

*McAuley*

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OF THE FEDERAL RESERVE BANKS

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## T H I R D D A Y

Wednesday, November 12, 1924.

The Conference of Governors of Federal Reserve Banks reconvened, pursuant to adjournment of yesterday, at 9:30 o'clock a. m.

Present, as indicated in previous record.

Present also, Mr. Strater, Federal Reserve Bank of Cleveland, Chairman of the Standing Committee on Collections.

2-(a) Report of Standing Committee  
on Collections.

The Chairman: Mr. Strater, the Conference has referred some things to your committee in the past. Are you ready to report?

Mr. Strater: Yes, Mr. Chairman.

The Chairman: The conference will be glad to hear your report.

Mr. Strater: The report is as follows:

"To the Conference of Governors:

Under date of July 10, 1924, the Standing Committee on Collections submitted to each of the twelve Governors,



a report in which a short, uniform paragraph defining general conditions under which Federal reserve banks will accept checks or other cash items for collection was recommended to be included in the check collection circulars of the Federal reserve banks.

A majority of the Governors have expressed their willingness to incorporate the suggested paragraph in their check collection circular, although a number of them have expressed the opinion that there should also be added to the check collection circular all of the provisions of Section 5 of Regulation J of the Federal Reserve Board, in order that the terms of collection may appear in one circular letter and to avoid the necessity for member banks referring to the circular letter and the regulations of the Board, in order to know these terms. The Committee suggests the following combination of the short form of uniform liability paragraph with Section 5 of Regulation J of the Federal Reserve Board:

"Every bank sending checks or other cash items to the Federal Reserve Bank of ....., or to another Federal reserve bank direct for our account, by such act will be understood to have agreed to

the terms and conditions of this circular and of Regulation J of the Federal Reserve Board."

"TERMS OF COLLECTION"

"Regulation J of the Federal Reserve Board prescribes the following terms and conditions under which all Federal reserve banks will handle checks for member and non-member clearing banks when received for deposit or collection:

"The Federal Reserve Board hereby authorizes the Federal reserve banks to handle such checks subject to the following terms and conditions; and each member and non-member clearing bank which sends checks to any Federal reserve bank for deposit or collection shall by such action be deemed (a) to authorize the Federal reserve banks to handle such checks subject to the following terms and conditions, (b) to warrant its own authority to give the Federal reserve banks such authority, and (c) to agree to indemnify any Federal reserve bank for any loss resulting from the failure of such sending bank to have such authority.

(1) A Federal reserve bank will act only as agent of the bank from which it receives such checks



and will assume no liability except for its own negligence and its guaranty of prior endorsements.

(2) A Federal reserve bank may present such checks for payment or send such checks for collection direct to the bank on which they are drawn or at which they are payable, or in its discretion may forward them to another agent with authority to present them for payment or send them for collection direct to the bank on which they are drawn or at which they are payable.

(3) A Federal reserve bank may in its discretion and at its option, either directly or through an agent, accept either cash or bank drafts in payment of or in remittance for such checks and shall not be held liable for any loss resulting from the acceptance of bank drafts in lieu of cash, nor for the failure of the drawee bank or any agent to remit for such checks, nor for the non-payment of any bank draft accepted in payment, or as a remittance from the drawee bank or any agent.

(4) Checks received by a Federal reserve bank on its member or non-member clearing banks will ordinarily be forwarded or presented direct to such banks, and such banks will be required to remit or pay therefor at par in cash or

bank draft acceptable to the collecting Federal reserve bank, or at the option of such Federal reserve bank to authorize such Federal reserve bank to charge their reserve accounts or clearing accounts; provided, however, that any Federal reserve bank may reserve the right in its check collection circular to charge such items to the reserve account or clearing account of any such bank at any time when in any particular case the Federal reserve bank deems it necessary to do so.

(5) Checks received by a Federal reserve bank payable in other districts will be forwarded for collection upon the terms and conditions herein provided to the Federal reserve bank of the district in which such checks are payable.

(6) The amount of any check for which payment in actually and finally collected funds is not received shall be charged back to the forwarding bank, regardless of whether or not the check itself can be returned."

Inasmuch as the suggested form defines the liability of Federal reserve banks and at the same time embodies the terms and conditions prescribed by the Federal Reserve Board,



in the opinion of the Committee, objections raised by several of the reserve banks have been met and the Committee hopes that the suggested form will be adopted by all of the reserve banks for the sake of uniformity which has been recognized to be so important and necessary.

Topics submitted to the Committee at the May, 1924,  
Conference of Governors.

