of a committee, are wholesome and should be continued for a while. So far as I am concerned, I would be in favor of paying a dividend from surplus, and it seems to me, gentlemen, that there is a matter where we can exercise a degree of stability and not be jumpy.

As I see it, our situation is very much like that of a large, successful corporation. We have had some very fat years, so that today, with \$100,000,000 capital we have \$200,000,000 surplus. Let us take the United States Steel Corporation as an analogous case. They have a large surpl



of five or six hundred million dollars and \$500,000,000 in common stock. I think it is unthinkable for a corporation of that size, with the big earnings that they have had through periods, just as we have had, should quit paying their dividends entirely, and I think for a few years they would do the natural thing. They might eliminate extras, but they would pay dividends from surplus. I think we should follow that course. I think it is the natural course. We all know that, as a result of the big earnings of 1920, we have been charged with being profiteers. Some people haven't gotten that out of their minds up to the present moment. I believe if we have lean periods when it is known that receipts do not cover our expenses and dividends, that it will be wholesome and educational, and I think that the proper thing to do is to pay dividends from surplus.

The Chairman: Before calling on Mr. Calkins, I would state this, that while there is abundant cause, I think, to show the advisability of discussing this whole matter at this conference, there is also no indication of any of the banks being stampeded because of the fact that, temporarily, they are not earning their dividends. I th

however, that it is a very good thing to consider the whole subject. For my part I am not in favor of any general curtailment of the services we are rendering, although before we get through with this conference there may be some minor matters. With respect to going into the open market, I think we all understand that we are in the identical position that the Boston bank is in, according to Governor Harding's statement, that is, that none of us have surrendered our right to go into the open market. That is something, of course, that rests with the Board of Directors of the individual bank. It is true, however, that we have all voluntarily cooperated with this committee and I think we are all going to do that. I believe this, that even though it would be a very inopportune time now to go into the market for the purpose of accumulating anything for earnings, that the time will come again when we will be in a more favorable position and when we will do some possible good by going in. Then I think these banks have gone far enough to justify the belief that it would be wise to lay in a back log, possibly of long time Governments, or whatever may be available; it certainly could do no harm and it might be beneficial to all concerned.

With regard to the payment of dividends, I cannot speak for our board of directors, but I can speak for myself, and I say that if we cannot make our dividends and expenses this year I certainly would recommend that we pay our dividends from surplus or the super-surplus--- that is a word that is somewhat useful here at least--- and I believe that our Board would act accordingly. I think, though, that the banks must not forget that that surplus is not there exclusively for the matter of paying dividends. It is there for those purposes which have been enumerated here, not the least of which is the matter of taking care of losses. The banks west of Cleveland are in a very difficult position at the present time, all of them, I think, and I will include Chicago, and we are going to have use for a little of our surplus, and we all might have before we get through, for the purpose for which that surplus was established, that is, to protect yourselves against losses and things of that sort.

Mr. Calkins, this subject is yours, and I hope we will hear from you now and also that we will get from you some recommendation as to how to dispose of it.

Governor Bailey: I would like to ask one question.

I notice that the Open Market Committee deals in the market in foreign investments, and the question occurs to me, when we are not making our earnings, why the committee should go into the market and handle foreign investments.

The Chairman: Governor Bailey has pointed out that the Committee has been buying acceptances for foreign account. What information do you want on that matter, Governor Bailey?

Governor Bailey: I would like to know why it is given to them; why isn't it given to us if we are not making our earnings.

Deputy Governor Case: I think that touches on a very big international question, and that is this, whether or not it is desirable to have foreign moneys employed in this country? I think that the general feeling, certainly in and about New York, is that it is most desirable to have foreign moneys employed here. We are always apt to have our viewpoints and opinions colored by a temporary situation that exists, and I mean such as exists just now. But the facts are when you go in reverse and through a period such as the war period, a period when credit is strained and there is not enough to go around, the idea of the Bank

of Japan putting twenty to thirty million dollars over here, as they did, and having it invested in our market in bills, short governments, and so on, was a wonderfully helpful and strengthening thing. Now, if the thing is worth while as a matter of principle, you cannot be just a fair weather fellow and say we are of course glad to have your money and take it when the country is under a credit strain, we are glad to get every dollar that we can, but if you want to establish relationships with foreign centers, it seems to me that you have got to play along with them in so-called foul weather as well as fair weather. As a matter of fact, the volume of business at the present time is relatively negligible. I do not think the total amounts to more than twenty to twenty-five millions, so far as we are concerned.

The Chairman: It is something like seventeen million

Mr. Case: There is probably a billion dollars in foreign moneys employed in this market, and I think it is a good thing for the country, Governor Bailey, and that it would be unfortunate if we did not develop and encourage that sort of relationship.

Governor Harding: After you have two or three years

of stable conditions in Europe most of the money will have gone back home; they will need it over there themselves.

Governor Calkins: Mr. Chairman, I seem to have been fairly successful in provoking a discussion, which I think is very desirable. Before answering the questions, I want to say that while it appears to me that there is no doubt as to the right of a federal reserve bank to pay a dividend from accumulated surplus, and as it appears to me that the provisions of the law look directly to that, yet I can see the possibility of a few of the Federal Reserve Board opposed to the payment of dividends from accumulated surplus. I think it would be undesirable to have that question raised at the moment when it was proposed to pay the dividend, and think it desirable that the banks should be advised in advance as to the position of the Federal Reserve Board with regard to that matter.

It has been suggested here that the accumulated surplus belongs to the Government. It certainly does not, for the provision of the law is that the banks shall be paid at the rate of six per cent per annum from surplus before the liquidation of the banks and payment to the government of the balance. That is as explicit as anything in the

law, as I see it. Now, as to the payment of dividends from accumulated surplus, it seems to me that in this system as well as in all other banking corporations, the purpose of accumulated profit, the first purpose--- not the only purpose, but the first purpose, is to assure more or less regularity in the payment of dividends, and of course there are other purposes too numerous to mention. I, therefore, think we should have, as clearly as possible, a statement from the Federal reserve board with regard to its position in the matter.

It is my view that there should be no considerable curtailment in the services now rendered by these banks. The question of stability which has been mentioned here is one of very vital importance. The Federal reserve banks should establish policies which can be followed continuously without fluctuation.

Now, we seem to be discussing this question with the view in the minds of some of us at least that conditions will continue for a long time under which we will not be earning our expenses and dividends. I do not anticipate any such condition covering any considerable length of time, and I do consider that the accumulation of surplus was for

the purpose of taking care of such periods.

In regard to resorting to the open market generally, I should say that we are in favor of resorting to the open market under favorable conditions for the purpose of making some addition to our earnings. There is, however, a reservation in regard to that. If conditions were unfavorable I should not do it.

With regard to the payment of dividends from accumulated surplus, I am quite sure the Board of Directors of our bank would at the present time pay a dividend if it was necessary, from the accumulated surplus.

Having answered those questions, I want to say that the directors of the San Francisco Reserve Bank are in accord with all of the other banks in the matter of open market operation, believing that that is the only safe and reasonable way that such operations can be carried on. There is, however, some doubt in my mind, and I think some doubt in the minds of our directors, as to the success that has been achieved up to this time; also a reservation, which has been mentioned by several, that they believe that they are not precluded from going into the open market themselves if they see fit to do so. That, in my opinion



is the most vital aspect of open market operations by the committee which we have discussed. It is certainly open to attack, if unsuccessful. If it is necessary for the Minneapolis Reserve Bank to earn enough to carry its expenses and dividends and it cannot do so because of its participation in the investments of the Open Market Committee, it should not be precluded from operating on its own account, and could not be, in my opinion, because that responsibility rests with the directors of the Minneapolis Bank and not with anyone else.

I have kept a rough record of the answers, and although I am subject to correction, of course, it appears from that record that the first question, should we curtail services, is answered affirmatively by three banks; three banks are in favor of curtailing services, and nine are opposed to it.

With regard to the second question, of resorting to the open market, the answers were qualified in many cases, as was my own, but there apparently are nine banks that are in favor, under certain conditions, of resorting to the open market, and three are opposed. In regard to the payment of dividends from surplus, apparently ten banks are

in favor of paying dividends from accumulated surplus, if necessary, and two are opposed to it.

Governor Norris: I tabulated the answers in a little different way, in trying to get at the first choice as between the three alternatives. I might say that the first choice of nine banks was to pay dividends from surplus. The first choice of three banks was to curtail services; two banks stated that they would resort to the open market as their second alternative.

Governor Seay: I am inclined to think it would have a very wholesome influence if we were called upon to pay dividends from surplus.

Deputy Governor Case: So do I, Governor.

Governor Seay: There is another matter that I mention with reluctance. It seems from the consensus of opinion around the table that on those occasions when the executives of the banks believe a wrong policy has been pursued, it has been due, I believe, to extraneous pressure or differences of view which were rather imposed upon the Federal reserve bank executives. I am alluding to the investments in government securities which were made earlier in our operations, and I am alluding, in times past, to policies

with respect to discount rates.

Governor Harding: I would like to ask if any Governors present think that the present abnormally easy condition in money is likely to prevail for any very considerable period of time, and if so, would even a drastic curtailment of voluntary services enable the banks to go on and pay their dividends without enlarging their investments in the open market? I cannot recall, from any experience I have ever had in my whole recollection, that we have ever had very distinctly easy money conditions for more than eighteen months at a stretch. I can recall that we have had tight money for several years on a stretch, but I cannot recall when we have had country wide easy money for longer than eighteen months on a stretch.

Governor Seay: There is hardly any year, Governor, I dare say, in which the variation between the high and the low is not appreciable.

Governor Harding: Of course, 1915 was a very easy year. Our operations were negligible; discount rates were not effective, but yet in that year when we had probably larger gold imports than we have had in any one year, conditions began to tighten up in the fall of 1916 after about

eighteen months of easy money, which was about as long as it lasted.

Governor Calkins: In answer to Governor Harding's question, it is perfectly obvious that ~~no~~ curtailment of services which we could bring about, without violation of the law, would sufficiently reduce our operating expenses to enable us to continue dividends because the voluntary services rendered by the Federal reserve banks are negligible, as compared with the services required by the law.

Governor Harding: That is true.

Governor Seay: Except that, with respect to certain services required by law, there exists the right to impose a charge for the service.

The Chairman: Governor Calkins, these are your subjects, and I understand from your statement that you believe, still believe, that it would be advisable to have an expression from the Federal Reserve Board in advance of the time when this question might arise. What suggestion have you to make upon that?

Governor Calkins: I think it would be desirable, Mr. Chairman, although I do not know of any way that we could get that question to the Federal Reserve Board so

as to compel an answer. I can see reasons for reluctance on their part to answer. The opinion of our counsel concurring in the opinion of the Attorney General and of the Board's counsel is that the Board has no power to prevent the payment of dividends by the banks, but we do not want to raise an issue there, of course. I think it is desirable to have this conference on record in regard to these three questions, or the three subdivisions of the one question. I think it desirable that the conference should go on record first as to the desirability of curtailing services now rendered, second, as to the desirability of resorting to the open market to make dividends and expenses, and third, as to whether we should pay dividends from accumulated surplus.

Deputy Governor Case: I would like to ask Governor Calkins if we would have any objection to having Item C presented first?

Governor Calkins: No.

Governor Young: Is it not a little difficult to answer that question. For instance, if our bank was in a position of Philadelphia, I think I would recommend to our people that we pay dividends out of surplus; but the

position of the Minneapolis bank is entirely different. If we should go through this year and end up with a \$500,00 deficit I think it would be a great mistake for our institution to pay dividends out of surplus. But we have 115 closed member banks in our district that closed because they were paying dividends.

Governor Harding: Is not the attitude of the Federal Reserve Board, under its supervisory powers, a good deal like that of the Comptroller of the Currency? The Comptroller of the Currency would object to a national bank paying a dividend if it hadn't earned it. He would point out the non-liquid assets and the actual or probable losses, and hold that it was necessary to conserve every dollar of resources of the banks; but in other cases I can see where a bank with a period of slack business, but which had an accumulated surplus and undivided profits, where the directors might go ahead and declare the usual dividend and the Comptroller not object to it.

Governor Young: I do not think the Board would object to our paying dividends for this six months, because we are not short a great deal. We have had over seven millions in long time government bonds in our institution for

a couple of years, and they have given us an income of around \$300,000 a year. I felt entirely justified in carrying those long time government bonds when we just had our surplus invested in them; but now our surplus is virtually turned over to take care of these closed banks, which cannot get any less, and which is bound to get larger if these banks keep on closing. In addition to that we have three and a half million tied up in a new building, and if there is any great deficit in Minneapolis, I think it would be a mistake to pay dividends out of surplus. Now, I do not think my directors would agree with me in it. It is only my own view.

Governor Seay: For those reasons just mentioned, Mr. Chairman, I think perhaps the Federal Reserve Board would not be disposed to answer an abstract question, but that it would be a matter for the individual judgment of the directors of each Federal reserve bank, and that each case would be passed upon, if it needed the sanction of the Federal Reserve Board, separately.

Governor Young: There is another phase of this whole question with regard to voluntary services, and that is transit items, the par collection of checks. We set down

the figure that it costs us so much, but that is the actual labor; we do not figure what it costs us in losses. Our bank is going to lose in the neighborhood of \$700,000, and I can make the statement without any hesitancy at all that that entire \$700,000 is lost because of the par collection of checks and non-cash items. There isn't any argument about that.

The Chairman: As I understand it, Governor Case's question to Governor Calkins was this, that if the subject is presented to the Federal Reserve Board that question No. 3 be made question No. 1.

Deputy Governor Case: That was just my thought. I would not like to see this conference pass on the question we cannot bind the boards of directors, but merely can express our own views informally, I would suggest this: That whereas we have two hundred millions of surplus that has been accumulating over the ten years that we have been in business; whereas it now appears that some of the twelve Federal reserve banks will not earn enough during the present year to cover their expenses and dividends, therefore,

Be it Resolved, That it is the sense of this conference, that there could be no objection to the directors of



the respective Federal reserve banks paying out of accumulated surplus, if such course meets with their approval, the necessary dividends, or something of that sort. That is the thought that was in my mind, and then these other questions are rather supplemental to that.

Governor Calkins: If you will offer that as a resolution I will second it.

Deputy Governor Case: Yes. I think that can be put in a little better form.

Governor Harding: I would like to discuss that a moment. I would first like to ask if the Federal Reserve Board asked the conference to consider this matter, or whether it was brought up on the initiative of Governor Calkins?

The Chairman: It was brought up by San Francisco.

Governor Harding: I think it is a very timely discussion and I am glad that it has been brought up, and I would like to say this, off the record \* \* \*

(Discussion followed which the reporter was directed ~~not~~ to take.)

Governor Calkins: You have touched the heart of this matter. You have said the operations of this committee would

not in any way interfere with the acquisition of earning assets by a member bank, that this committee would be the means of purchase--- there is the whole question. If the question of earning assets is to be controlled by the directors of the twelve banks how are they to acquire asset whenever they think they should, except through the committee.

Governor Harding: Will you let me answer that?

Governor Calkins: Certainly.

Governor Harding: I do not know that I can answer it authoritatively, but let us suppose the latter part of June the Federal Reserve Board should take the position that they would approve dividends paid, that they should make a statement to the bank that they were willing to approve a reasonable amount of unearned dividends for a relatively short period of years, for those banks whose assets are in liquid condition and that have not any large amounts tied up in slow assets, or with losses impending or accrued, but that as far as two or three banks are concerned, their condition was such that we cannot continue to approve their dividends unless earned. Now, if the Board took that position, wouldn't it be within the power of the com-

mittee to say to the Federal reserve banks who felt that the Board would approve their paying dividends, even if unearned, that it would allot to the two or three banks referred to out of the stock of government securities on hand a sufficient amount to enable them to pay their dividends? There is one possibility where the committee could be of very great use to those banks that are not making their earnings.

Governor Calkins: I think it can be of great use in allotting to the banks the required amount of assets, and of great use in purchasing those assets, but not in determining what shall be purchased or allotted. That is for the directors of the individual banks to say.

Governor Harding: I agree with you that when the directors of the individual banks think they need so much and they are able to go out into the market and buy it, why they should go into the open market and get it.

Governor Calkins: If the Committee received a request from the Federal Reserve Bank of San Francisco to buy \$25,000,000 in short time governments and bankers acceptances, and should reply that it would disturb the market to buy them at that time, then it seems to me that the com-

mittee would control, and not the Federal Reserve Bank of San Francisco, and that is really the question I am dodging around, as to what is to be the procedure.

Governor Harding: I think it will be understood that no bank would waive its legal right under the statute, but here is a voluntary transaction where the bank transfers its prerogatives to the committee.

The Chairman: That is understood.

Governor Norris: Governor Calkins' point is important. If the San Francisco bank wanted to acquire twenty five millions there might be eight or ten other banks that wanted to acquire anywhere from twenty to fifty million, and their alternative would be to take what they could get through the committee, or go into the open market themselves. If they all went into the market, which they certainly would have the right to do, you can readily imagine what would occur with six or eight or ten of them bidding against each other in the New York market for these securities.

Governor Calkins: And that is the whole justification for this committee.

Governor Norris: Yes.

Governor Calkins: I think the obvious question is what is to be the procedure? Is it that the determination of the volume of earning assets is to be left to the Committee or to the directors of the twelve banks?

Governor Norris: At the present time the federal reserve banks have voluntarily agreed to leave it to the committee, and they have done it without waiving their legal rights. That is perfectly understood. I think they will continue to do it because it is perfectly manifest what the consequences would be if any one bank bolted and undertook to operate on its own account, that it would be destructive to the interests of all.

Governor Calkins: That is the heart of the question.

The Chairman: The question now is on consideration of the suggestion of Mr. Case. Will you repeat that, Mr. Case.

Deputy Governor Case: On what point, Mr. Chairman?

The Chairman: Your plan to submit the matter to the Federal Reserve Board.

Governor Calkins: I will withdraw my second.

Deputy Governor Case: It seems to me that the minutes of the record will show precisely the viewpoint of the

conference. These minutes will go to the Board, and I would assume that you, as Chairman of the conference, would probably mention to Governor Crissinger, or to the Board itself when we meet with them, that we had considered this matter, and that, without in any way undertaking to interfere with the prerogatives of the several Federal reserve bank directorates, as a matter of principle we can see no objection--- taking the New York Bank, for instance--- to paying dividends out of surplus, providing, of course, the directors agree to it. All that discussion will be in the record, will it not, Mr. Harrison?