At the last Conference of Governors, a number of topics were by vote submitted to the Standing Committee on Collections, and these topics are considered in this report in the order in which they appear in the Secretary's minutes of the Conference.

Possible Limitation of Kind or Dollar Amount of  
Non-Cash Items to be Handled by the Federal Reserve  
Banks for Collection.

In considering the report of the Committee on Voluntary Services, the Conference of Governors discussed the possibility of limiting non-cash collection items handled through the Federal Reserve System to those of \$100.00 or more in amount. The Conference then voted that the matter be referred to the Standing Committee on Collections for further study and such recommendation as the Committee

might care to make with respect both to the kind and dollar amount of non-cash items to be handled by the Federal reserve banks for collection.

It was understood by the Conference that the Committee should be authorized to invite representatives of the interested banks to participate in its discussion or studies of the question raised. The Committee invited an expression of opinion from each of the Federal reserve banks either by letter or through a representative at a meeting of the Committee. Nine of the Federal reserve banks stated that they were not in favor of limiting the kind or dollar amount of non-cash collection items, two stated they were in favor of discontinuing the non-cash collection function, and one stated it could not give a final opinion until the findings of the Committee had been reported to the Conference of Governors.

One of the Federal reserve banks reported as in favor of discontinuing the non-cash collection function entirely, submitted to the Committee a statement showing that it was collecting an abnormally high percentage of items of less than \$100.00 in amount. The Committee learned that a considerable portion of these small items consisted of



city, township, school or county warrants, the place of payment of which class of items was difficult to determine and the time of payment uncertain. No other bank reported a similar experience and the Committee feels that this is purely a local condition which should be corrected either by arranging to handle these as cash items whenever possible or declining to accept them for collection unless they are made payable at a bank and have a definite maturity.

The Committee has studied this matter very carefully and is of the opinion that it is not only undesirable to limit the kind or dollar amount of collection items, but that it would be impractical to do so. The kind of non-cash collection items now handled by the Federal reserve banks are so numerous that it would be difficult if not entirely impossible to limit them in such a way as to uniformly affect the volume in each district. It would be equally undesirable and impractical to limit the class of collection items to those of \$100.00 and over. While in the vast majority of cases, member banks do not collect all of their non-cash items through the Federal reserve banks, they do as a general rule route through the Federal

reserve banks items on points which are difficult for them to collect through other channels. Therefore, to limit the kind or dollar amount would be imposing a hardship on member banks second only to the complete discontinuance of the collection function.

In crease of service Charge on Unpaid Items.

In connection with its study of the possibility of placing limitations upon the kind and dollar amount of non-cash items, the Committee also considered as an alternative a possible increase in the amount of the service charge on unpaid, unprotested items returned to member banks. This matter was also submitted by the Committee to each of the Governors of the Federal reserve banks and the replies received indicated a divided opinion. Only one of the reserve banks reported any considerable volume of no protest items being handled for its member banks and expressed the opinion that while it derived a considerable revenue from the fifteen cent service charge, it was not likely that these undesirable items would be excluded from the system if the service charge were increased. As an alternative, it suggested to the Committee that it consider the advisability of limiting the class of collection



items to be handled through the Federal Reserve System to those subject to protest if not paid. The Committee is of the opinion that the large volume of no protest items being handled by only one of the reserve banks is a purely local condition which should be corrected in some way other than by imposing a restriction against these items throughout the system.

The Committee feels that the imposition of a service charge on unpaid, unprotested collection items is necessary in order to prevent the misuse of the collection facilities by the attempted collection of undesirable items. In a general way, the service charge has resulted in keeping undesirable no protest drafts out of the system, although the uniform fifteen cent service charge is now slightly below the actual cost of collection. Inasmuch as the service charge on unpaid items is in the nature of a penalty, it would be desirable to increase it to an amount somewhat in excess of the present cost of handling non-cash collection items, possibly to twenty or twenty-five cents. The Committee recognizes that there are two objections which may be raised against an increase in the ser-

sive charge; first, that the present service charge on unpaid items has apparently accomplished its purpose in every district except one; second, that an increase at this time might be construed as an attempt to realize a profit on this class of items. The Committee, therefore, recommends that this question be considered by the Conference of Governors, and that the amount of the service charge be fixed by them. Whether the amount decided upon is fifteen, twenty or twenty-five cents, it is quite clear that the service charge would fail to accomplish its purpose unless it is strictly enforced by every Federal reserve bank, and the charge imposed on all non-cash collection items returned unpaid and unprotested.

Preparation of a New Uniform Non-Cash Collection  
Circular.