Mr. Harrison: Yes.

Mr. Case: And while circumstances naturally alter the case with respect to some banks, the consensus of opinion was that there would be no objection to it, if deemed necessary.

The Chairman: Does that dispose of the subject satisfactorily to you, Governor Calkins?

Governor Calkins: Yes.

The Chairman: Then we will consider the subject disposed of.

Now, if there is no objection, we will adjourn at

this point. No one misses Governor Strong more than I do, and I know we all miss him very greatly. I do not know whether circumstances are such as to make it proper that we send a communication to him, but if not, I want to make a matter of record the fact that we all do miss him very much.

We have some important matters to discuss with the Treasury, and I am going to ask Mr. Young and Mr. Case, if it is agreeable to the conference, to see Mr. Winston and ascertain what his pleasure is with regard to sitting with us.

(On motion, duly seconded, the conference thereupon recessed from 1 o'clock p. m. until two o'clock p. m. of the same day.)

## A F T E R   R E C E S S .

Met, pursuant to recess, at 2 o'clock p. m.

The Chairman: The conference will kindly come to order.

The next topic is 1-(b), suggested by New York, but Mr. Case is not present now and we will defer discussion of that topic and pass to 1-(c).

(c) Domestic Acceptances.

Report of General Acceptance Committee, Mr. Kenzal Chairman.

I will ask Mr. Harrison to submit that report.

Mr. Harrison: The report of the committee I have just distributed. That report, like most of the other reports of standing committees, was presented to the Secretary only at the last minute, so that I did not have time to distribute it among the governors in advance. This report is one prepared by this committee of four, but it does not represent any kind of unanimous opinion. The best thing to do, perhaps, would be to have the several Governors read it over, and perhaps discuss it later. There is nothing that could be done about it now.

The Chairman: There is nothing the conference can do



about it.

Mr. Harrison: It is a matter that came up, I understood from Mr. Kenzal, at the request of Governor Crissinger and it is likely the Board may want an expression of opinion from the Conference after a reading of the report, which gives the discussion on all sides.

Governor Fancher: Mr. Chairman, I move that the topic be passed for the present.

The Chairman: Without objection, that course will be followed.

That concludes topic 1, under credit transactions and policies.

The next section of the report is

## II Collections and Clearings.

- (a) Report of Standing Committee on Collections, Mr. Strader, Chairman.

Mr. Harrison: That report has already been distributed by Mr. Strader, as I understand it.

The Chairman: I did not receive it.

Mr. Harrison: This report is chiefly negative, because it refers principally to the action taken at the last

conference requesting this committee to prepare a uniform circular defining the terms used in the non-cash collection service of the Reserve Banks. The committee reported back that they rather felt that this was not a matter of sufficient importance to justify issuing a new circular just for that alone, and they recommended, therefore, that they do nothing about it until such time as a new circular may be issued for other reasons. It also refers to the action taken at the last conference of governors "Voted, that all Federal reserve banks shall guarantee prior endorsements on non-cash collections, but that they shall receive for collection only those non-cash items on which the depositing bank has guaranteed prior endorsements."

They refer to the fact that only one reserve bank has attempted to put this particular provision of the last minutes into effect. I think it would be possible for all the reserve banks to do that even though no uniform date is fixed. As a matter of fact in the New York District we have tried it, and I think we have all of our banks guaranteeing prior endorsements. I see no reason why the practice could not be followed in other districts, even without an agreement as to some specific date.

Governor Calkins: As a matter of fact, Mr. Chairman banks that do endorse without qualifying their endorsement, do guarantee prior endorsements.

Governor Seay: As matter of law.

Governor Calkins: As matter of law, yes.

Governor Seay: In our district we were rather late in issuing our circular, so that when we finally issued it we provided for both of these resolutions.

Governor Fancher: It doesn't occur to me that there is any need for discussion of the report now. Mr. Straßer, Chairman of the Committee, will be here tomorrow on another matter, and if there are any particular features of the report that the Conference would like to discuss with Mr. Straßer that could be done tomorrow.

The Chairman: Are there any questions arising which make it necessary to delay action?

Mr. Harrison: I think the important thing to do, as the Chairman of the committee seems to imply, is to agree upon some date when we would put this into effect. I wrote to each Governor sometime in February, saying that the Federal Reserve Board had passed a new resolution authorizing reserve banks, as the result of recommendations of

this conference, to put into effect any recommendation whatever that did not involve, as matter of law, or as a matter of regulation, approval by the Board. This is one of the matters which I think the Board and the Secretary of the Conference agreed need not have the approval of the Board; but even as a result of these communications that were sent to all the Governors, apparently this particular recommendation was not made effective.

Governor Seay: Mr. Chairman, this is a short report and I think it might be well to read it here.

The Chairman: Yes, and I will ask Mr. Harrison to read the report.

Mr. Harrison: This is the report of the Standing Committee on Collections to Conference of Governors May 5, 1924.

"At the last Conference of Governors, held in November 1923, it was

VOTED to request the Collection Committee to draft a uniform circular to be issued simultaneously by all Federal Reserve Banks, defining the terms used by Federal Reserve Banks in connection with the collection of non-cash items."

it was also

'VOTED, that all Federal Reserve Banks shall guarantee prior endorsements on non-cash collections but that they shall receive for collection only those non-cash items on which the depositing bank has guaranteed prior endorsements.'

Careful consideration has been given by the Standing Committee on Collections to the request of the Conference that the Committee prepare a uniform circular, defining the terms used by Federal reserve banks in connection with the collection of non-cash items. It is the opinion of the Committee that although it would, no doubt, be desirable to define certain terms those terms which do not have an unmistakable meaning are so few that it would be advisable to define them in a uniform paragraph to be included in the non-cash collection circular of each Federal reserve bank, rather than issue a separate circular defining them. The Committee is advised that one of the reserve banks has already included a definition of certain terms in its non-cash collection circular.

The Committee understands that the Leased Wire Committee has submitted a report to the Conference in which it is

recommended that the use of the leased wires be practically restricted to telegraphic transfers of funds between member banks and that the use of the leased wires be prohibited entirely for any purpose in connection with the handling of non-cash items.

The Committee understands also that the Committee on Voluntary Services has submitted its report on the non-cash collection function to the Federal Reserve Board and that this report will be a subject for discussion at the next Conference.

It is not unlikely that it will be necessary to revise the non-cash collection circulars of the Federal reserve banks as a result of the action which will be taken by the Conference of Governors on the report of these two committees.

The resolution adopted at the last Conference of Governors requiring Federal reserve banks to guarantee prior endorsements, did not set a definite date for making this requirement effective. The Committee understands that only one of the reserve banks has attempted to carry out the recommendations of the Governors' Conference and has undertaken to require its member banks to guarantee

prior endorsements on non-cash items. The Committee is of the opinion that this requirement should be placed in operation simultaneously by all of the Federal Reserve Banks; in fact the requirement could not be enforced, unless each of the several Federal reserve banks notified their member banks that on and after a definite date all Federal reserve banks would decline to accept for collection non-cash items which did not bear a guarantee of prior endorsements by the depositing member bank. In numerous instances, member banks in one district are permitted to forward non-cash collections direct to a Federal reserve bank or Branch of another district, and it can be clearly understood that unless the requirement of guaranteeing prior endorsements is made effective simultaneously by all Federal reserve banks, an annoying element of confusion will be injected into the relations between member banks in one district and Federal reserve banks or branches of other districts, unless the requirement is not strictly enforced.

It also seems to the Committee that the effective manner of placing this recommendation into operation would be by the inclusion of a uniform paragraph on the subject in the non-cash collection circular of each Federal reserve

bank, the revised circulars of all of the Reserve banks embodying this paragraph to be issued simultaneously.

It would be possible to incorporate in a revised non-cash collection circular the following uniform paragraphs:

- (a) paragraph relating to the guarantee of prior endorsements;
- (b) paragraph defining the terms used by Federal reserve banks;
- (c) any additional paragraphs which may be required as a result of action taken by the Conference on the report on the leased Wire Committee and by the Conference or the Federal Reserve Board on the report of the Committee on Voluntary Services.

Any other modifications of the existing non-cash collection circulars, in so far as uniformity is concerned, which may be necessary as a result of action taken at the Conference of Governors could also be taken care of in the revision.

Respectfully submitted,

H. F. Strater, Chairman,  
J. S. Walden, Jr.,  
O. M. Attebery,  
C. H. Coe,  
J. M. Toy.



Governor Seay: While these topics may be of minor importance, they are, nevertheless, of some importance and they ought to be carried into effect, Mr. Chairman.

The Chairman: What would be your recommendation, Governor Seay?

Governor Seay: We might wait until a report on non-cash collections is received and acted upon by this conference. It depends upon the action of this conference to that report as to what may be necessary.

Governor Fancher: And also the action of the Leased Wire Committee.

Governor Seay: And also the action of the Leased Wire Committee. It would perhaps be well for the Chairman to make a note to that effect, that these matters need attention when we shall have acted on the other two matters.

The Chairman: Then, if there is no objection that course will be pursued.

The next topic is 2-(b)

(b) Report of Committee on Voluntary Services, regarding Non-cash Collection Service, Governor Fancher, Chairman.

Governor Fancher: Mr. Chairman, a copy of this report has been mailed, some time ago, to each Governor, and I as-

sume they have had opportunity to go over it and familiarize themselves with the recommendations of the committee. The report was submitted to the Federal Reserve Board on March 22nd, with the suggestion to the Board to defer formal action until the conference had opportunity to discuss the report.

The report of the committee on Voluntary Services Assumed by Federal Reserve Banks on non-cash collection function to the Federal Reserve Board, March 24, 1924, is as follows:

"At the March, 1923, Conference of Governors, the Federal Reserve Board submitted for consideration a memorandum (X-3576) concerning certain voluntary services performed by the Federal reserve banks for the member banks. Upon consideration of the memorandum that Conference voted 'that the services enumerated in the Board's memorandum should not be discontinued at this time, except that with reference to the item of non-cash collections it was felt that the subject should be referred for consideration and report to a special committee of Governors to be selected by the Federal Reserve Board.' The Federal Reserve Board accordingly selected the present committee to consider the

subject of non-cash collections as recommended by that Conference.

After a very careful survey and review of the whole subject, the committee filed with the November, 1923, Conference of Governors a preliminary report reviewing the arguments for and against the non-cash collection service and recommending its continuance for the various reasons set forth in the report. Upon consideration of this report the November, 1923, Conference adopted the following resolution:

That the committee submitting the report on Voluntary Services Assumed by Federal reserve banks be continued by the Board and be requested further to investigate and report and make recommendations prior to the next Conference as to the following subjects:

1. How valuable is the service of collecting non-cash items to the members of the Federal reserve system, dividing those members between banks located in Federal reserve bank and branch bank cities and those not located in those cities?

2. What is the probable growth of the volume of this business and what will it likely cost?

3. What is the possibility of imposing a charge upon the collection of non-cash items which will at least reimburse the banks for the cost of conducting the business, the report upon charges to consider the practicability of charging on all items, or upon those items which we class as street address items, and how much such charge might be, if recommended by the committee?

4. That the committee be requested to conduct practically the same type of investigation as to all other services of like character which we are not performing without charge for our members, and that the report of the Committee on Voluntary Services be continued as at present pending a final report by the committee on the above matters.'

This resolution of the Conference was reported to the Federal Reserve Board at the joint session with the Board, and it was understood, as recommended, that the committee should be continued and should pursue its investigation in accordance with the terms of the resolution.

The committee has made a further study of the subject along the lines proposed and submits its report herewith. Before detailing its recommendations concerning the speci-

questions presented by this resolution, however, it may be well first to review the more general arguments for and against the handling of non-cash collection items by the Federal reserve banks, arguments already discussed at some length in the preliminary report submitted to the Conference of Governors on November 12, 1923.

#### History.

The collection of non-cash items by the Federal reserve banks was inaugurated by order of the Federal Reserve Board in September, 1917. The chief reason prompting the establishment of this service was the recognition of the fact that inasmuch as the requirements of the Federal Reserve Act resulted in a transfer of the reserves of member banks from their former reserve agents to the Federal reserve banks, the reserve banks should, as far as possible, and so far as consistent with the provisions of the Act, render the same collection services that member banks had formerly received from their reserve agents; that is, their city correspondents.

Since the inauguration of the non-cash collection service it has developed rapidly. At the present time, approximately 74 per cent of all member and non-member clearing

banks located in reserve bank cities or branch bank cities, and 31 per cent of all other member and non-member clearing banks are using this service. During the year 1923 all Federal reserve banks and branches handled a total of 5,747,466 non-cash items, including coupons other than Government coupons - an increase of 1,025,466, or 21.75 per cent over the year 1922.

While the total number of city banks which are utilizing the Federal reserve collection system is relatively larger than the number of country banks which are using that system, nevertheless there has been a steady growth in the total number of both classes of banks now sending their items to the Federal reserve banks for collection.

The question under consideration is whether it would now be advisable or proper to abandon or curtail the non-cash collection service rendered by Federal reserve banks or whether it would be wise to impose a service charge for all or any part of the service. It seems obvious that whatever arguments might have been proper to make against the inauguration of this service in 1917, it must now be considered in the light of present conditions and with the full appreciation of the fact that so many member banks

have become accustomed to its benefits and rely upon the Federal reserve banks for its use. In other words, are the arguments against the continuation of the non-cash collection service sufficiently strong to offset the possible resentment and warranted criticism of our member banks, particularly the country banks, for the curtailment of a service which they now have learned to expect as an incident to membership and as a partial compensation for their reserve contribution on which they receive no interest return?

Arguments made against the continuation  
of the non-cash collection service.

The chief objections which have been raised to a continuation of this service may be classified generally as follows: (1) Legality; (2) Contact with the public; (3) Competition with our member banks; (4) Expense.

These objections may be discussed in turn.

(1) Legality - It has been suggested to the Federal Reserve Board through certain clearing house associations that the non-cash collection service should be discontinued for the reason, among others, that the Federal Reserve Act "gives no indication that the system was contemplated to

handle items other than checks"; in other words, the legal right of the Federal reserve banks to render this service has been questioned. It is the opinion of this committee that the objection can not be sustained. Section 13 originally provided that the Federal reserve banks might receive "checks and drafts". No express reference to maturing notes and bills was contained in the original provisions of the section, but on September 7, 1916, the law was specifically amended so as to provide in terms for the collection of "maturing bills", and on June 21, 1917, another amendment to the law included maturing "notes" as well as maturing bills. While there may have been some question as to the legal right of the Federal reserve banks, at one time, to collect this class of items, the express amendments referred to not only now confer that right, but do so in that same paragraph, even in the same clause providing for the collection of checks. In other words, Congress has seen fit to give to the Federal reserve banks the power to collect both classes of items, and that power is no less and no different in the case of maturing notes and bills than it is in the case of checks.



(2) Contact with the public - It has been suggested that the collection of maturing notes and bills payable at street addresses in reserve bank and branch cities involves an unauthorized, and, at the same time, annoying contact with the public. While it is true that the largest percentage of the reserve banks' operations are directly with their own member banks or the Treasury, nevertheless, in so far as the collection of a maturing note or bill involves contact with the public, it is merely a necessary incident to the exercise of a lawful right, not to be fairly challenged on that ground alone. The mere fact that the law differentiates a check-- which is a bill of exchange drawn on a bank-- from a bill or note payable by an individual, firm or corporation, shows that it contemplates the possibility of the very contact that has been subjected to criticism. The committee believes, therefore, that there is no lawful objection to continuing the collection of items payable at street addresses, even though it necessarily brings the reserve banks in some cases in contact with the public. Complaints that that contact is at times annoying to certain individuals or firms have been reported to and carefully considered by the committee. There seems no

doubt that in some districts friction does exist, where the reserve banks or branches, in making the collection of items payable at street addresses, have required unusually strict terms of payment. The committee is advised, for instance, that in one district documentary drafts are not surrendered except upon payment in cash or reserve bank funds, and this may possibly involve some hardship which might have been avoided had the reserve bank adapted its practice to the more usual and normal banking procedure. The committee understands, however, that criticism of the non-cash collection service on the part of the public is not general throughout the country, but emanates from a few concentrated localities or from exceptional sources elsewhere. Under these circumstances, the committee believes that the remedy is not to be sought in an abandonment or curtailment of the service throughout all districts, but rather in a remedy or modification of the practice in those districts from which complaints emanate. The committee <sup>believes</sup> ~~believes~~ that if each reserve bank and branch will endeavor so far as possible to effect its local collections in whatever manner is most consistent with established business and banking practices in their respective locali-

ties, there will be no possible ground for friction or discontent on the part of those business houses with whom the reserve banks come in contact in presenting items for payment.

The committee recommends, therefore, that this be done, rather than that the service be eliminated or curtailed even with respect to those items payable at street addresses

(3) Competition with our members - Another argument presented in some of the resolutions of clearing house associations protesting against the continuance of the non-cash collection service is that the service "places the reserve banks in direct competition with their member banks. While it is no doubt true that this service may have some competitive effect upon the business of certain city banks, that in itself cannot be said to be a legitimate criticism against continuing a service which has been rendered for six years with increasing use by member banks, city as well as country. Indeed many functions of the reserve banks, expressly authorized by law, functions which the reserve banks could not properly abandon even if they preferred to do so, place them, in a measure, in competition with city banks. For instance, the reserve banks compete

with member banks in all of the following respects:

- (a) In receiving deposits which might otherwise be held in member banks.
- (b) in making loans to member banks
- (c) in collecting checks for member banks
- (d) in making wire transfers
- (e) in maintaining accounts with foreign correspondents
- (f) In purchasing Government securities, acceptances and bills of exchange

and also

- (g) in collecting notes and bills.

While practically all of these services of the reserve banks are legally and technically optional with the Federal reserve banks in that the law uses the word "may" instead of "shall" in most cases, nevertheless it is doubtful if the reserve banks could arbitrarily and without substantial reason refuse generally to exercise powers conferred upon them by Congress in the interest of the public and the member banks themselves. In any event, there seems no more reason to abandon the service of collecting notes and bills than other of the so-called voluntary services which

the reserve banks and the Reserve Board have believed should be performed for member banks, first because contemplated by the law itself, and second because they serve somewhat as compensation for the reserve balances maintained by member banks without other direct return. Having been offered and having been utilized by such a large percentage of member banks it would be a serious blow to the goodwill and close cooperation now existing between member banks and the reserve banks were they to be abandoned or even curtailed. Since it has been argued that this competition is opposed by city banks, the committee has made a canvass of member banks in order to ascertain whether this opposition is truly representative of member bank opinion. As will be shown later, the great majority of the member banks interviewed are in favor of a continuation of the service.

It has also been contended that the cost of maintaining the non-cash collection service involves a forced investment of reserve funds, which results in competition with our member banks in the investment field and that the service should be abandoned on this account. Even assuming that the entire cost of the service - approximately \$1,000,000

-- had to be earned by an additional or forced investment of the Federal reserve banks over and above their normal business, it would necessitate an investment of only some 25 millions of dollars, - relatively insignificant in its competitive effect. But it is significant that the normal business of the reserve banks, even when discounts have been at a low ebb, has been sufficient to cover their expenses, including those of the non-cash collection function, without any arbitrary investment of reserve funds for that purpose alone.

This leads to the next objection:

(4) Expenses. The committee finds that the entire cost of the non-cash collection function of the reserve system for the year 1923, excluding the cost of handling Government coupons, was \$960,850. This compares most favorably with a total cost of \$1,039,000 for the year 1922, exclusive of Government coupons. The volume handled in 1923, was 5,747,466 items, as compared with a volume in 1922 of 4,722,000 items, exclusive of Government coupons. (See exhibit A.)

While it appears, therefore, that the number of items in 1923 was 1,025,466 in excess of what it was in 1922 (an

increase of 21.7%), nevertheless the total dollar cost actually decreased \$78,150, or  $7\frac{1}{2}\%$ ; to put it another way, while the per item cost was 22 cents in 1922, it was only 16.7 cents in 1923. With an increasing volume there was a decrease not only in the per item cost but in the aggregate cost as well. Your committee believes, therefore, that there is nothing in the experience of the last two years to indicate any increase in collection costs in the near future sufficient to justify a curtailment in the present service on that account. Furthermore the studies of the committee lead to the definite conclusion that the probable future cost of this service has been very much exaggerated in past estimates that have been called to its attention, and that there is no evidence to justify the fear of any great increase in the near future. That question is discussed in detail in the following pages.

#### Resolution of November 1923 Conference.

When the preliminary report of the committee was considered by the last Conference of Governors, it was felt by a large majority of those present that the service of collecting non-cash items should be continued as recommended by the committee at that time. In view of the fact

however, that there was some question as to how general the so-called city bank opposition had become, and considerable doubt as to how much the volume and expense might ultimately grow, the conference passed resolution already quoted above recommending the continuance of your committee to study -

- (1) How valuable the service is to city and country member banks?
- (2) What is the probable growth of the service and its likely cost?
- (3) Is it advisable to impose a service charge on any or all classes of non-cash items?

This study has been pursued by the committee with much care, but in order specifically to report on the questions presented in the resolution it was necessary to obtain first-hand information from a representative number of member banks in each district. Consequently a letter was forwarded to the Federal reserve banks, asking them to interview all member banks in each reserve bank city and in each reserve bank branch city and also forty country banks in each district relative to the questions listed in a questionnaire (Exhibit B) prepared by the committee.

The reserve banks submitted replies to each of these



questions from 384 city banks and 533 country banks. These 917 banks represent practically all of the banks located in reserve bank and branch cities, and the country banks interviewed were selected from the users and non-users of the collection system, chiefly with regard to their geographical location and not with any desire or intention to interview banks whose opinions were known to be for or against the system. A summary of these replies for each district and for the system as a whole, is attached hereto. (Exhibit C).

#### VALUE OF SERVICE TO MEMBER BANKS

##### Opinion of Member Banks Interviewed.

This exhibit shows:

(a) that a great majority of the interviewed member banks now using the service believe the service of value to member banks.

##### (1) City banks

Yes	222 (88%)
No	30 (12%)

##### (2) Country banks

Yes	214 (92%)
No	19 (8% )

(b) that a large majority of the interviewed member banks not now using the service believe it is not of value to member banks.

(1) City banks

Yes	10	( 8%)
No	122	(92%)

(2) Country banks

Yes	47	(16%)
No	253	(84%)

(c) that a large majority of the interviewed member banks now using the service are in favor of continuing the service.

(1) City banks

Yes	204	(81%)
No	39	(15%)
No opinion	9	( 4%)

(2) Country banks

Yes	215	(92%)
No	5	( 2%)
No opinion	13	( 6%)

(d) that a majority of the interviewed member banks not now using the service are in favor of continuing the

service (in spite of the vote reported under (b) above).

(1) City banks

Yes 63 (48%)

No 43 (32%)

No opinion 26 (20%)

(2) Country banks

Yes 174 (58%)

No 26 (9%)

No opinion 100 (33%)

It is apparent as a result of this investigation concerning 917 representative member banks, both city and country, that a preponderance of all those banks now using the system not only consider it of value, but want it to be continued, while approximately half of even those city and country banks which do not use the system, voted in favor of its continuance.

One other interesting factor might be mentioned as a result of this investigation. Even in some of those cities or districts where there appears to be some organized opposition to the continuance of the non-cash collection service, the poll of representative member banks, recorded in the attached exhibit, indicates that a majority of the

banks favor continuance. For instance, while the Philadelphia clearing house association voted on January 14, 1924, to request the Federal Reserve Board to discontinue the non-cash collection service, nevertheless, of 20 Philadelphia banks interviewed by the Federal Reserve Bank of Philadelphia, some of them members of the clearing house, all voted that the collection service was of value and that they were in favor of the Federal reserve banks continuing the service.

It might be suggested, therefore, that some of these resolutions may have been inspired from some one common source interested in regaining the collection business of the country banks and that they are not truly representative of the general opinion of the bankers in the district in which they are located.

## II PROBABLE GROWTH IN THE VOLUME OF NON-CASH COLLECTIONS AND LIKELY COST.

The exhibit does not show any very satisfactory conclusion as to the probable growth in the volume of non-cash collections since the replies to this portion of the committee's inquiry were not concrete enough to permit of any

definite estimate.

There were two questions to be considered. First, how many of those banks which are not now using the service will be likely to increase that use.

With respect to the first of these questions:- At the outset this service was not generally availed of by member banks. There was, however, been a fairly steady increase in the number of member banks using it, so that at the present time about 74% of member and nonmember clearing banks located in Federal reserve and branch cities, and 31% of all other member and non-member clearing banks are actively sending collections through the reserve banks. Of 369 city and country banks not now using the service which were interviewed, 116 (that is 31%) stated that they are likely in the future to do so, while 253 (or 69%) stated that there is no likelihood of their making use of the service. There was no indication, however, as to how soon the 31% reporting in the affirmative would commence using the system, if at all, nor was there any intimation as to what proportion of their items they would send if they should commence use of the system.

As to the second question:- Out of 445 interviewed member

ber banks which are now using the service, 252 (that is, 57%) stated that they are likely to increase the volume of items which they are sending through the reserve banks, although they do not indicate how much this increase will be. Of these 445 banks, 193 (that is, 43%) stated that there is no likelihood of their increasing their use of the service. It is impossible to estimate from these reports just how much the volume of non-cash collections will be increased either by new users or by additional use of present users. But our past experience, as will be shown, demonstrates that expenses do not increase in proportion to the volume.

It seems to the committee, therefore, that the actual trend of expenses in the past few years is perhaps a better index for the next few years than any arbitrary estimates as to the possible amount of increase based on the informal reports of these non-using banks that they might at some time in the future use the system. Summarized below is the number of non-cash collection items, other than Government coupons, handled by all Federal reserve banks for the years 1920 to 1923, inclusive, together with the dollar amount of those items. The total expense for the system and the

per item cost are indicated only for the years 1922 and 1923. It is impossible to obtain these figures for the years prior to that time, since no comparable functional expense accounts were kept by all Federal reserve banks before 1922.

Year	Number Of Items	Amount	Total Expense	Per Item Cost
1920	2,136,000	\$5,398,421,000	-----	-----
1921	3,575,000	4,267,651,000	-----	-----
1922	4,722,000	4,768,971,000	\$1,039,000	22. cents
1923	5,747,000	5,900,020,000	960,850	16.7 cents

(All figures in this table are exclusive of Government coupons)

While no comparison in the total cost of the system can be made for the years prior to 1922, it is significant to the committee that the total expense in 1923 was  $7\frac{1}{2}\%$  less than in 1922, in spite of a substantial increase of 21.7% in the number of items handled during the same period. It is also significant that the per item cost, which was about 5 cents less in 1923, than in 1922, declined quite consistently throughout the year 1923. If, therefore, the operations for the year 1924 are conducted at a rate as

low as the last quarter of 1923 the aggregate cost for the calendar year 1924 may be as low, if not lower than for the year 1923, even if the present rate of increase in volume continues. It is certain that the average per item cost for the whole year 1924 should be much less than for the year 1923, as a whole, perhaps somewhere about the figure given for the fourth quarter of 1923.

The committee is of the opinion, therefore, not only that there is no immediate prospect of any appreciable increase in operating expenses, but that there may be even a further reduction this year, as last year, as a result of the continued efforts of the several reserve banks and the Board's Committee on Economy and Efficiency in promoting still greater efficiency and economy in operation.

### III ADVISABILITY OF IMPOSING A SERVICE

#### CHARGE

The third question which the committee was requested to consider was the advisability of imposing a collection service charge, either for all items or for those payable at street addresses. The committee was unanimously of the opinion that, regardless of whether or not it would have been wise at the outset to maintain a charge for the collec



tion of non-cash items, nevertheless, having for some years rendered the service free of charge, and having given member banks the opportunity to expect it free of charge as an incident to membership, it would be impracticable and unwise at this time to impose any charge for collecting any one or all of the several classes of non-cash collections. The attached exhibit relative to member bank opinion indicates that of 485 banks now using the system only 132 (that is 27%) expressed themselves as favorable to a service charge if it should be decided to discontinue the free collection of non-cash items, 322 (or 67%) were opposed to a service charge, and 31 (or 6%) expressed no opinion. The committee, however, gave special consideration to the question of a charge on items payable at street addresses since it realized that the cost of collecting these items is much above the general average for the service as a whole. As a matter of policy, the committee believes there is no more justification for imposing a charge for the collection of this class of items than for any other class. Clearly it would be just as objectionable to the country banks to reestablish collection agencies for one group of items as for all, and the imposition of

a charge for one group would have this tendency. Furthermore, the difference in cost to the reserve banks is not sufficient to justify establishing a different procedure or imposing what would in effect be a discriminatory tax against only one class of items tending to force all items to banks for payment. Inasmuch as the law contemplates the collection of maturing notes and bills without any restriction as to the place of payment and inasmuch as many firms and individuals prefer themselves to see bills drawn on them before they are paid, might they not properly object to a charge of tax on their obligations merely on the ground that they are not made payable at a bank? In an event the committee earnestly believes all classes of items must be treated alike, and that the reserve banks should collect all items and collect them on the same basis.

#### RECOMMENDATIONS

1. That the non-cash collection service be continued not only for items payable at banks, but for items payable at street addresses as well:

#### REASONS:

(a) The great majority of memberbanks, both city banks and country banks, now using the service believe it of value and desire its continuation.

- (b) The service is expressly authorized in the law, and, though optional, most of the powers of the reserve banks are optional. None of them should be abandoned arbitrarily or merely because of selfish objections raised by certain limited groups.
- (c) While the volume is increasing, the per item cost is steadily decreasing and in 1923 even the aggregate cost decreased  $7\frac{1}{2}\%$  from 1922, in spite of a 21.7% increase in volume during the same period.
- (d) The non-cash collection service, like the check collection service, is a great economic saving to the country as a whole. The per item cost to the reserve banks is greatly less than the cost would be to many individual collecting units. So, also, the records indicate that of the vast amount of country items handled by the reserve banks, approximately 84.8% are now collected without the payment of an exchange charge. This alone represents a large saving to the business of the country.

II. That no service charge be made for collecting any class of non-cash items.

## REASONS:

- (a) Costs have decreased, not increased, in the past year and further savings are expected next year.
- (b) The great majority of member banks interviewed opposed a service charge.
- (c) The resentment against such a charge would probably be so great, both on the part of the banks and the public, that it should not be considered unless or until it is absolutely necessary to preserve a free credit or investment policy on the part of the reserve banks. That time has not yet arrived and the committee sees no immediate prospect of it.
- (d) There is no more reason in theory or policy to establish a service charge for items payable at street addresses than items payable at banks. In either case member banks would object. If a charge is made for only one class of items, the charge would be subject to fair criticism that it discriminates against individuals who prefer to make payments at their own office instead of at a bank.

III. That each reserve bank and branch endeavor so far as possible to effect its local collections in that manner most consistent with established business and banking practices, with a view to eliminating any unnecessary causes of possible friction or discontent on the part of those business houses with whom the reserve banks necessarily come in contact in making presentation of items for payment.

IV. That each reserve bank and branch continue as in the past vigorously to promote further economies and efficiency in the operation of its collection service, giving due consideration to the encouragement of more direct sendings by member banks as well as to other practices designed to eliminate extra or costly handlings.

In conclusion, the committee believes that the present non-cash collection system is operated with a high degree of efficiency and at a cost considerably below the cost possible for individual member banks, that it is generally appreciated and desired by member banks and the public, that it is economically sound and that it should be continued but that the reserve banks must always be alive to the importance of making further economies or improvements in

the service whenever they are possible in the interest of member banks and the public as well.

Respectfully submitted,

COMMITTEE ON VOLUNTARY SERVICES  
ASSUMED BY FEDERAL RESERVE BANKS.

E. R. Fancher - Chairman  
Benj. Strong  
J. B. McDougal  
B. A. McKinney.

Governor Calkins: In order to get the matter before the House, I move that this report be adopted and that the recommendations contained in the report be adopted as the recommendations of this conference.

Governor Norris: I second the motion.

Governor Bailey: I move as a substitute that it is the sense of the Conference that the non-cash collections be discontinued by the Federal Reserve System.

Governor Seay: Altogether, or on individuals?

Governor Bailey: I will put it in that way and you can modify it. It is an intolerable nuisance with us.

Governor Wellborn: I will second that motion.

Governor Young: I have been against the non-cash collections for some time. Apparently there are three who

are against continuing the function and the other nine are for it. It looks as if we were going ahead with the non-cash collections, and of course Minneapolis will do the same as the other banks. I think, however, rather than to vote yes on the committee's report, I would like to say that I would like a little modification of the report. As I understand the non-cash collection proposition now, from the circulars, and as I understand the action that has been taken by this conference of Governors, it is that we will handle anything. Now, while this only started a short while ago, it is going to grow. There isn't any question about that at all. There was a bank down in Illinois, run by a pretty clever chap, that had 338 notes on a failed bank in Montana. He sent those to the Federal Reserve Bank of Chicago and Chicago sent them to our branch, and we wrestled with the items for three months, did not collect anything, and sent them back to Chicago. I think we have got to bear in mind that the New York Bank, Chicago, Milwaukee, St. Paul and Minneapolis banks, and the banks in centers that loan a great deal of money in the country on so-called collateral notes secured by customers' notes, that on maturing bills, that just as soon as these New York

banks, Chicago banks, Minneapolis banks and other banks become as keen as this one banker in Illinois, they are just going to load the Federal reserve system with these notes for collection, and so far as the reserve Bank of Minneapolis is concerned, we have not going to handle them, and we have so notified the other banks. You have got to put some restriction on this.

Governor Bailey: There ought to be some restriction as to the amount, say \$100, or something of that kind, instead of having them send us all these little dunning bills.

Governor Young: Why should we try to collect notes for the Hanover National Bank that they cannot collect themselves?

Governor Bailey: That is exactly what I would like to know?

Governor Young: Or for any other bank?

Governor Bailey: Every commercial bank out in our country has a commercial agency, and they are charging for this service. We will be taking it away from them, and we are doing a nice bunch of business collecting items out there for nothing.



Governor Seay: But doesn't your bank enforce the charge for returned unpaid items?

Governor Bailey: No, we have not been trying to enforce it.

Governor Fancher: With regard to these little duns that you speak of, if you imposed the charge of 15 cents they would soon disappear.

Governor Bailey: Lots of these one dollar and a half bills and notes are paid and we have to send our man clear over into Armourdale, ten miles, to a little junk shop, to collect.

Governor Fancher: Do those items come very generally from your banks, or are they little items originating with some concern selling on the installment plan, or something of that sort?

Governor Bailey: They are located largely out of the Tenth District, I will say that.

Governor Seay: Unless my memory is at fault this conference has previously determined that charges for return of unpaid items should be strictly enforced by the Federal reserve banks.

Governor Young: They have been, but you cannot c ha

another Federal reserve bank.

The Chairman: It looks to me as though we were headed into another storm and I am going to ask the conference to defer further discussion of this in order that we may hear from Mr. Winston. The Treasury has several topics on the program; Mr. Winston is here to discuss them with us, and if there is no objection that course will be pursued.

(Under-Secretary Gerrard B. Winston entered the conference room.)

The Chairman: Mr. Winston, we are glad to see you, sir.

Mr. Winston: I want to submit a memorandum on Fiscal Agency expenses, which we can then discuss.

The Chairman: That will be Topic V (b) on the program.

(b) Fiscal Agency Expenses.

(The memorandum submitted by Mr. Winston is as follows:

April 24, 1924.

Fiscal agency expenses.

The relationship between the Treasury and the Federal Reserve Banks is two-fold - the Banks act as fiscal agents

of the Treasury and as depositaries. As fiscal agents the Banks announce issues, receive subscriptions, make allotments, receive payments, make deliveries, and subsequently conduct exchange transactions in the securities delivered. As depositaries they pay any maturing Government obligations, including coupons, interest checks, disbursing officers' checks, and Treasury warrants. So far as the Banks' duties as depositaries are concerned, these duties do not differ from those of any ordinary commercial bank to a favored customer, and payment therefor is assumed to be made out of the use of the funds of the Treasury kept on deposit in the Federal Reserve Banks.