The Committee was requested by the Conference to prepare a new uniform non-cash collection circular covering the subjects of uniform endorsements, guarantee of prior endorsements, and defining the terms used by Federal reserve banks in effecting non-cash collections, and to suggest any change which the Committee felt should be made as a result of its study. It was understood by the Con-

ference that a draft of this uniform circular as finally recommended by the Committee be sent to each Federal reserve bank for its approval and if all banks agree the circular should be issued, but if there was no unanimous agreement the circular should be referred to the next Conference of Governors for its consideration.

In the first report of this Committee to the Conference of Governors in October, 1922, it was pointed out that absolute uniformity in the circulars was entirely impractical and not all together desirable, but that certain portions of the circulars should be identical. A number of paragraphs covering the more important subjects were recommended to and approved by that Conference.

The Committee feels that the paragraphs recommended in its first report fully cover the various items to which they relate and should be incorporated in the revised collection circulars, and that in addition to these paragraphs certain others should be incorporated and the liability paragraph should be slightly modified.

Uniform Endorsements and Guarantee of Prior Endorsements of Non-cash Collections.

It was suggested that the Committee should cover the



question of uniform endorsements as well as the guarantee of prior endorsements. Before making any recommendations on this question, the Committee desires to point out to the Conference reasons why it does not appear to be desirable that the wording of all endorsements on non-cash collection items should be absolutely uniform, as well as reasons why the guarantee of prior endorsements should not be made compulsory.

At the present time there appears to be no uniformity among commercial banks generally with respect to the form of endorsement used by them on non-cash collection items. Some banks guarantee prior endorsements while others do not. Some banks make their endorsements restrictive by including the phrase "for collection only", or "for collection and credit to the account of", or "for collection and remittance", or phrases of similar meaning. There is no uniformity in court decisions as to the effect of restrictive endorsements. Some courts have held that a restrictive endorsement makes the endorsee the agent of the endorser and that such an endorsement is not made for the purpose of transfer and sale and does not carry with it a guarantee of previous endorsements. Uniformity of endorse-

ment can only be obtained by adopting as a general rule a form of endorsement including a restrictive clause, or an entirely unrestricted form of endorsement such as is commonly used on bank checks. Court decisions in various states are often the determining factors as to the form of endorsement used on collection items and if the Federal reserve banks should attempt to force member banks generally to include a guarantee of prior endorsements, a great deal of confusion would be created. If the restrictive form is adopted, it would obviously be impossible to include a guarantee of prior endorsement because the inclusion of such a guarantee would have the effect of removing all restrictions and the wording of the endorsement would clearly be contradictory. If the restrictive form including a guarantee of prior endorsement is adopted, the entire burden of passing upon the validity of prior endorsement will be forced upon the bank with which the item is deposited for collection.

The committee respectfully begs to draw the attention of the Conference to the Committee's recommendation as included in its report to the November 1923 Conference of Governors, that as a general practice Federal reserve banks

to not guarantee prior endorsements on such items unless payment of any such items is contingent upon the guarantee of prior endorsements by a Federal reserve bank and then only in cases where prior endorsements have been guaranteed by the next preceding bank endorser. The Committee is of the opinion that before this matter is definitely decided, and a uniform paragraph for inclusion in the non-cash collection circulars is adopted, the Conference should give the matter further consideration so as to avoid possible legal complications. In the opinion of the Committee, it is desirable that this question be again referred to the Counsel for each Federal reserve bank for an opinion as to the necessity for a guarantee of prior endorsements on non-cash collection items, bearing in mind that commercial banks often adopt the restrictive form for a definite purpose and in order to avoid responsibility.

Definitions of Terms used by Federal Reserve Banks  
in Effecting Non-Cash Collections.

The Committee recommends that the following uniform paragraph covering this subject be included in the non-cash collection circular:

"Special attention is called to the fact that



in accordance with the practice prevailing among Federal reserve banks, certain terms are used in requesting telegraphic advices in connection with collection items. The meaning of each of these terms as construed by the Federal reserve banks is stated below and member banks are requested to use them in accordance with the same understanding of their meaning. For the protection of this bank, as well as the protection of its members, the Federal Reserve Bank of ..... will place the following interpretations upon these terms."

"WIRE PAYMENT" when it is desired that the collecting agent furnish telegraphic advice that actual payment has been made by the drawee or payer. It will be assumed that banks requesting "WIRE PAYMENT" are interested in knowing that an item has been paid to the collecting agent and are not particularly interested in receiving proceeds immediately for reserve purposes. It will be understood that when a Federal reserve bank gives such an advice of payment, it does not necessarily imply that actually collected funds are in possession of the Federal Reserve Bank.