It is essential that a reconsideration of the fiscal agency expenses to be reimbursed by the Treasury be had before the commencement of the next fiscal year on July 1, 1924. In the Treasury appropriations for the fiscal year 1925 there are available only appropriations to cover expenses of issues made in 1925 and in the prior year. There is no specific appropriation for fiscal agency expenses. It is felt, however, that the Treasury would be justified in using the Expenses of Loans appropriation up to \$200,000 in payment of fiscal agency expenses arising from issues

of 1924 and 1925. This means, therefore, a radical curtailment in reimbursable expenses heretofore made:

It is proposed:

1. The sales organizations of the Treasury savings certificates shall be abandoned effective July 1, 1924.
2. On January 1, 1923, \$622,000,000 of War Savings certificates matured. On January 1, 1924, \$60,000,000 matured. It is estimated that on January 1, 1925, there will be only \$25,000,000 maturing. After 1925 the Treasury savings certificates mature throughout the year. Under these circumstances it is felt that special allowance for expenses in the redemption of War Savings certificates or Treasury savings certificates are no longer proper and it will be expected that payment of War Savings certificates will be handled in the same way as any other Government security maturing.
3. The Treasury's fiscal program has become fairly well settled and now means an issuance of securities quarterly. The banks should reduce their fiscal agency organizations to the extent necessary to handle these quarterly issues and current exchanges in such issues.
4. The fiscal agency expenses of some of the Banks

are entirely out of proportion to the expenses of the other banks of the system. A comparative statement of the estimated reimbursable expenses for the current fiscal year of the various Banks, with the percentage these expenses represent to the total expenses and the percentage of new issues handled by the Banks during the past 18 months, is as follows:

## Reimbursable Expenses.

Federal Reserve Bank	New Issues	Redemption W. S. Ctfs.	Sales Organization	Total
Boston	\$ 16,779.80	\$ 9,334.93	\$ 12,126.47	\$ 38,241.20
New York	14,747.00	51,374.15	30,000.00	96,121.15
Philadelphia	16,920.99	11,369.96	20,000.00	48,290.95
Cleveland	65,873.42	52,637.64	32,498.24	151,009.30
Richmond	10,214.77	8,309.56	14,996.06	33,520.39
Atlanta	5,532.81	5,896.87	12,559.89	23,989.57
Chicago	53,758.60	44,291.32	19,516.00	117,563.92
St. Louis	24,100.00	20,620.00	14,255.00	58,975.00
Minneapolis	21,333.18	4,850.00	9,630.00	35,813.18
Kansas City	23,008.62	3,651.61	17,769.02	44,429.25
Dallas	9,750.00	4,600.00	13,150.00	27,500.00
San Francisco	16,230.77	12,904.97	12,614.32	41,750.06
Total	\$278,249.96	\$229,841.01	\$209,115.00	\$717,205.97

## Reimbursable Expenses Compared to New Issues.

Federal Reserve Bank.	Total Amount New Issues July 1, 1923- Mch. 15, 1924	Percentage of New Is- sues for Each Bank.	Percentage of Reimbursable Expenses New Issues for Each Bank.	Percentage of total reimbursable expenses each Bank.
Boston	\$ 402,870,200	8.13	6.03	5.33
New York	1,933,255,400	39.00	5.30	13.40
Philadelphia	364,844,500	7.36	6.08	6.73
Cleveland	393,176,100	7.93	23.67	21.06
Richmond	154,444,000	3.12	3.67	4.67
Atlanta	139,826,600	2.82	1.99	3.35
Chicago	587,193,800	11.84	19.32	16.39
St. Louis	208,852,100	4.19	8.66	8.22
Minneapolis	120,178,000	2.42	7.67	4.99
Kansas City	130,968,700	2.64	8.27	6.20
Dallas	120,331,800	2.44	3.51	3.84
San Francisco	296,810,800	5.99	5.83	5.82
Treasury	105,133,000	2.12	----	----
Total	\$4,957,885,000	100.00	100.00	100.00

Mr. Winston: This question is imminent because we actually have no more appropriations with which to pay the banks for fiscal agency operations. We have one appropriation, Expenses of Loans, which is consigned by statute to loans of the current year and to loans of the year prior to that, and that is all. We have been warned by the Appropriations Committee that we have got to restrict that expense of loans as far as possible, and if we go too far in using expenses of loans to pay fiscal agency expenses I am afraid we will have a limit placed on that appropriation which will seriously interfere with the later fiscal operations of the Treasury.

A large part of this expense, as you will notice on the last page, is for redemption of War savings certificates and war savings sales organization. They account for about two-thirds; new issues accounts for about one-third. In regard to new issues, some of the banks apparently burden us pretty heavily with expense, and others do not. The most striking example, of course, is Cleveland. Cleveland has about eight per cent of the new issues and 23 per cent of the new issue expense, whereas New York, in the reverse, has 39 per cent of the new issues and 5-1/3 per cent of

the new issue expense. Just what these items consist in, that is, what Cleveland pays in the expense of New issue and what New York does not, I do not know.

Governor Fancher: I think that has been re-set. This takes up to what date?

Mr. Winston: March 15th. It is annual---

Governor Fancher: To the close of the year?

Mr. Winston: Yes.

Governor Fancher: That has been greatly re-set and cut way down.

Mr. Winston: I put that in simply for the purpose of showing that the proportions do not agree. I do not know how far you can cut this new issue expense, but I do not think that we are justified, in view of our representation to the Appropriations Committee, to go further than \$200,000 in new issue expense. That would mean a cut from last year of \$278,000 or \$78,000 less.

Governor Welborn: I notice the date of the new issue goes down to March 15th.

Mr. Winston: That date is only used to get the proportion of the new issues.

Governor Norris: That ought to be easy. \$45,000



will come off Cleveland and that will only leave \$33,000 to come off the rest of us.

Mr. Winston: We have very little discretion in this matter because, of course, we are subject to Congress as to what appropriations we get. I see Chicago runs a fairly high proportion.

Governor Calkins: Do you propose to abolish the Treasury savings organization altogether?

Mr. Winson: Yes. We have to do that because we have no appropriation for it.

Governor Seay: You mean not sell them?

Mr. Winston: Continue selling them, but without any organization at the various Federal reserve banks.

Governor Seay: Sell them from the Treasury Department?

Mr. Winston: Through the Post Offices. I do not know just how your Board will want to take that up, but that is the position that the Treasury really has to take now. We would like to have you tell us if you can, after the first of July, cut your expenses accordingly?

Governor Fancher: Have you asked for an estimate of expense for the coming fiscal year?

Mr. Winston: I have not asked for it yet, but I would like to get it.

Governor Fancher: You will be asking for it pretty soon, I suppose?

Mr. Winston: Yes.

Deputy Governor Case: Do I understand that the banks will not be asked to sell Treasury savings certificates after July, so that they can adjust their expenses?

Mr. Winston: You have an organization now under the Director of Savings.

Deputy Governor Case: Yes.

Mr. Winston: And a lot of people working under him pushing the sale of these certificates. That organization will be abandoned.

Deputy Governor Case: And these certificates will still be on sale?

The Chairman: I suppose they will, yes.

Mr. Winston: Yes, at the Post Office.

Deputy Governor Case: But not at the Federal Reserve Banks?

Mr. Winston: They can be on sale at the Federal reserve banks without any organization. I do not suppose

you have many direct calls for them. I never heard of that.

The Chairman: Where will they be on sale, Mr. Winston?

Mr. Winston: At the Post Offices.

There are one or two other things that I would like to refer to. One of them, about which Mr. Case has talked to me, is with regard to the fixing of proper interest charge on overdrafts. After consideration we decided that we could pay the banks what it was worth to us, which we considered to be about one per cent less than the issue rate of the certificates that we issue, as of the date of the over-draft. We will pay one per cent less than the interest rate on the short time certificates we are issuing with a minimum of two per cent and a maximum of five per cent.

The Chairman: Mr. Winston, this memorandum you have submitted is not susceptible of more than one interpretation. You want the Federal reserve banks to give careful consideration to readjustment of their fiscal agency accounts, and you are going to proceed in the matter of eliminating some expense through the abolishment of the war savings

organization. Is there anything further you want, except our cooperation in that matter?

Mr. Winston: That is what we want, Mr. Chairman. In looking over what we were paying for insurance on securities and money it seemed to me it was excessive, in view of what the losses were. We have taken up in the Treasury the question of getting a new insurance policy and we have just made a contract at 4-7/8 cents flat per thousand as against 6 cents, and that means a saving to the Treasury of about \$60,000 a year. You also have your own contracts for insurance, and whether you want to reconsider those and get lower rates or not, I do not know. The Aetna Insurance Company has taken the contract, with Marsh and Glennan agents.

Governor Seay: Insurance on currency shipments?

Mr. Winston: Currency shipments and securities; that is, insurance that is not carried by the Treasury self insurance. With regard to the Treasury self insurance, we find that the Treasury self insurance applied only to the Post Office and not to the banks; that is, the Federal reserve banks shipped for Treasury account to a commercial bank. When the post office got control the insurance stop

ped, and there was no insurance between the Post Office and the bank, although there was a chance of robbery. It did not seem fair that the Treasury should not assume that liability, and for that reason we extended the Treasury self insurance carrying the parcel from the post office to the building in which the commercial bank is located.

The Chairman: The terms of our policies I think are in accord with that.

Mr. Winston: That is your commercial policies. I am referring to the Treasury self insurance. The commercial bank could not say whether the policy covered to their building or covered to the post office only, and consequenc<sup>the</sup> was they could not take out the insurance.

Governor Seay: I think that is a very good move and ought to help the banks very much.

The Chairman: Is there any further discussion of this memorandum submitted by Mr. Winston?

Governor Calkins: I would like to ask whether the banks have been, or will be, notified that the Treasury Savings organization will be discontinued?

Mr. Winston: They have not yet been notified. I have brought it up here for the first time.

Governor Calkins: Will the banks be notified with regard to the extension of the self insurance?

Mr. Winston: They have been notified. On the question of our insurance policy, as a matter of information I thought it might be interesting to you, as it would mean a large saving of money.

The Chairman: I would suggest that formal notice be sent as early as possible, in order that we may do full justice to those who are employed in the departments of the banks.

Mr. Winston: Yes, I will do that.

The Chairman: I think we can promise you, on behalf of the Conference here, our full cooperation in the matter that you are seeking to bring about, and unless there is something further to be said on this subject we will go to the next subject.

Governor Seay: I would like to ask Mr. Winston this: The Director of Savings is regarded as an employee of the Treasury Department and I presume he will notify him direct?

Mr. Winston: Yes; we will notify him. I have not

brought this up before in order to determine some of these things. I thought I would wait until this meeting before I did anything. The director of savings is employed by the Governor and reports to the Governor of the Bank.

Governor Seay: He reports to the Governor of the Bank, but he is an employe of the Treasury.

Mr. Winston: As a general thing he has been the nominee of the Governor of the Bank.

Governor Seay: My impression was that the Director General here employed him.

Mr. Winston: As he was so close to the Governor of the Bank, I wanted to take it up with you before I took it up with him. If you prefer to take it up with him before I do---

Governor Seay: I would prefer it the other way.

Mr. Winston: Then I will do it the other way.

The Chairman: The next topic is III-(c).

(c) Payment of Gold Certificates.  
Discussion of advisability of having all reserve banks make payments of gold certificates in the usual course of business.

Mr. Winston: For a year and a half we have been endeavoring in the Treasury to have the Federal Reserve

banks pay out gold freely in the payment of gold certificates. New York has taken it up and has been very successful in it. I think your figures show that in the year and a half you have paid out over \$500,000,000 in excess of receipts.

Mr. Harrison: About \$550,000,000.

Mr. Winston: Chicago took it up a little bit later and has been paying out over \$100,000,000 in excess of receipts.

The Chairman: We have paid out about \$200,000,000.

Mr. Winston: But not in excess of receipts.

The Chairman: We started it less than a year ago.

Mr. Winston: Your figures given me on April 11th showed \$108,000,000 disbursements in excess of receipts. Our idea is to have several of the other banks, particularly Boston, Philadelphia, Cleveland, and San Francisco, also adopt the policy of paying out gold more freely until we get more gold in circulation. The other Federal reserve banks have been taking these gold certificates which came from Chicago and New York and have been freezing onto them. I have recent figures and it shows that their receipts of



gold certificates are much in excess of their disbursements. We would like to have the other banks at least pay out as much as they take in, so that the work we are doing in Chicago and New York will not be nullified by the other banks.

Governor Wellborn: Can you recall the different banks?

Mr. Winston: You mean as to what?

Governor Wellborn: Taking in more gold than they are paying out.

Mr. Winston: I just got a report for the month of March, which is not a year and a half, and Boston had net receipts of \$388,000; New York had <sup>net</sup> payments of \$31,000,000; Philadelphia net receipts of \$791,000, Cleveland, \$224,000; Richmond, \$15,000, Atlanta, \$70,000; Chicago had payments of \$30,000,000; St. Louis had \$900,000 in receipts, Minneapolis \$181,000; Kansas City, \$290,000; Dallas, \$256,000, a total of \$5,750,000 that came in as net receipts during that month, which in part nullified the payments of New York and Chicago.

Governor Calkins: Have you San Francisco?

Mr. Winston: No, it is not on the list.

Governor Fancher: I have the figures for the Cleveland Bank for the first quarter of the year 1923.

Mr. Winston: What do they show?

Governor Fancher: They show gold coin received \$1,071,000, payments \$1,513,000. Gold coin received the first quarter of 1924, \$445,000, and a payment of \$45,000. Gold certificates received 1923, \$22,273,000. Payments and redemptions 1923, \$961,000. For the first quarter of 1924, receipts \$6,368,000; payments and redemptions \$7,017,000, showing that our payments and redemptions have exceeded our receipts.

Mr. Winston: I think some of the Federal reserve banks are doing better. I think Philadelphia is too.

Governor Fancher: We have not been accumulating certificates.

Mr. Winston: Is there any reason why you should not adopt the same policy as New York and Chicago with regard to paying out?

Governor Fancher: I think we probably could pay a little more out. We have paid all that we have received. We keep it going. We haven't accumulated any gold in

the last fifteen or sixteen months.

Governor Seay: It might be well to say to Mr. Winston that there is not uniformity of opinion about the policy concerned in the various banks.

Mr. Winston: I suppose there is not. We have brought this subject up several times for discussion, and in the Treasury, at least, and I think in the Federal Reserve Board, it has been the majority opinion that we should pay these out.

Governor Calkins: A program was formulated some six or nine months ago, by a committee, including a representative from the Treasury Department, setting forth the sequence in which payments should be made, and the character of currency to be paid out. I think that has been followed by the San Francisco bank, which has made no special effort to pay out gold certificates.

Mr. Winston: Aren't you in pretty good condition to paying out gold certificates?

Governor Calkins: I think I will have to refer to Governor Seay's statement, that there is not unanimity of opinion in regard to the desirability of paying out

gold certificates. I have never, myself, been able to see the argument advanced in favor of putting the gold certificates into circulation.

Governor Harding: Mr. Winston, have you any information as to the amount of United States currency, Federal reserve notes and other forms of United States currency held abroad?

Mr. Winston: We have been trying to get figures on that, but we never have gotten very satisfactory figures.

Mr. Harding: The Hungarian Finance Minister told me six weeks ago--- I asked him the question because I noticed American currency circulating very freely. For instance, if you had a million crowns to be changed, which amounted to about \$15, you got two or three dollar bills in exchange, and the Hungarian Finance Minister told me that in his opinion there were \$50,000,000 in American money in circulation in Hungary. I think probably what he meant to say was that there was the equivalent of fifty million gold crowns in American money, which would be \$10,000,000.

Mr. Winston: That would be more like it. Our figures do not show anything of that kind.

Governor Harding: I imagine he meant \$10,000,000. I know American currency is circulating freely both in Austria and Hungary and I am told, in Germany.

Mr. Winston: The only way you can figure it is to see how much currency you have out as compared with other years. There hasn't been such an increase in the dollar bill,---

Governor Harding: The only form of American currency discriminated against was the \$10 legal tender note with the Buffalo on it. They would take national bank notes or Federal reserve notes, certificates and everything but the Buffalo \$10 bill. They wouldn't take that.

Mr. Winston: We have not believed that there was over \$50,000,000 all told, outside of Cuba and Canada.

Governor Norris: At the conference last November Mr. Austin was made a committee of one to try to get the figures on that. He wrote to a great many European bankers; he sent them a questionnaire, and I have seen quite a number of the replies. Of all the replies that he got there were only one or two which said that they knew of any considerable amount of American money circulating in their countries. The rest said that there was no appre-

ciable amount.

Mr. Winston: Take the American Express; they bring back almost as much as they take out.

Governor Harding: You can go anywhere in Continental Europe, and they have railroad stations where they have little booths with a sign "Change". They skin you pretty well on the exchange rate, but they have all kinds of money, Swiss, Hungarian Czech, and so on, and I would take occasion to have change made there, and usually I would look in the cash drawer, and I saw plenty of American money. They have those booths at the railroad stations, not only in the big cities, but at the waystations.

Governor Fancher: If the Federal reserve banks were to adopt a more liberal policy in paying out the gold, is the Treasury well supplied with the small denominations, tens and twenties?

Mr. Winston: Yes. I would prefer, of course, that they use the twenties if they will stay out, because we need the tens.

Governor Fancher: Of course the tens are used more frequently in pay rolls.

Mr. Harrison: I might say that after our two years

of experience we find that the tens stay out much better than anything else; in fact pretty nearly fifty per cent of the tens that we pay out stay out, forty per cent of the twenties, and then it goes on down until it reaches about 15 per cent of the higher denominations.

Governor Harding: In those change booths if you offered them American gold they would not give you as good a rate as they would for American paper, and in some cases they wouldn't take the gold, because they are afraid it is going to be taken away from them.

Governor Seay: And they are afraid of the abrasion also.

Governor Harding: They would not take it.

Governor Wellborn: Another reason is the transportation is cheaper on paper money.

Governor Norris: Aren't there a number of countries where they won't let you carry out the gold?

Governor Harding: When you leave some of those countries they want to know how much money you are taking out. I told them here it was (exhibiting money), that I had 400 crowns, and they let me bring that out. The limit in Hungary is 5,000 crowns, I believe.

The Chairman: It is very obvious that some banks pay gold out, and that others are impounding it, but that that is not done to any considerable extent. Mr. Winston has suggested that the banks give consideration to at least being uniform in the matter of paying out as much gold as they receive, and I think, at the same time, has invited a little more liberal policy in the paying out of gold beyond that point.

Governor Calkins: It is also obvious that if some banks pay out gold and the other banks do not impound it, that they will not interfere with the program of those who pay it out. The evidence shows that the impounding has not been serious so far. That, of course, does not touch the other question.

Governor Seay: There are differences, too, in the status of the different reserve banks. You might take the Richmond reserve bank, which is lending a relatively large sum of money and its reserve is down to between fifty and sixty per cent. That bank would have no object, nor would it be good policy, in paying out its gold.

Mr. Winston: I would not ask it to.



Governor Seay: Particularly since it is true that 25 per cent of the receipts of currency that come in are national bank notes.

Mr. Winston: I would not ask a bank in the position of the Richmond Bank to do that.

Governor Seay: Then it has small importance in your calculations, anyway.

Mr. Winston: I would think that banks like Cleveland, Boston and Philadelphia would be in position to continue the program if they feel in favor of it.

Governor Norris: So far as Philadelphia is concerned, we have followed, as Governor Calkins said just now, the program giving the order in which the money should be paid out. That was agreed on in conference a year and a half or two years ago.

Mr. Winston: Does that order include gold?

Governor Norris: Yes. As I recall it, gold was third or fourth on the list.

Mr. Harrison: Gold was at the bottom of the list.

Governor Norris: At the bottom of the list, yes. I do not think that resolution accomplished, perhaps, just what its author intended that it should. Last year, of

course, gold coin was negligible; in gold certificated they took in \$21,917,000 and only paid out \$4,432,000. We had considerable receipts in January, February and March of this year, and our gold reserve got up to \$270,000,000. Prior to that our gold was a little less in proportion to that of other banks of our size, and we were disposed to allow the accretion to go on until we reached that figure. Having reached it, we changed our policy, on the first of April, and during the month of April in coin and certificates, we received \$4,676,000 and paid out \$4,632,000, so that we only accumulated \$43,000 worth of gold in that month. If that is satisfactory to the Treasury, that is the policy that we will pursue for the future, of paying out what we get in.

Mr. Winston: But not paying out what you have accumulated from the other two banks in the past year and a half?

Governor Norris: I do not think our Board would have any objection to reducing that somewhat if any beneficial purpose is to be served by it, or the Treasury especially desires it. There never was any resolution that

we would go on until we had accumulated \$270,000,000, but that just seemed to be our proportion of the gold holding of the system. We represent just about one-twelfth of the system, and we are about the average sized bank. One-twelfth of the total gold holdings would be a little over \$250,000,000.

Governor Calkins: I presume in San Francisco we have a distorted view with regard to the expediency of paying out gold, because of experiences that none of the other Federal Reserve Banks shared in the circulation of gold and in the effort necessary to get all the gold into the Federal Reserve System at a time when it was thought desirable to do it. None of the other banks had a comparable situation to ours at that time or a comparable problem to work out. It was successfully accomplished, but I think it has had a psychological influence upon us.

Mr. Winston: I suppose it has, Governor.

Governor Calkins: With regard to putting gold into circulation, I am bound to say that personally I have not been able to understand what the object is in forcing gold certificates into circulation at this time. I am possibly

obtuse, but I am going to be frank, at least.

Mr. Winston: We are getting so much gold into the country we want to at least equalize the imports in the last year and a half.

Governor Calkins: Gold would not go out of the country because you paid it out.

Mr. Winston: No.

Governor Calkins: On what theory is it considered desirable to put gold certificates into circulation at this time?

Mr. Winston: Why should it not be circulated? What do you want to keep it in one place for? Isn't it a better type of money than any we have?

Governor Calkins: No, I do not think so.

Mr. Winston: We are on a gold basis.

Governor Calkins: I think the Federal reserve note is quite as good if not better, than the gold certificate.

Mr. Winston: The Federal reserve note is practically a gold certificate?

Governor Calkins: It is a 115 per cent gold certificate.

Governor Wellborn: I thought the idea of it was to keep people acquainted with the circulation of gold so as to get the idea of fiat money out of their minds.

Mr. Winston: And we also want to have that secondary reserve.

Governor Calkins: There is no saving in the substitution of gold certificates or federal reserve notes. On the other hand there is probably additional cost.

Mr. Harrison: Two years ago we adopted this currency payment program in which it was specified that gold should be paid out last. That is true, but we have failed to follow that, merely because of the fact that at the time it was adopted Governor Strong made the reservation, which was tacitly approved by the Governors, that we would not follow it but that we expected to pay out gold in amounts sufficient to offset the amount that was being imported.

We realize, of course, that the mere payment of gold by the reserve banks, after once being deposited in the reserve banks, does not offset the inflationary effect of the imports of gold, but it did offset the bookkeeping effect, and the inflationary effect was perhaps being offse

by the sale of investments held by the reserve banks at that time.

Governor Seay: At one time, Mr. Chairman, one of the purposes which was set forth was to avoid accumulation of gold certificates in the system. I haven't heard that alluded to lately, because it is subject to attack, and I think a very formidable attack, and apart from that I occupy Governor Calkins' position. The purpose of the formation of the Federal Reserve system was to impound the gold and there is where it has its greatest credit strength. While we may have enough of it, of the gold itself or its equivalent, the notes, to justify the policy, still it is somewhat contrary to the theory upon which the Federal Reserve System is founded.

Governor Harding: So far as our district is concerned, I would like to have some good, tangible reason why it should be done. I do not want to be obstinate, or anything of that sort, but in my position there, I am merely the officer agent of the Board of Directors, and when you take the New England Board of directors and present a practical reason, something where they can see a dollar in it, they can catch on. I will tell you one thing that has

weakened our position very much. We came down here in March of 1923 and your predecessor, Mr. Gilbert, and requested that everybody sell their government securities; he got the Federal Reserve Board into the idea, and we turned loose our securities. I said I did not know but I would consult the board in Boston. The result of it was that owing to my persuasion, they turned loose several million dollars of Treasury obligations that they had bought for investment and sustained a loss of about \$18,000, which hurt their feelings very much; but that wasn't the end of it. Now, if I go back and tell them that under a new program they want us to go ahead and accumulate more government securities they immediately say, "Well, how about last spring? Why didn't you let us stand pat?" I say that the Treasury and the Board want to do it, and they say, "We are going to do our own thinking after this and let the Treasury and the Board give us a reason why." That is my position.

Mr. Winston: The purpose was to be in a position to restrict credit without having to raise the rate. There have been several things affecting the Treasury view. Of course, every little while somebody comes up and says,

"Look at the gold in the Federal reserve banks; they ought to be using it, and it is not being used---

Governor Calkins: Do you think that whatever gold the Federal reserve banks would put into circulation would materially affect the situation?

Mr. Winston: It at least will keep the gold down to what it has been. Then there is the feeling that the public ought to be accustomed to gold---

Governor Calkins: There is exactly where I am inclined to disagree. I do not disagree with regard to the other argument, but in regard to accustoming the public to gold circulation, that is something in which we have had probably more experience than the rest of the country combined.

Governor Harding: During the trouble you had in 1914 you were on an absolute gold basis. The State of California required that taxes be paid in gold coin, and they had an awful time out there.

Governor Calkins: The public now distinguishes between the yellow backed gold certificates and Federal reserve notes, and if there was anything that led to a disposition on the part of the public to hoard, it would



be applied to the gold certificate first.

Mr. Winston: Of course discrimination is not shown in the New York banks at all, it comes in just the same as anything else, because they are very common here. I do not know how common they are our west. There was another idea, that we would like to have a secondary gold reserve. You can pull that stuff in; it comes in all right. There is not much sudden taking of that gold away from the country. It is like all these arguments on finance, you can get theories all ways.

Governor Wellborn: I recall that no less an authority than Mr. William Jennings Bryan has said that we are not on a gold standard because you do not see any gold.

Mr. Winston: It has been the policy of the Treasury to try to get this gold into circulation. We want to get as high as \$500,000,000 and maintain it.

Governor Harding: What have you now?

Mr. Winston: We have that now--- I mean, that has been paid out, but since then these imports have continued at a rate of a million a day, and we have wanted to get \$500,000,000 plus the imports, which we have not succeeded in doing.

Deputy Governor Case: Isn't that the reason that Mr. Winston advances, the idea of having a secondary reserve? I have not figured out what the reserve ratio of the system would be if we had this 500 or 600 millions in gold that is in circulation impounded in the Federal reserve banks and federal reserve notes outstanding in its place, but it would materially increase the reserve ratio, and after all, a thing of this kind isn't different from any other business. You might call it, if you please, a certain kind of window dressing, or whatever term you choose to apply; but if the time comes when conditions in Europe begin to become stabilized, and they call on us for gold, and it should go out at all rapidly, the fact that we have a secondary reserve of five, six, seven or eight hundred millions seems to me to be an element of strength which does not appear on the surface.

Governor Calkins: When you speak of this as being a question of finance, you are really discussing psychology and not finance at all.

Mr. Case: Partly, but not altogether. I think it is a very nice question of whether you want to see the reserve ratio go to ninety or ninety-five per cent. I

would personally rather see it at eighty, and then have a secondary reserve that you are reasonably certain of being able to get, that is, a substantial part of it, in the natural course, after it is circulated nationally and people get used to seeing it. I think if you had gold out of circulation for ten, fifteen or twenty years, and then undertook to circulate it, that it would cause a good deal of comment. We have circulated it in the last year or two and there has been no comment worthy of notice.

Governor Harding: I think if you get the Treasury revenue bill enacted into law that these other problems will disappear very quickly.

Mr. Winston: The last thing that we are likely to get is this amendment of Mr. Jones', taxing undistributed profits, from one quarter of one per cent up to forty per cent of the undistributed profits.

Now, I would like to leave this gold question with you. What the Treasury would like would be for the other banks to go along with New York and Chicago, at least to the extent of turning out as much as they get in, so that

the work that is being done by New York and Chicago will not be neutralized.

There is one other question which was raised, I think, at a former meeting of the Governors, and that has to do with commercial paper as collateral for special deposits where they buy government securities.

The Chairman: That is Topic V-(a) on the program .

V-(a) Commercial paper as collateral  
to War Loan Deposit Accounts.

Mr. Winston: That is a question I would like to hear discussed, because I do not know much about it. The question was on eliminating the provision for using commercial paper as security. So far as the Treasury is concerned, it is desirable that these securities that we sell from time to time be distributed as widely as possible and we would not like to make any change that would interfere with that distribution.

Governor Calkins: I believe we are responsible for that suggestion, as we have been several times before, and it is always met with the same response from the Treasury Department, that they were unwilling to interfere with the distribution of government securities. It is our opinion, at least so far as our district is concerned,

that it would not make the slightest difference in distribution; that it would, however, prevent those banks which are disposed to do so, from practically rediscounting commercial papers, as they do now, in the war loan deposit account. I have before me the figures with regard to the deposits of one bank which shows that its proportion of commercial paper has varied from 45 per cent to 100 per cent, running for a considerable time at 100 per cent; in other words, the bank put up nothing except commercial paper. If we raise objection they say that this commercial paper is accepted everywhere else as security for war loan deposits, and why should you object. Isn't it good? There is no difficulty whatever, so far as we can see, in banks using for this purpose government securities or other securities than commercial paper. We would like to see it go out, because it would save considerable expense and trouble, and would also prevent the banks rediscounting in that way, which is highly undesirable in our opinion.

Governor Fancher: We feel about as San Francisco does, that it would not interfere with the distribution of certificates. I have 159 depository banks and only eight

are using commercial paper. Those eight banks are in the principal centers. I do not think the distribution would be affected because it is not the small bank that offers commercial paper as security.

Governor Calkins: The small bank does not use commercial paper to any extent in our district. It is always the large bank which would otherwise be rediscounting.

Mr. Winston: Can we get the views of some of the other banks?

Deputy Governor Case: Personally, I can see no reason for discriminating against commercial paper. The provisions of the circular--- I do not just recall them in detail--- but they do provide for all sorts of government paper, certificates, treasury notes, Liberty bonds to be placed as collateral, and then certain other bonds, public utility bonds and others. The collateral security now covered by the circular is government bonds, farm loan bonds, war savings and so on, Territory of Hawaii, Porto Rican bonds, bonds of any state, state warrants, bonds of any county or municipality, dollar bonds of any foreign country with which we are not at war; bonds listed on any stock exchange, notes of domestic railroad companies, and

so on, public utility companies, commercial paper, bankers' acceptances having maturity at the time bought of not exceeding six months, and otherwise eligible for rediscount, approved by the reserve bank, customers' notes, drafts, bills of exchange, and so forth.

(Further discussion followed which the reporter was directed not to take.)

The Chairman: Mr. Winston, there has been pretty full discussion on that. Is there anything further in connection with the question?

Mr. Winston: I have not yet found out what the opinion is, although I have heard all sides.

The Chairman: Very well, we will put it to a vote. All those who are in favor of discontinuing the acceptance of commercial paper for this purpose will so signify by raising their right hands---

Governor Harding: Mr. Chairman, Governor Wellborn said he would like to be recorded as in favor of taking commercial paper.

The Chairman: Perhaps I should put it in this way, that all those in favor of continuing to accept commercial paper will please indicate it by raising their right hands

all those in favor of discontinuing the acceptance of commercial paper will signify by raising their right hands.

The vote is three in favor of discontinuing acceptability of commercial paper as collateral and nine in favor of continuing commercial paper as collateral.

Are there any other subjects, Mr. Winston?

Mr. Winston: No, I have nothing else, Mr. Chairman.  
I thank you.

(Under secretary Winston thereupon retired from the conference room.)

The Chairman: I have a letter which has been sent me by Governor Grissinger, which reads:

"Dear Governor McDougal:

I am enclosing herewith twelve copies of a comparative table showing the expenses of operating the Federal Reserve Banks during the year 1923, with the request that you place a copy of the statement in the hands of each Governor, and have the conference engage in a general discussion of the probable expenses of operating the system during the year 1924."

I think now we should return to a consideration of Governor Fancher's Committee report on Voluntary Services.



The report refers to non-cash collections, and as I remember it a motion was made to approve the report as submitted, and Governor Bailey suggested a substitute, which substitute was seconded, to the effect that the report be disapproved and that we discontinue non-cash collections.

Governor Bailey: That is a little too drastic statement. I wanted to bring up for discussion this question of whether we are supposed to maintain a collection agency. I don't believe we should be compelled to take all those things.

The Chairman: Without objection, we will proceed to take a vote on the substitute motion, which is to discontinue the non-cash collection function.

(The motion, having been duly seconded, was put and lost, Governors Young and Bailey being the only two voting in favor of it.)

Governor Calkins: I call for my original motion, Mr. Chairman.

The Chairman: Was your motion seconded?

Deputy Governor Case: I seconded it.

The Chairman: Will you please state your motion again, Governor Calkins?

Governor Calkins: I move that the report of the Committee on Voluntary Services be adopted and that its recommendations be made the recommendations of this conference.

Governor Case: I second it.

Governor Bailey: I move to amend the report by saying that no item of less than \$100 shall be offered for collection through the Federal reserve banks.

The Chairman: There is no second to either one of these motions.

Deputy Governor Case: I seconded Governor Calkins' motion, Mr. Chairman.

The Chairman: The substitute motion was not seconded.

Governor Bailey: It was not a substitute motion. It was an amendment, subject to debate. The reason I offered it is this, gentlemen. In the Tenth District less than 100 member banks have availed themselves of it; it is costing the Federal reserve bank \$60,000 a year, and those who have availed themselves of it within the district are not numerous. It is outside business and we are called on to pay \$60,000 a year to handle it. We are

doing that service; we are sending our men out into open contact with the public, in competition with the commercial banks, and I believe it would be a lot better to discontinue it. At any rate, let us put a limit on the amount of the collection that can be sent in. That is my reason for offering the amendment.

Governor Harding: What would happen if your directors should pass a resolution directing you to notify all Federal reserve banks that you would not take any non-cash items for less than \$100?

Governor Bailey: I did not catch that.

Governor Harding: Is there anything to prevent your directors from instructing you to notify the banks that your bank will not take any item for collection of less than \$100?

Governor Bailey: Well, of course we want to go along and do what the rest of you do. We don't want to become an outlaw.

Governor Harding: But conditions in your district are different from those in other districts?

Governor Bailey: We will certainly exercise that prerogative if they keep on coming in like they have been

coming in since the first of the year.

The Chairman: Gentlemen, the question is on the adoption of the report and the amendment to the original motion.

Governor Seay: As I understand Governor Bailey and Governor Young, they believe a line should be drawn somewhere in handling the vast quantity of promiscuous stuff. If you will refer back to the report of the committee on non-cash collections, I think you will find in there a schedule which was incorporated in the non-cash collection circular, and I believe you could make use of that to effect.

The Chairman: Will you state your amendment again, Governor Bailey?

Governor Bailey: My amendment was to the effect that there should be some limit -- I said \$100; I did that to bring it up for discussion for the purpose of seeing if there could not be some limit placed on it, so that we would not be bothered with these small collections coming through us. If it is the consensus of opinion here that our Board can send a circular out to our member banks saying that our bank will not accept certain items, we will proceed to handle it in that way.

Governor Harding: My own opinion is that there is no power to stop you from doing it, if you want to do it.

Governor Wellborn: In connection with this subject, the amendment to the Federal Reserve Act intended to cover member banks that did not have correspondents? It wasn't intended to be a general free collection system, but just intended to provide for member banks that came in which did not have correspondents, but which had the Federal reserve bank as their only correspondent. I am simply seeking information, but my recollection is that it was something along that line, merely to accommodate the member banks that did business exclusively with the Federal Reserve System. I think that was the purpose of the amendment.

Governor Calkins: It was urged as an argument in support of the service that some member banks were giving up correspondents, and that the Federal reserve bank would do the things that the correspondent bank had previously done. There is no discrimination indicated in the act, and there is no discrimination in practice.

The Chairman: Has this discussion gone far enough to suit you, Governor Bailey?

Governor Bailey: Yes sir.

The Chairman: Then I will call for the amendment to the original motion.

Governor Young: Could it not be limited as to kind and amount?

The Chairman: The amendment does not include kind.

(The amendment, having been seconded, was lost, two voting in favor of it and ten in opposition to it.)

The Chairman: We will now vote on the original motion, which was to approve the report as presented.

(The motion, having been duly seconded, was carried, Governors Young and Bailey voting no.)

Governor Young: I would like to ask this question: That if Minneapolis discontinues the non-cash collections would that interfere with the other banks?

The Chairman: Yes. We all recognize that you are in a very peculiar and very unusual position out there, and no one knows better than I do that you have difficulties to meet and problems to solve, about which we know nothing.