"WIRE NON-PAYMENT" when a telegraphic advice of dishonor

only is desired.

"WIRE FATE" or "WIRE PAYMENT or NON-PAYMENT" when a prompt advice of payment or non-payment by drawee or payer is desired.

"WIRE CREDIT" when a telegraphic advice of final or actual payment and of credit for reserve purposes is desired.

Uniform Liability Paragraph in Non-Cash Collection Circular.

The report of the Committee to the October, 1922, Conference of Governors recommended a paragraph which was approved and adopted by the Conference. In the opinion of the Committee this paragraph requires only a slight modification and recommends that it be made a part of the new non-cash collection circulars with the following changes: first, that there be inserted the words "by such act" in order that this paragraph may be in conformity with the wording of the liability paragraph in the check collection circular, second; that the last phrase "or when they have given advice of payment" be omitted so that the paragraph will read as follows:

"Every bank sending maturing notes, bills or other

non-cash items to the Federal Reserve Bank of ....., or to another Federal reserve bank direct for our account, (by such act) will be understood to have agreed to the terms and conditions of this circular and to have agreed that in receiving such items the Federal reserve banks will act only as the collecting agent of the sending bank; that the Federal reserve banks will be responsible only for due diligence and care in forwarding or presenting such items; that the Federal reserve banks are authorized to present or forward such items, for payment in cash or bank draft, direct to the bank on which they are drawn, at which they are payable or through which they are collectable, or to present them direct to the person, firm or corporation on which they are drawn for payment in cash or bank check, or in their discretion to forward them to another agent with the same authority that they have to present or forward them for payment; and that, except as herein provided, the Federal reserve banks shall be held liable only when they have received payment in cash or in the proceeds of the bank draft or check."

One of the reserve banks has raised the point that the concluding phrase, "or when they have given advice of



payment" which appears in the paragraph now uniformly used by the Federal reserve banks is unnecessary for their protection and tends to create a false impression. The opinion has been expressed that legal complications might arise as a result of the inclusion of this phrase and that the recovery of the amount of a collection item erroneously credited to a member bank, even though the member bank had not acted upon the erroneous advice of credit, would be exceedingly difficult if this phrase were included.

Authority of a Federal Reserve Bank to Accept in Payment of a Collection Item, a Bank Draft given in exchange for the draft of the Drawee.

This was a topic submitted for consideration to the Conference of Governors and resulted in the following vote:

"That the Standing Committee on Collections be requested to study this topic in connection with its consideration of Regulation J as voted by the Conference."

Previously the Conference had voted that the proposed draft of Regulation J be referred back to Mr. Wyatt, Counsel for the Federal Reserve Board, with the request that he permit the Standing Committee on Collections to confer

with him relative to its provisions before final adoption. Later they voted that in order to expedite final consideration of Regulation J, the Chairman of the Committee be requested to represent it in conferring with Mr. Wyatt, relative to the form of the regulation. Obviously, the Committee is not in a position to study this matter in connection with the proposed draft of Regulation J which was submitted to the Conference, because Regulation J, Series of 1924, was issued by the Federal Reserve Board on May 9, 1924, after consideration and upon recommendation of the Board's Counsel and the Chairman of this Committee. The Committee understand that the point raised by this topic is whether or not a Federal reserve bank in forwarding checks or non-cash collection items to a bank for collection and in accepting therefor a remittance consisting of a bank draft drawn by the remitting bank upon another bank, has the right to accept still another bank draft in remittance for the first bank draft.

The Committee has considered the new Regulation J, Series of 1924, in connection with the question raised and is of the opinion that there is some doubt as to whether or not the new Regulation J protects a Federal reserve



bank against liability in case the original remittance draft is not converted immediately into actually and finally collected funds. The Committee recommends that the question be submitted by each Federal reserve bank to its Counsel for an opinion.

#### Withdrawals from the Par List.

The May, 1924, Conference of Governors, voted that in order to protect both member banks and Federal reserve banks against loss, the Standing Committee on Collections be requested to formulate a uniform procedure to be followed by all reserve banks in handling cash items received direct from the member banks of other districts drawn on banks which have been removed from the par list between issues of the Federal Reserve Board's semi-annual par list or the monthly supplements thereto.

The Committee recognizes that it is practically impossible to keep all member banks promptly informed of the removal or withdrawal of the names of non-member banks from the par list and that, consequently, there will be recurring instances where a direct sending member bank will forward for collection checks drawn upon banks which cannot be collected because the banks upon which they are



drawn have been removed from the par list, and the sending bank is not aware of that fact. The Committee, therefore, recommends that the following procedure be adopted by the Federal reserve banks and branches in order to protect the sending bank as well as the receiving Federal reserve bank or branch against the possibility of loss.