Gentlemen, Governor Young asks what effect it would have if the Minneapolis Bank discontinued what, Governor

Young?

Governor Young: Handling non-cash items.

Governor Bailey: I would like to include Kansas City in the answer that we do not want to be an outlaw, yet this thing is certainly a burden to us.

Deputy Governor Case: Would it meet the views of these two gentlemen if, now, that the report has been adopted, we referred this question back to the committee for further study and recommendation as to whether some limitation might not be put upon kind and amount?

The Chairman: It is a matter that is certainly going to require study.

Deputy Governor Case: Yes, and it will take a lot of time if we undertake to discuss it here. It seems to me that might be the proper way to handle it.

The Chairman: If that will satisfy Governor Young.

Governor Young: How much difficulty will it cause if Minneapolis discontinues handling non-cash collections from outside of its district?

Governor Seay: Quite a bit of disturbance.

Deputy Governor Case: Speaking for New York, it would be very embarrassing. We would be in the position

of receiving from member banks these collections and having to cut out the items on your district which you are unwilling to handle. We have enough difficulty now, under the par collection list, with the non-par items, and if we undertake to discriminate, it will create more trouble. I think the way to do it is to study this question of whether or not it would be feasible to place a limitation on it, as suggested by Governor Bailey.

Governor Bailey: I have not studied it enough to know whether \$100, would be the proper amount or not. I simply wanted to bring out what I had in mind, and with all this talk about curtailing service and reducing expense, here is a chance to lop off a million.

Governor Young: It is not the intention of the Minneapolis bank to cause any other reserve bank any embarrassment. We will go ahead, sir. We have been suffering for the past two years under this non-cash collection proposition and we will continue to do so, but again I ask this question: If we limit the amount of non cash items that we accept from the other banks will they be embarrassed?

Governor Fancher: Was not Mr. Case's suggestion a



good one, to turn it back to the Standing Committee on Collections and Clearings?

Governor Young: I do not think so, because I am going to act pretty quickly.

The Chairman: This is a matter that must be considered very carefully, it seems to me.

Mr. Harrison: You will remember the last conference voted that you be given authority to refuse to handle non-cash items on non-par points. That has caused a little confusion, but still it has worked. Have you any limitation beyond that in mind?

Governor Young: If some bank in New York comes into the Federal Reserve Bank of New York---- and as soon as they find out that they can do it they will be in there-- and give you a hundred or a hundred and twentyfive notes on a bank at Fresno, Montana, for instance, and they come to the Minneapolis Bank I am not going to handle them; I am not going to handle them; I will send them back.

Governor Fancher: What would your reason be for declining them and sending them back?

Governor Young: I am not going to handle certain classes of non-cash item.

Governor Fancher: Does that mean that you haven't a responsible bank to send them to?

Governor Young: It may.

Deputy Governor Case: It seems to me that this is going to create an enormous amount of confusion.

Governor Young: It is either going to create confusion in New York or going to create confusion in Minneapolis. It has been going on in Minneapolis long enough, so I guess we will stop it.

Governor Calkins: This is a system question. It is not a question of one bank taking one position and another bank another. We have been trying for years to get past just such a situation as that, where it could be said that the Federal Reserve Bank of Chicago did something and the Federal Reserve Bank of Cleveland refused to do the same time. Personally I believe that the member banks are entitled, as a matter of right, to this kind of service, and that we should continue to give it to them as fully as we can without undue risk. As we all know in Minneapolis Governor Young is suffering from some very acute problems. He is perfectly entitled to say that he cannot make collection of checks, drafts or matured

bills on certain points in his district, and that will be an accepted answer. But on the question of operating as individual banks as against operating as a system, I think we should refrain from doing that to the last gasp.

Governor Harding: The former counsel of the Federal Reserve Board is with us, and I want to ask a few questions to bring out a few points right here. I think we are all in sympathy with Governor Young in the very difficult position under which he is laboring, which same conditions exist, probably to a lesser extent in two or three other districts; but I have never been able to get it into my head--- I have been very dense on this, I guess--- but I have never been able to get it into my head that this conference of Governors has any right under the law, which does not mention even the Governor of the Bank, to prescribe rules and regulations governing all twelve banks. The Federal Reserve Board is the coordinating body; the Federal Reserve Board is vested, by law, with certain supervisory powers, with regulatory powers in some places, and in other places in the act discretion is given to each individual bank and no approval by the Board is necessary. I want to call your attention to

the language of section 13 of the act, which does not say that all Federal reserve banks, nor that every bank in the system shall do so and so, but it says any federal reserve bank may do it. Suppose for some reason or other the management of one Federal reserve bank feels that he cannot afford to do so. Granting that it does throw the System out of gear, the question is where is the justice of it, if it inflicts losses on one bank, not for the benefit of its own member banks, but indirectly, for the benefit of member banks of some other district, which are forbidden by law to rediscount with any Federal reserve bank except their own Federal reserve bank--- I think we are getting away from the spirit of the Federal reserve Act itself when we assume to pass resolutions by a majority vote governing the System. I do not think we have anything to do with the System in that way. We can come here, exchange views and agree on things as a matter of courtesy to one another, and as a voluntary proposition, but I fail to see any authority--- and I have always held this position--- any authority whatever on the part of one Governor of a Federal reserve bank to exercise any authority over any other bank or the body of

Governors, to come here and say to all banks that "You shall do so and so." I fail to see where the Federal Reserve Board can say to a Federal reserve bank that they shall do something which the Act itself says is permissive, and when the Act does not mention the Federal Reserve Board with respect to it.

Governor Fancher: To get back to the non-cash collection proposition, that was inaugurated under the express instructions of the Federal Reserve Board.

Governor Harding: I understand that.

Governor Fancher: And this matter we are discussing, we are acting on direct instructions to the Federal reserve banks from the Federal Reserve Board, and they have been continuing to operate under those instructions.

Governor Harding: At that time did the conditions obtain in Minneapolis which exist now?

Governor Calkins: They existed in other banks. Minneapolis is not the only one. We have the same conditions in our District that they have, and I think the same is true of Kansas City and Dallas and others.

Governor Seay: I believe we are in danger of undoing a great deal that has been done by a committee ap-

pointed by this conference for the purpose of considering this subject.

Governor McKinney: Appointed by the Federal Reserve Board.

Governor Seay: Yes.

Mr. Harrison: The Committee was appointed by the Federal Reserve Board.

Governor Seay: The purpose of the committee was, if possible, to draft a uniform circular covering the collection system and the non-cash collection system.

Governor Fancher: That is a standing committee.

Governor Harding: I admit the desirability of it, if it is possible to do it.

Governor Seay: A standing committee was formed by this conference for the purpose of considering this question and agreeing upon some report which could be adopted by all the Governors, but not forced upon them. I am quite sure, unless my memory plays me false, that if you will look back you will find that the Conference has adopted a report of the Committee on Non-Cash Collections.

Governor Young: I never voted for it; I voted against it.

Governor Seay: It may be you voted against it, Governor Young.

Governor Young: I do not want to be misunderstood by the other Governors here. You put up a very hard proposition to me in Minneapolis and I am willing to go just as far as I possibly can in order to have uniformity in the System; but my bank has taken a lot of losses already under certain rules and regulations that are laid down in the transit matters. I have taken some losses on non-cash collections-- I can take some more, but I want to tell you that I am concerned about the Federal Reserve Bank of Minneapolis and the Federal Reserve System. They all talk about politics destroying the Federal Reserve System, but it is a big question in my mind whether it will be destroyed from the inside or by politics. I don't know which one it is going to be. I will go just as far as I can in this thing, but I won't go any further.

The Chairman: I think we all understand the seriousness of your situation up there, especially with regard to the matter of bank suspensions. There have been approximately            hundred banks suspended in your district.

in a very short time.

Governor Young: Yes, and they are still closing.

The Chairman: I do not think there is anything that this conference has done which can bind Minneapolis under those conditions. I do not believe there is anything that has been done by this conference by which we want to bind Minneapolis, under conditions such as they may encounter and such as they may be in at the present time. It is a serious question, which goes right to the heart of this entire non-cash collection function, and this is a question of the destruction of it, because it has been developed on the uniform basis. Of course if two or three of the districts should fall out of line and the rest of us undertake to go along, it would at once lose its uniformity.

Governor Seay: The same condition exists with respect to check collection.

Governor Harding: You refuse to handle certain checks on your district on certain points?

Governor Young: Yes, just as most of them do.

Deputy Governor Case: I would like to hear a word from Mr. Harrison as to whether the word "may" would



probably be construed as "shall", under the provisions of the Act.

Mr. Harrison: I think there is no doubt in the world, as we have contended from the beginning, that there is a real difference between "may" and "shall" as used in the Federal Reserve Act.

Governor Harding: Because both of them are used in different sections. Sometimes it is "shall" and sometimes "may".

Mr. Harrison: I do not think there is any doubt on the part of anyone that if all twelve Federal reserve banks, with the approval of the Federal Reserve Board, agree of their own free will to curtail or eliminate this service, that they could probably do so legally. I think also we would all agree that if eleven of the Federal reserve banks exercise their own option and agree to collect non-cash items, under the provision that says they "may" do so, that the Federal Reserve Board, as a supervisory body, could require the other bank to do so, because if not, then the functions of the Federal Reserve Board are curtailed to a point where it is not even a supervisory body. On the contrary, if the interpretation of the

word "may" be followed to ~~too~~ logical<sup>a</sup>/conclusion, it would mean that the Federal Reserve Board would practically have no control whatever over the great majority of operations of the Reserve banks, because most of them are exercised under some provision introduced by the word "may".

Governor McKinney: For instance, the rediscounting facilities.

Mr. Harrison: Yes. It would permit some arbitrary reserve bank to refuse to accept on deposit certain kinds of currency that are acceptable at other reserve banks, and I think that the Federal Reserve Board can properly say to such a reserve bank that either they must take that particular kind of currency on deposit, or else the officers would be discharged.

Governor Harding: In this particular case Governor Young and Governor Bailey, should go to the Federal Reserve Board and make their statements to them, because the Board has greater authority than this conference.

Mr. Harrison: Governor Harding, I do not think anyone here for a moment would force his judgment on any other governor in regard to the running of his bank. My

understanding has always been that these conferences were called for the purpose of exchanging views, but giving each one opportunity to exercise his own independent judgment as to what he will recommend to his directors. In specific cases, the Board has called upon the conference to give it the benefit of the combined judgment of the Governors as to what should be done throughout the system as a whole, and then they have sometimes incorporated that combined judgment into regulations. I do not think anybody here wants to force Governor Young to do anything that will harm his bank or that will make it so difficult to operate that the same practical result will be achieved.

Governor Harding: Assuming that Governor Young, with the approval of the Federal Reserve Board, if you please, should notify all his member banks and other Federal reserve banks that he imposed a certain limitation on the collection of non-cash items which he would receive, then of course the other Federal reserve banks in their circulars to their member banks would have to say, "with the exception of a bank located in the Minneapolis District," and that would be directing the attention of the

country to the fact that for some reason or other the Minneapolis District could not play along with the rest of us, and I presume Governor Young has thought of this fact, that they would immediately say that that was due to the bad conditions out there. Have you considered its effect on your own district?

Governor Young: That has already happened because we find it absolutely necessary to put a non-par list in our district, and if we had not done that two or three years ago I am not prepared to say that our losses would have been out there.

Governor Seay: You recall how scrupulously the attempt has been made to protect each Federal reserve bank in the framing of this uniform collection circular, and how it was stated in each circular specifically that the collecting bank is the agent for the second bank and is not responsible. The limitation of responsibility of the collecting bank is attempted to be made as explicit as possible in these circulars.

Governor Young: I know, but if you have a bank in Montana that is in difficulty, and you know it is in difficulty, and you send a bill of lading draft, and they

deliver the bill of lading and send the draft and payment is not made and the bank closes, do you know any jury in the United States would find you guilty of negligence.

Governor Seay: I am not out of sympathy with Governor Young at all.

Governor Young: Of course, if we only had one case or ten or twenty cases of that kind, we could send men out to make presentation, but where you have not twenty or thirty, but 1600 transit letters a day all the way from one to fifteen days late, involving \$1,800,000, you cant do that, and you have got to take the chance.

The Chairman: How many men have you in the country looking after those things now?

Governor Young: I have forty-two men at closed banks that I can't--- I don't send them as a regular thing--- I have most of the state banks off that are slow. I am riding a whole lot easier these days than I was some time back. But these times are going to come again and are going to come to the other banks. Right at the moment I would say that I have four or five men at banks that I feel reasonably sure are going to close, presenting our transit items each day and presenting non-cash

items.

Governor McKinney: Those are member banks?

Governor Wellborn: You do not send them direct to the member bank?

Governor Younger: In some cases I have to; I can not do anything else. I have got to take a chance, hoping that the bank will pull through.

Governor Seay: Would you feel called upon to refuse all non-cash items, or only those you had to send to certain danger points? I think we all recognize that there are points to which we cannot send without incurring absolute responsibility. But do you mean to go so far as saying that the Federal Reserve Bank of Minneapolis will not undertake to make non-cash collections, or that you will only refuse those which you feel you can not collect with a reasonable degree of safety?

Governor Young: At the last conference we agreed that I could wire a bank and tell them that I refused to accept an item. Since then, in my own mind I have put a \$500 limit on it. Anything under \$500 I do not wire, but just send it back. I have been prompted several times to return transit items on a member bank when I had no

means of getting it there, and in taking that action I am not unmindful of Section 16. I do not know whether I have authority to do it or not, but if you send it out and lose it, or loss is made, you might just as well take the loss by holding it. There is no difference there.

Governor Calkins: Most of us have had to deal with problems similar to those confronting Governor Young. We may not have had as many, or perhaps not as acute a condition, but there is risk involved in all kinds of business transactions. There is risk involved in handling transit items greater than in handling non-cash collection items. I think we are pretty well protected with regard to that. I have no disposition whatever to think that this conference should impose upon Governor Young, Governor Bailey or any other Governor, a course not required by law; but I think it is highly undesirable that some bank should follow one course in regard to these non-cash collections and that the other banks should follow another course, because it will lead to confusion, dissatisfaction and difficulty in every case.

Governor Young: I repeat that I will go just as far as I possibly can with this situation. The Minneapolis

Federal Reserve Bank is not in bad condition at all. We only have ten or twelve million at the moment loaned in the Northwest, and to very good banks on good paper. We have some paper tied up in closed banks, but that is not serious at all, because we have made proper reservations to take care of any losses that develop. I make that statement because with fifty men out there inspecting each and every one of the loans, they know just where they are at, and know just whether they are going to be paid; but I do not know when there is going to be a repetition of 1920 and 1921, and if such a condition should impend I am not going to be bound by any definite agreement.

The Chairman: Are you willing to let the matter rest here, Governor Young?

Governor Young: Yes sir.

The Chairman: I do not see how we can ask you to do any more.

Governor Calkins: The understanding is that it will be referred back to the committee for further study?

The Chairman: That is the understanding.

Governor Calkins: I will make a motion to that ef-



fect.

Governor Fancher: Do you mean back to this committee or to the Standing Committee on Collections?

Governor Calkins: I move that the matter be referred back to the Standing Committee on Collections for further study and such recommendations as the committee may see fit to make.

The Chairman: Will you accompany that with a statement of what you wish to have the committee consider?

Governor Calkins: I do not think it is desirable to restrict it. I think the committee should correspond with Governor Young and any others who wish to express themselves with regard to limitations, when the committee determines limitations that can be imposed.

The Chairman: Governor Young's inquiry was as to what effect it would have if the Minneapolis Bank withdrew.

Governor Calkins: Governor Case offered a resolution similar to the one I offered.

Deputy Governor Case: Yes, similar to the one offered by Governor Calkins, that the points raised by Governor Bailey and Governor Young be referred to the

Standing Committee on Collections. I take it the committee will take up the matter in their own way, make a study of it, and report back later.

Governor Harding: In view of the ~~fact~~ that this matter affects only two banks, it might be well to have representation on that committee from one of those banks so that the question could be considered from all angles.

The Chairman: Doesn't follow that the committee is authorized to ask for assistance from those banks?

Governor Harding: I just wanted to raise that point.

The Chairman: They certainly would do that, I think.

Governor Seay: I move that the committee be authorized to invite representation from those banks to participate in the conference.

Governor Bailey: Including Governor Wellborn. He is in the same position.

Governor Calkins: We are all in the same position, and you might include us all. They should confer with all the banks.

Deputy Governor Case: They can call for representatives from each bank, for that matter.

Governor Young: I would like to have Judge DeLand sit in that conference.

The Chairman: Governor Calkins, are you willing to add Governor Seay's statement to your resolution?

Governor Calkins: Yes sir.

(The motion, having been duly seconded, was unanimously carried.)

Governor Fancher: Mr. Chairman, the Committee on Voluntary Services, as you will recall, had three other matters to consider. We hope to have a meeting and submit a supplementary report on the matter of currency, wire transfers and safekeeping; but before we really discuss the wire transfer situation it would be very helpful to the committee if the report of the Leased Wire Committee were submitted for discussion and action taken on it before the meeting of our Voluntary Services committee.

I suggest, if it please the conference, that we take up for consideration the report of the Leased Wire Committee, which is Topic 4-(c).

The Chairman: The report of the Leased Wire Committee is under the heading

IV-(c) Report of Leased Wire Committee,  
- Governor McDougal Chairman.

by San Francisco

It is 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 Federal reserve banks except where loss might be involved.

be adopted as the action of this conference, with the understanding that the identical clause as recommended by this committee will be included by all Federal reserve banks in their circulars to member banks relating to the telegraphic transfer of funds.

I will ask Mr. Harrison to read the report of the leased wire committee.

Mr. Harrison: The report of the leased wire committee is as follows:

March 27, 1924.

To the Governors of the Federal  
Reserve Banks in Conference:

Since the last Conference of Governors it developed that the leased wire facilities as at present set up were not sufficient to afford equitable service to all Federal reserve banks, and your committee upon consideration decided that a careful and comprehensive study of the entire situation was imperative.

With this object in view it was decided to request the Federal reserve banks of New York, Cleveland, Chicago and San Francisco to designate from their ranks the officer best qualified for this responsibility. This was done and subsequently on March 12th a meeting was held in Chicago. In addition to representatives from the banks referred to, Mr. Eddy as the representative of the Federal Reserve Board, was invited to attend the meeting.

The report ensuing has been approved by your Leased Wire Committee, and I respectfully present the same herewith as the committee's report to the Conference.

(Signed)

J. B. McDougal, Chairman  
Leased Wire Committee.

March 14, 1924.

Mr. J. B. McDougal, Chairman;

Leased Wire Committee.

At your request a meeting was held at the Federal Reserve Bank of Chicago on March 12, 1924, to consider placing further restrictions on the use of the Federal reserve leased wire system, so that the present facilities may afford equitable and efficient service to all Federal reserve banks.

The following attended the meeting:

Mr. W. L. Eddy	-	Federal Reserve Board
Mr. A. W. Gilbert	-	New York
Mr. G. H. Wagner	-	Cleveland
Mr. W. N. Ambrose	-	San Francisco
Mr. J. H. Dillard	-	Chicago.

Messrs. Bachman and Pavey of Chicago also attended, and Mr. McKay was present during part of the discussion.

The volume of business carried by several of the leased wire circuits has reached a point where it is impossible to give prompt and efficient service during the peak hours of the day (10:30 a. m. to 2:30 p. m., Central time). This is particularly true between Chicago and

San Francisco, in fact, this circuit is so crowded now that the Federal Reserve Bank of San Francisco states that it cannot possibly give the same service to its member banks which other Federal reserve banks accord their members.

The banks represented at this meeting has kept a special check on incoming and outgoing telegrams at their offices for a week prior to this meeting, with a view to ascertaining whether or not the leased wires were being used for messages that could have been sent as satisfactorily by mail, and also whether there are any other infringements of the present leased wire regulations.

The result of this survey showed that with few exceptions the regulations were being fairly well lived up to, misuses of the wires being relatively few. After considerable discussion, the conclusion was reached that while some relief could be had on the leased wires by eliminating non-cash collection telegrams, by closer censorship on the part of the Federal reserve banks, and in some instances a more rigid interpretation of the leased wire rules, it was the unanimous opinion that, to effect any material reduction in the load carried on the wires,

further restrictions would have to include the elimination of all transfers for the account of non-member banks, individuals, firms, or corporations. Consequently, the following recommendations are made:

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 Federal reserve banks, except where a loss might be involved.

These recommendations are made with the full realization that the transfer service which is now accorded our member banks is and has been a very valuable service to them, as well as to the country at large.

It is our understanding that it is necessary that expenses be curtailed rather than increased; consequently, we have approached the subject with that in mind.

Attached you will find an amended set of rules which it is proposed to substitute for the present rules and



regulations contained in the Board's letter X-3337, provided the recommendations of this committee are adopted.

The following points were also discussed:

A. At present a great many telegrams in connection with payment of farm loan coupons are being sent over the leased wires. It was believed that the number of these could be materially reduced, as the amounts involved are unusually small, and this committee has asked the representative of the New York bank, at which office these payments are made, to give this matter consideration and make some recommendation to the Leased Wire Committee with a view to reducing the number of messages.

B. The representative of the Federal Reserve Board was requested to use code words or phrases covering some of their routine messages, such as notification of holidays, and wherever possible to forward these by mail.

C. The long messages sent by the Treasury Department were discussed. It is recommended that the Leased Wire Committee communicate direct with the Under Secretary, with a view to having these messages sent by mail, or at least materially shortening them by the use of a code.

D. The question of affixing test words to telegrams

advising payment over the leased wire of non-cash collection items which had been sent direct from a member bank in one district to a Federal reserve bank in another district was considered, and the committee is of the opinion that this is unnecessary, in view of the fact that each Federal reserve bank could, if it wished, request its member bank to advise it of all direct-sent non-cash collection items. If the recommendation made herein is adopted, namely, that the leased wires should not be used in connection with non-cash collection items, the committee is still of the opinion that test words are unnecessary.

E. The question of absorbing the cost of telegrams sent over commercial wires when leased wires are out of service was also considered, and it is recommended that when the leased wires are unavailable because of storms or other interruptions, any request for transfers to be made over commercial wires be accepted with the understanding that the expense is to be borne by the requesting member bank.

In connection with the discussion on free voluntary services rendered to member banks, the fact was brought

out that relatively small saving could be effected in the present expenses of the leased wire system, if all service to member banks over the leased wires were discontinued, in view of the fact that it would be necessary to maintain leased wire connection between all Federal reserve banks and the Federal Reserve Board for their own business.

The question of making a service charge for transfers of funds was briefly discussed, but due to the fact that we are not sure of the legal status of such a charge, and further that the committee has not had the opportunity to give this very important matter sufficient study to enable it to make a definite recommendation, no opinion is submitted.

It is the opinion of the committee that if some restriction is not put into effect which will materially reduce the volume on the wires, that additional facilities should be provided between Chicago and San Francisco immediately.

The cost of duplexing the Chicago-San Francisco wire, plus additional operators' salaries, would approximate \$18,000 per annum.

The cost of installing an additional single circuit from Chicago to San Francisco, plus additional operators' salaries, would approximate \$62,000 per annum.

The Federal Reserve Bank of San Francisco states that a duplex wire would not give it satisfactory service, as due to difference in time, facilities are needed that will enable it to send a greater number of eastbound messages during the peak hours of the day.

With either arrangement, the increased volume which would then be sent over this circuit would doubtless call for additional expenditures for more facilities elsewhere, as some of the eastern wires are now carrying very nearly capacity loads.

Respectfully submitted,

(Signed) J. H. Dillard,  
A. W. Gilbert,  
G. H. Wagner,  
W. N. Ambrose,  
W. L. Eddy.

REGULATIONS GOVERNING THE USE OF  
THE FEDERAL RESERVE LEASED WIRES

1. Telegraphic transfers of funds will be accepted from and paid to member banks only. They must represent bank balances and can be made only for round amounts, i.e.,

multiples of \$100.00. The term "bank balance" shall be construed to mean an accumulation of funds comprising a permanent account carried by one member bank with another member bank.

2. The descriptive data in telegrams transferring funds must be limited to the name of the sending member bank, name of its correspondent member bank requesting the transfer, name of the member bank receiving credit, and name of its correspondent member bank.

3. The Federal reserve code, including test word, must be used for all messages involving the transfer of funds and, in the interest of economy, all other telegrams should be sent in code when its use shortens the message.

4. In addition to the usual mail advice to the member bank receiving credit for telegraphic transfers of funds, immediate advice by telegraph, or otherwise, should be given by the Federal reserve bank receiving the transfer, except in cases where the credited member bank has stated that other than the usual mail advice is unnecessary.

5. Requests for telegraphic transfers of funds for consummation on date of receipt should not be accepted by

Federal reserve banks later than thirty (30) minutes prior to the closing hour of the Federal reserve bank to which transfer is to be made. Any telegraphic transfers of funds requested after such time will be made at the discretion of the Federal reserve bank receiving credit.

6. The leased wires shall not be used for tracing or advising payment or non-payment of any non-cash collection items, not for transferring the proceeds thereof.

7. The leased wires shall not be used for reconciling exceptions in accounts between Federal reserve banks, except where a loss might be involved.

8. Any loss resulting from negligence on the part of the Federal reserve system in the transmission of telegrams transferring funds over the leased wires through relay stations shall be borne by the sending Federal reserve bank, unless responsibility can be definitely placed upon the Federal reserve bank to which the telegram was addressed.

9. Telegrams must be worded as concisely as possible. Telegrams should not be sent when communication by mail will suffice. For the purpose of enforcing these regulations, provision should be made in each Federal reserve

bank so that any misuse of the leased wires will be brought to the attention of a designated officer for reference to the originating department, or, in the case of incoming messages, to the sending Federal reserve bank.

The above regulations are intended to govern the use of the leased wires by the Federal reserve banks. The following clauses should be included by all Federal reserve banks in their circulars to member banks relating to telegraphic transfers of funds.

1. Telegraphic transfers of funds will be accepted from and paid to member banks only. They must represent bank balances and can be made only for round amounts, i. e. multiples of \$100.00. The term "bank balance" shall be construed to mean an accumulation of funds comprising a permanent account carried by one member bank with another member bank. Telegraphic transfers will not be made for the purpose of remitting the proceeds of individual collection items.

2. The descriptive data in telegrams transferring funds should be limited to the name of the sending member bank, name of its correspondent member bank requesting the transfer, name of the member bank receiving credit, and

name of its corresponding member bank.

3. The Federal reserve banks maintain, at large expense, a leased wire system over which a heavy volume of important communications pass between Federal reserve banks and branches. Member banks are requested to cooperate with us in attempting to avoid over-crowding the leased wires by not making requests for telegraphic transfers of small amounts, or those which can be made as well through the mails.

4. The Federal Reserve Bank of \_\_\_\_\_ will use due diligence and care in the transfer of funds by telegraph to the receiving Federal reserve bank for credit to the account of the payee bank, but will not be responsible for errors or delays caused by circumstances beyond its control.

The Chairman: The recommendations as made in the report result from careful study of the whole situation, first with respect to our present facilities for handling leased wire business, and largely, I think, because of a condition which arose which affected San Francisco adversely. The present wire facilities are not adequate as they are constituted to afford uniform and efficient



service to all tenants of the wire. I believe the study of the situation brought out the impression and conviction that the Leased Wire System was being used for purposes for which it never was intended, and that if we permitted it to go on and develop basis the character of business that we were handling, that it was going to involve doubling our capacity perhaps and increasing the investment accordingly. These recommendations are the result of careful study and I hope myself that they may have the approval of this conference. The report contains what is known as paragraph A, as follows:

"At present a great many telegrams in connection with payment of farm loan coupons are being sent over the leased wires. It was believed that the number of these could be materially reduced, as the amounts involved are usually small, and this committee has asked the representative of the New York Bank, at which office these payments are made, to give this matter consideration and make some recommendation to the Leased Wire Committee with a view to reducing the number of messages."

As a result of that a supplementary report was prepared, which is as follows:

Supplemental Report of  
Leased Wire Committee

May 1, 1924.

To the Governors in Conference:

Paragraph A of the Leased Wire Committee's report referred to the daily telegrams advising amount of Farm Loan coupons cashed, and the Federal Reserve Bank of New York, where these payments are made, was asked to look into this matter and make some recommendation to the Leased Wire Committee with a view to reducing the number of these messages.

The Federal Reserve Bank of New York compiled a list of this class of telegrams received from the Federal reserve banks and branches for the six months ending October 31, 1923. This list shows that during this period there was a large number of telegrams involving very small amounts; many of these for amounts under \$100.

The Leased Wire Committee now recommends that the Federal reserve banks discontinue using the leased wires in advising the Federal Reserve Bank of New York of the amounts of the Federal Farm Loan coupons cashed each day and that these amounts be deducted from the daily

credits to New York in the gold fund. This not only would relieve the wires to some extent but would simplify accounting procedure.

Respectfully submitted,

J. B. McDougal, Chairman,  
Leased Wire Committee."

That suggestion is offered as a supplemental report to the report of the Leased Wire Committee.

Governor Harding: Is that agreeable to New York?

The Chairman: I think it is, yes.

Mr. Harrison: We suggest a <sup>deduction</sup> from the credits to the Gold Fund that you are wiring for your own account, which is different from deducting it from the credit due to New York. Then the banks that ~~cashed~~ the small items would carry the float and they would not get credit until ~~mail~~ advice reached New York. When we get it we give you credit in the Gold Fund. That is done on a lot of other things, such as notary fees.

The Chairman: I find, if I didn't know it before, that there are adjustments similar to this made in connection with other transactions. My understanding is not in harmony with yours in regard to that, that we carry

the float. We do not give you credit. We deduct from the credit that we wire for your account.

Governor Fancher: Take it out of your gold. You have the money already, and we take it out of your gold.

The Chairman: The amount involved is small either way.

Mr. Harrison: It was suggested that we file a report on it. We did file a report. <sup>amount</sup> ~~This~~ is so small I did not think you would object to this arrangement, but that is not the way we suggested it. We suggested it the other way around because we had a precedent for it; that is, there are other such deductions. If you have a small amount of farm loan coupons that you will cash today, rather than deduct them from the credit to us in the fund, deduct them from the credit you claim in the fund that day, just as is done in the case of notary fees and so forth. <sup>amount is however will</sup> ~~The~~ / so small / that we ~~will~~ not object. ~~and~~ We proposed it the other way around merely because of the fact that there was precedent for it.

Governor Fancher: You have the funds deposited with you and available before the coupons mature; your funds are in hand. The farm loan banks deposit with you

funds before the coupons are matured.

Mr. Harrison: That is true.

The Chairman: I think that matter was considered. This plan is not quite in accordance with the suggestion you made.

Mr. Harrison: We said in our letter that if the committee determined to do it in this way we would be perfectly glad to do it, and I want to reiterate that now. Our only object was to make it uniform with existing procedure in respect to other small items.

Governor Calkins: I have read the report of the Leased Wire Committee and I wish to offer as a resolution 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 Federal reserve banks, 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 Federal reserve banks in their circulars to member banks relating to the telegraphic transfers of funds."

Governor Young: I will second that resolution.

Mr. Harrison: I would like to say one further thing, that Governor Strong, before he left town, suggested to the Chairman of the Committee on Voluntary Services that he thought it might be desirable for that committee to consider the question of the proposed enlarging of the wire service, perhaps with a charge, so as to include these other transfers for accounts of individuals and corporations. It was understood very clearly by Mr. Strong, I think, and by everyone in the New York Bank, that with the present set-up of the wire service it is very necessary to adopt the recommendations of the Leased Wire Committee. I wanted to ask Mr. Fancher's Committee, to which committee has been referred the subject of wire transfers, whether they have considered the possibility of enlarging

the service at a charge?

The Chairman: That matter has been very carefully considered, and Governor Strong's wishes have been considered. This committee is to meet tomorrow morning. As a matter of fact, as Chairman of the Leased Wire Committee, I wrote a letter to the Chairman of the other committee, telling him that we recognized that it was a very valuable privilege, if some way could be found by which the service could be offered, even by using the public wire, that their committee ought to consider doing so and recommending that that be done. Governor Fancher's committee is to make a report tomorrow morning.

Mr. Harrison: I mention it now in order that whatever action is taken will not be considered inconsistent with further consideration of the matter by your committee, Governor Fancher.

Governor Fancher: The matter will be up for consideration by the Committee in the morning.

Governor Calkins: We probably have encountered this problem to a greater extent than any other Federal Reserve Bank, and unless the system is prepared to set up and maintain a leased wire service sufficient to take care

of the transfers of balances between Corporations, individuals and firms, it will be absolutely essential that it be curtailed. This situation arose in our district: We were swamped with telegrams of no importance to the extent that the ones of great importance were excluded. When we represented the condition to the member banks we asked them if they would prefer to have us curtail the service, or would they prefer to have the risk presented of not having important transfers made promptly. In every case they answered, obviously, that they would prefer to have the service curtailed rather than run the risk of delay in carrying out important transactions. It is a very vital question with us. There are a great many agencies on the Pacific Coast which desire to transfer balances to New York and elsewhere very frequently, daily, some of them, some of them weekly, and some of them at irregular intervals, and if we are to provide for that kind of transfer the leased wire service will have to be multiplied indefinitely because transactions of that nature will increase as fast as people become advised of the fact that they can carry them out.

The Chairman: I think I am justified in stating



that action on this report, in accordance with the motion, will not in any way prejudice the plan for constructive suggestions from your committee.

Governor Fancher: Let me read from your letter to me, which bears on this:

"The question of continuing the transfer privileges, without any restrictions, provided we made a suitable service charge back to our member banks, has been considered. Upon investigation, we are informed by Counsel for the Federal Reserve Board that under the terms of our leased wire contract, we would not be permitted to accept or handle any class of business over the leased wires for which a service charge would be made to member banks.

The Leased Wire Committee, recognizing that the proposed restrictions will deprive member banks of a very valuable service and one that has been fully appreciated, desires to suggest to your Committee that consideration be given to formulating a plan which would provide for those classes of transfers, the elimination of which is recommended by the Leased Wire Committee's report. This could be accomplished by the use of commercial wires through the medium of the Federal reserve banks at the

expense of the member banks.

In the opinion of the Leased Wire Committee, which has today held a special session expressly to consider this matter, such a plan is worthy of your careful and favorable consideration.

In relation to the same subject, the question has arisen as to the justification of the continuance of our policy of absorbing the cost of telegrams over commercial wires, requesting transfers to points within or without the district, and the cost of messages over the commercial wires advising the member bank in whose favor the transfer has been made. It was thought that this matter might also properly be discussed by your Committee."

Governor Harding: I am a member of the committee, and before going to the committee meeting tomorrow, I would like to have some idea as to this proposition of Governor Strong's of sending other messages at<sup>a</sup> charge. Would that meet the situation? As I understand it, the wire is already so badly congested that we are up against the question of extension of it, and if we take certain other wires at a charge, it is a question whether it will help the situation.

Mr. Harrison: I want to correct that inference. He did not mean to make any specific recommendation. All he wanted was to have Governor Fancher's committee consider whether it would be advisable for us to enlarge the wire service and then to charge transfers for individuals sufficient to cover the increased cost.

Governor Fancher: Bearing upon that point, this letter says, "Upon investigation we are informed by Counsel for the Federal Reserve Board that under the terms of our leased wire contract we would not be permitted to accept or handle any class of business over the leased wires for which a service charge would be made to member banks."

Governor Calkins: No relief would be afforded by sending messages over the commercial wires at cost.

The Chairman: Yes, there would be. We could still offer them a wonderful privilege that cannot be availed of in any other way, I am sure.

Mr. Harrison: No express company or no telegraph company would have the funds available at the different points that the Reserve system now has them available, so that it is very possible that Governor Fancher's committee may work out a process whereby these funds could

be made available by telegraphic transfers over commercial wires.

The Chairman: We have a committee appointed, of which Governor Fancher is chairman, that will hold a meeting tomorrow morning, and something will result from their deliberations; but I do not think that action on this report will be in any way complicated. If it should be, of course you can reverse yourselves. The motion is on the adoption of the report as submitted.

Governor Calkins: Without recommendation?

The Chairman: With recommendation for its approval. That motion has been seconded.

(The motion, having been duly seconded, was unanimously carried.)

The Chairman: It is understood that the motion approving the report also approves the supplemental report submitted by the Leased Wire Committee?

Governor Calkins: Yes sir.

The Chairman: Then it is understood that it is included.

We have what is known as the supplemental program, under Topic I, Credit Transactions and Policies, sub-

topics (d) and (e).

The first subtopic is

- (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 ninety days.

That is on the program for discussion by Cleveland.

Governor Fancher: Mr. Chairman, at a previous conference, a year and a half ago, I brought this same topic up for discussion and did not get very far with it. The majority of Governors at that time did not see any great necessity for it; but it has been our observation in the Cleveland District that one of the things to which the small, medium sized banks object, is the matter of renewing fifteen days notes secured by Government bonds. I do not think our experience is different from that of any other of the Reserve banks. The question of borrowing on a fifteen day note secured by Government bonds is a continuous operation, if the bank cares to renew indefinitely. It places in our portfolio what is classed as short paper but which in effect is a continuous proposition, renewed at the request of the borrowing member bank. It seems to

us that one of the things that could be done that would do as much good and encourage good feeling on the part of our smaller member banks would be permission to borrow for a period not to exceed ninety days on Government securities. We have found in our bank--- One day, recently, we had 72 notes that matured on one day. They were renewed. We find in many cases that our smaller member banks have bought Government securities, subscribed to them originally, when the loans were completed, and they keep them, and that is a convenient way of borrowing from us. We have the bonds pledged on the loans; they are in our safekeeping department, and our member banks find that a very convenient way of borrowing from us. It seemed to us if that amendment to the Act was had it would be something that would be pleasing to a certain class of our member banks, who complain quite bitterly at times of having to renew notes every fifteen days, when, as a matter of fact, they are borrowing the money for ninety days or four months and they knew that we are willing to continue renewals indefinitely. They wonder why we cannot take their ninety day notes. We find some cases where the member bank would make its note for ninety days,

pass it to another member bank and rediscount it for the second member bank, making it a ninety day obligation.

The Chairman: Do you promise to renew the note indefinitely?

Governor Fancher: We do not promise, but there is no restriction imposed. They are renewed indefinitely.

The Chairman: Governor Harding, under the original Act, could paper of that kind be discounted at all at the Federal reserve bank?

Governor Harding: Not under the original Act--- yes, it could, notes and bonds of the United States, papers secured by notes and bonds of the United States, but not as a direct obligation of the member bank.

Governor Calkins: The fifteen-day note was a war emergency proposition and looked upon as such at the time. It is my own opinion that if we extend the eligibility of member bank notes to ninety days, secured by Government securities, we would be met by the demand that they be made eligible for ninety days secured by customers' paper, instead of fifteen days, and I think both of those expedients are highly undesirable. The purpose of the Federal Reserve Act was to discount paper made for current

purposes, and not to make loans. I am opposed to the proposition, and would be much more in favor of having the member bank note eliminated altogether. Probably the time has not arrived for that yet, but I think it will arrive in the comparatively near future.

The Chairman: I do not agree with Governor Calkins as to the situation that would develop if you allowed a member bank ninety days on a note secured by eligible bills.

Governor Calkins: We have very little of that. Very rarely we have a bank offer us notes secured by receivables.

The Chairman: On the contrary we have a considerable volume of member bank notes secured by paper against which we hold excess collateral.

Governor McKinney: We have had the same experience.

The Chairman: We would have more of that if it wasn't for the stamp act. If it were not for the stamp Act you would be called upon probably to accept more member bank promissory notes secured by bills receivable than you are now.

Governor McKinney: I suppose in most cases you make



the suggestion of additional collateral yourself on the fifteen day notes..

Governor Harding: The Federal Reserve Act has always discriminated against notes and bonds of the United States. Under the original Act that was the only form of investment a bank could take, bonds or notes of the United States. I do not agree with Governor Calkins that if the law should be amended so as to permit discount of member banks' notes at ninety days, secured by Government bonds and notes, that it would necessarily follow that we would be importuned to extend it to other forms of eligible paper. I do not think that at all.

Governor Calkins: I do not think it is necessary at all, but I think it would logically follow.

Governor Harding: I do not see the logic of it.

Mr. Harrison: Isn't it really more <sup>logical</sup> if you should extend the provision permitted an advance on ninety day notes secured by commercial paper than there would be on Government bonds? If you are going to follow it out, there would be more logic in permitting that than with the governments. The tax rate on commercial paper makes it almost prohibitive,---

Governor Harding: But the fifteen day provision was not a war measure at all. It was put in long before the war. It went in for the convenience of the large city banks. I think the national bank of commerce of New York was one of the banks cited in the discussion of it. I think the point was raised by Mr. Alexander when the rebates came in--- he said they might not want the accommodation for more than two or three days, because most of the large banks borrow to settle their clearing house balances.

Governor Seay: And for convenience in handling the reserve accounts.

Governor Harding: He did not want to discount sixty or ninety day paper and then get a rebate, and all that sort of thing, and this amendment was framed to permit a fifteen day note on the direct obligation of the bank. My recollection is very clear on that, as to the history of it. It was not connected with war financing at all. Later on in war financing, when a bill was before the House, I think it was the Ways and Means Committee that was hearing the matter, in considering the war revenue act of 1917, which was intimately connected with the sale of

government bonds and notes, I suggested to that committee that they exempt from the operation of the revenue stamp tax notes secured by Liberty bonds that the banks subscribed for, and they did that, and still do it, did they not?

Governor Seay: Yes.

Governor Harding: Does that practice still prevail?

Governor Fancher: Yes.

Governor Seay: It would be an undeniable convenience to the member banks, and to the member banks, but I believe there is one objection to it on principle. It is more or less unfortunate, I think, that we should be compelled to make advances on notes secured by government bonds at all, because it is a survival of the bond-secured currency in some degree, although of a different character. If more difficulties are put in the way of making these short time advances, I think it will be better for the system, soundly speaking. What the Federal reserve banks should discount is the liquid paper itself; it should become possessed of the paper. I cannot help feeling that it would be unfortunate and would tend to develop the idea of the acceptance of unliquid paper in the Federal

reserve banks if we prolong the period of paper discounted, secured by government bonds.

Governor Fancher: What difference does it make in the liquidity as long as you indefinitely renew the fifteen day note?

Governor Seay: I think it is a very good idea to preserve this proposition that these discounts are made for a short period only.

Governor Fancher: But in actual operation they are renewed and we have ninety day money or four months money.

Governor Seay: We do that, that is true.

Governor Fancher: Many banks own government securities just for the purpose of keeping them in the Reserve bank.

Governor Seay: I know they do, and I think that is wrong.

Deputy Governor Case: It seems to me this whole question revolves around the point as to whether or not this is important enough to go to Congress to ask for an amendment to the Act.

Governor Fancher: That is the idea I was getting to, whether it was desirable to ask an amendment from

Congress on the proposition.

Governor Calkins: By the same argument that eligibility in this instance should be extended to ninety days because the banks are carrying the securities permanently, it should be extended to any kind. We of course have all had cases in which the banks have carried paper of this sort over a term of years, and we may as well go the whole hog as to extend it ninety days, and say that member bank notes secured by Government securities would be eligible for an indefinite time.

Deputy Governor Case: I have a memorandum from our loan department rather favoring the suggestion that we could carry it for ninety days and citing the inconvenience and annoyance and the work on the part of the member banks and the reserve banks; but they, however, stress their belief that if you are going to extend it to ninety days, that it is important that you should extend that privilege on to commercial paper. But, personally, rather than go to Congress for an amendment, I would rather see the thing left where it is.

Governor Biggs: Does this demand come from the small banks?

Governor Fancher from the smaller and medium sized banks.

The Chairman: Is that enough discussion, Governor Fancher?

Governor Fancher: Yes, Mr. Chairman.

The Chairman: There is another topic on the supplementary program submitted by Governor Fancher, and that is I-(e)

(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.

Governor Fancher: I have a memorandum on that which I would like to read.

"Topic I-J.- Credit statements of Holding Corporations was considered. The sub-committee appointed to consider this topic filed its report with the Conference. The Committee consisted of Messrs. Morris, Calkins and Fancher.

Upon motion of Governor Seay, it was

"VOTED to adopt the report of the sub-committee, as follows:

It is the opinion of the conference that where paper

of a corporation which has allied, associated or subsidiary companies is offered for discount at a Federal Reserve Bank, the bank should require statements of such allied, associated or subsidiary companies as of the same date, unless the statement of the company whose paper is offered clearly indicates the eligibility and acceptability of the paper; this procedure to be adopted by the Federal reserve banks as promptly as is practicable."

We have been endeavoring to procure separate statements of concerns whose paper is offered to us for rediscount on consolidated statements of the borrower whose paper was offered. In some cases we have received separate statements of the parent company and its allied companies, included in the consolidated statements. In other cases we have succeeded in getting supplementary information which has enabled us to determine the acceptability of the paper. In some cases we have not been able to get separate statements or supplementary information which would enable us to make an intelligent analysis of the condition of the borrower. Correspondence with other Federal reserve banks indicates that they are experiencing the same difficulties.

Mr. Morris of the Federal Reserve Bank of New York wrote me some time ago stating that at their request one of the large commercial paper brokers looked through his accounts and told them that forty per cent of his accounts were of large corporations which now issue only consolidated statements. He further stated that this is a fair indication of the extent to which loans in general are now being made on the strength of consolidated statements and while this shows how important it is to correct the practice, it also shows the importance of avoiding its being done in a manner to create an upset condition by rushing the matter too fast.

I have in mind one instance where a concern had furnished us in 1922 with separate statements of the parent company and its allied companies in order to determine the eligibility of their paper but in 1923 the separate statements were not forthcoming. We did not discount the paper but we were informed that some other Federal reserve bank had discounted the paper on the consolidated statement. It is such circumstances which make apparent the desirability of uniform action, as we are all well aware that the borrowings of many large concerns are not



confined to any one district, and a bad reaction is the result when paper is accepted in one district and refused in another.

It has occurred to me that three or four months prior to January 1, 1925, when most of the large concerns issue their annual statements, notice by all Federal reserve banks or by the Federal Reserve Board in behalf of the Federal reserve banks, should be given that beginning with January 1, 1925, Federal Reserve Banks will require, in connection with paper offered for rediscount, separate statements of borrowers who are included in groups consisting of a parent company and subsidiary or allied companies, even though such borrowers have been in the habit of issuing consolidated statements, or at least that the consolidated statement must be accompanied by sufficient supplementary information regarding the borrower and its allied companies to enable the Federal reserve banks to make an intelligent analysis of the financial condition of the borrower whose paper is offered and to enable the Federal reserve banks to determine both the eligibility and the desirability of the paper offered.

That topic is brought up again because the banks do

not seem to have any very fixed policy about this matter. It rather seemed to me that we ought to have some fixed policy that would be pursued in all the banks, making the date far enough in advance and then notifying these companies what we would expect of them.

Governor Harding: Isn't that a function of the Federal Reserve Board to handle by regulation. I think it is a very good suggestion that notice be given some time in advance.

Governor Fancher: Yes.

The Chairman: Are you aware to what extent this policy has been worked out and pursued?

Governor Fancher: Well, I have been in correspondence with several of the other banks.

The Chairman: There are some places where it has been difficult and almost impossible to get the information hastily that applies to these corporations. I see there is an exception here, "where the statements of the borrowing corporation itself clearly indicates eligibility," and so forth.

Governor Fancher: "clearly indicates eligibility", yes.

The Chairman: And I assume the banks that have been in touch with it have done something towards it.

Governor Fancher: It does not seem that we are all working along the same lines. I think in some cases we attempt to correct the situation with some bank and find later that some other Federal reserve bank is taking that paper and not asking for separate statements. We find we are working at cross purposes with some of the other banks.

Governor Seay: With us this question is one of the very first magnitude. It is our practice, as far as we can--- I do not say there are not exceptions--- to require separate statements from the borrowing corporation; but there are some very large corporations in the country which are composed of such a nest of subsidiary companies that it is next to attempting an impossibility to determine by any consolidated statement what the liquidity of the paper is, and sometimes what the integrity of the paper is, and sooner or later the country is going to come up against a staggering loss on that account. I believe it is a question that ought to be considered and at a very early date. I think there should be uniform action in

the Federal Reserve System, and that the System is the one to take action. We have required of certain corporations which are not accustomed to furnishing statements to their own banking institutions, which banking institutions bear such relation to them that they do not feel in a position to insist upon statements, and in some cases we have required those companies to furnish us with separate statements, before we would handle their paper, and we have succeeded in getting such statements, which were not actually furnished to their own banks.

Governor Calkins: Our practice has been to decline to accept for rediscount paper that was not supported by the statement of the maker, whether the maker is a subsidiary of some other corporation issuing a combined statement or not. If they are not willing to furnish that information the paper is not accepted for rediscount.

Governor Seay: That means the borrowing corporation?

Governor Calkins: Yes. There have been some exceptions where the paper was guaranteed by the parent company.

Governor Fancher: We declined to take paper of a

corporation without a statement, and we learned that the paper was being discounted at that time and was in the portfolio of another reserve bank.

Governor Harding: The most effective way of handling this would be to have the Federal Reserve Board make a regulation governing it. Then everybody is on notice. That would strengthen the hands of the member banks in many instances. I think some of them would be glad to have it done. You will recall there is a rule of practice among the Federal reserve banks not to reject paper originating in the district of another Federal reserve bank which is considered eligible by that other Federal reserve bank.

Governor Harding: That could be cured by the Board's regulation.

Governor Seay: Yes. That is the present practice. Paper may be offered to one Federal reserve bank which was created in another district and accepted by the Federal reserve bank of that district, and the Federal reserve bank of the distant district might not be able to determine to its own satisfaction whether the paper was good or not, and they would simply have to reject the

paper or accept it on the fact that the Federal reserve bank of the district in which it was created accepted it as eligible. That is not a good standard; that is not a conclusive standard. It is certainly very strong evidence, but it is not a conclusive standard.

Deputy Governor Case: Isn't there an eligibility committee of the conference of Governors?

Governor Callins: There is an eligibility committee in each bank.

Governor Seay: It might be a very important question with the larger banks.

Deputy Governor Case: We have an eligibility committee that is functioning constantly. I was under the impression there was an eligibility committee of the conference.

Governor Seay: No, the committee is in each bank, committees in the separate banks.

Deputy Governor Case: It seems to me it might be an excellent plan to appoint such a committee.

Governor Calkins: I do not think so.

Governor Norris: It seems to me a regulation of the Federal Reserve Board would be the better way.

Governor Calkins: If you impose some obligation on every bank to accept the findings of that committee, that might not be desirable.

Governor Fancher: There does not seem to be uniformity of practice; in other words, we do not seem to be working toward the same end. We endeavored to get statements, and then we find the paper is being discounted by some other bank.

Governor Norris: Paper originating in your own district or in other districts?

Governor Fancher: Originating in other districts.

Governor Norris: I think, since that report, we have followed the practice of requiring these statements as to paper originating in our district. As to paper originating in other districts, where there is any doubt about it, we ask the Federal reserve bank of that district whether they consider the paper eligible, and where they have replied that they did, we have acted on that recommendation.

The Chairman: Governor Fancher, will you state the previous action again?

Governor Fancher: This is the report of the sub-

committee adopted at the conference last spring:

"It is the opinion of the conference that where paper of a corporation which has allied, associated or subsidiary companies is offered for discount at a federal reserve bank, the bank should require statements of such allied, associated or subsidiary companies as of the same date, unless the statement of the company whose paper is offered clearly indicates the eligibility and acceptability of the paper; this procedure to be adopted by the Federal reserve banks as promptly as is practicable."

That was the action a year ago, in March.

Governor Seay: Was there a reference to some ruling of the Board there?

Governor Fancher: No.

Governor Norris: I think we had the same idea then, that we <sup>if</sup> adopted <sup>it</sup> at that time, there would be plenty of time between then and the end of the year for them to make arrangements so as to get the statements in that form for the following year---

Deputy Governor Case: We have made real progress on that subject in our institution since that time. I



have noticed that corporations that are domiciled in our district, that we have undertaken to follow up have succeeded in many instances in giving separate as well as consolidated statements. It seems to me, however, if there is going to be a ruling by the Federal Reserve Board, that there ought to be a long time limit placed on it, say to be effective a year hence, so as to give the corporations ample time to meet it and adjust their annual statements to the requirements of the Board.

Governor Norris: If we make the date January 1, 1925, don't you think that is plenty of time. That would give them six months.

Deputy Governor Case: A great many companies make their statements as of December 31, but they do not come out until April or May. I should think a year is not too long.

The Chairman: There are a great many corporations that are operating subsidiary corporations that would be affected by this ruling, and they certainly should be given time to adjust their affairs to meet it.

Governor Fancher: Don't you think that if the Board should get something out about the first of July, that

that would be ample time?

The Chairman: You mean next July?

Governor Fancher: Yes.

The Chairman: If July was fixed as the time limit I do not think it would be sufficient. The annual statements, of course, are not put out until the close of the year, and it would be impossible to get those statements out prior to February, at least.

Governor Calkins: If notice is given before the first of July and the requirement imposed as of January 1, 1925, that would be sufficient notice.

Governor Harding: May 1, 1925 would be sufficient notice as to the requirement going into effect?

The Chairman: I should think so.

Governor Seay: If it applies to the statement as of December 31, 1924, I should think so; but those statements cannot be gotten out for some considerable time, as Mr. Case has said.

Governor Calkins: I mean their statements as of January 1, 1925, or December 31, 1924.

Deputy Governor Case: During the past year my attention has been called to one or two instances where there

has been difficulty, but I think that we have made real progress along this line and that we are moving along all right. So far as I am concerned, I would be content to leave the matter where it is. I agree with the other gentlemen as to the importance of the matter. I think we are making progress, but I think that each Federal Reserve Bank can handle the concerns of its own district.

Governor Fancher: I believe it would help if the Board would get out a regulation fixing the date as far as May 1, 1925.

The Chairman: Mr. Harrison, have you prepared a motion with regard to this matter?

Mr. Harrison: Yes: That the Conference recommend to the Federal Reserve Board that the Federal Reserve Board amend regulation A, Series of 1923, by adding to the end of Section 4 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 a separate statement of such allied, associated or subsidiary company, it being understood that this requirement should become effective May 1, 1925.

(After further discussion:)

Governor Harding: Mr. Chairman, I would suggest that the Secretary to the Conference draw up a resolution covering this matter, that he present it to the conference in the morning, so that the Conference may act upon it then.

The Chairman: Without objection, that course will be pursued.

(Whereupon, at 6:10 o'clock p. m., on motion, duly seconded, the Conference adjourned until Tuesday, May 6, 1924, at 10 o'clock a. m.)

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