1. Any item under \$500.00 should be charged back and returned to the direct sending member bank with a memorandum or notation to the effect that the bank upon which the item is drawn has been removed from the par list and, therefore, the item is not collectable through the Federal Reserve System.
2. Any item of \$500.00 or over should be held by the receiving Federal reserve bank or branch and the direct sending member bank from which the item was received should be notified by wire, that the bank upon which the item is drawn has been removed from the par list and that the item is not collectable through the Federal Reserve System, and should be requested to forward instructions as to the disposition of the item.

The Committee also recommends that as an added protection against loss to the Federal reserve banks and branches, the Federal Reserve Board print upon the title page of the semi-annual Inter-District Collection System Booklet, and the monthly supplements thereto, the following: "Subject to change without notice."

Study of Cash Items Protested by All Federal  
Reserve Banks.

The May, 1924, Conference of Governors voted that the Standing Committee on Collections be requested to make a study of the cash items protested by all Federal reserve banks and branches for a period of three months and that these checks should be divided into different classes as to amount.

The Committee has communicated with each of the Federal reserve banks and obtained information as to the cash items payable in Federal reserve bank and branch cities which were protested by the Federal reserve banks and branches during a period of three months. This information has been tabulated and is attached hereto marked Exhibit A.

The Committee understands that the request to study

the cash items protested arose out of consideration by the Conference of Governors of the increasing volume of notarial work in the several reserve banks and that the Governors were of the opinion that the labor incident to handling this class of items might be somewhat reduced if the present general waiver of protest on all items of \$10.00 and under were to be raised to \$20.00 and under.

A vast majority (about 85%) of the commercial banks now use the \$10.00 limit. The American Bankers Association some time ago advocated increasing the limit to \$20.00. No definite steps, however, were taken by the Association to bring this about, partly because the officials of the Clearing House Section had the impression that some of the Federal reserve banks were opposed to raising the limit to \$20.00.

The Committee understands from the Secretary of the Clearing House Section of the American Bankers Association that at the next meeting of the executive committee, the latter part of September, another attempt will be made to work out a plan for the adoption of the \$20.000 minimum. The Clearing House Section, it is understood, will take the initiative in bringing this matter before the bankers



of the country, and will use every possible effort to make the plan successful if adopted by the executive committee, providing they have the fullest cooperation of the Federal Reserve Board, and the Governors of the Federal reserve banks.

The Committee believes that as a measure of economy in the operation of Federal reserve banks a waiver of protest on all items of \$20.00 and under instead of the present waiver of protest on all items of \$10.00 and under would have little, if any effect, in reducing the cost of handling unpaid items between \$10.00 and \$20.00, as the handling of these items and the accounting incident thereto is practically the same whether these unpaid items are protested or not.

The Committee is of the opinion that the policy of the Federal reserve banks with respect to a limit of protest items should be governed by the practice in effect with commercial banks generally and recommends, therefore, that the present \$10.00 minimum be continued until commercial banks generally adopt a policy different from that now in effect.

Report of all City checks protested by Federal Reserve Banks and Branches during the months of March, April and May, 1924.

	\$10.01 to 15.00	\$15.01 to 20.00	\$20.01 to 25.00	\$25.00 and Over.	Total	Percentage of items under \$20.00.
Boston	218	160	206	1,552	2,136	17.7%
New York	739	517	641	6,804	8,701	14.4
Phila	175	141	298	1,960	2,583	12.2
Cleveland	251	198	287	2,583	3,319	13.5
Richmond	141	92	132	1,073	1,438	16.2
Atlanta	171	124	162	1,297	1,754	16.8
Chicago	238	181	262	2,414	3,095	13.5
St. Louis	186	168	222	1,297	1,873	19.
Minneapolis	81	51	70	569	751	15.
Kansas City	169	134	162	1,277	1,742	17.4
Dallas	151	145	109	898	1,303	22.7
San Fran.	<u>266</u>	<u>187</u>	<u>219</u>	<u>2,101</u>	<u>2,773</u>	<u>16.3</u>
Total	2,766	2,098	2,770	23,825	31,459.	

Number under \$20.00 4,864

Percentage of total 15.4%

Protest Fees

On items \$10.01 to \$15.00	\$5,219.43
On items \$15.01 to \$20.00	<u>4,330.59</u>
	\$9,550.02.

Governor Young: We have all read the report, Mr. Chairman. Minneapolis has been the chief complainer with regard to previous reports, and I will now make a motion that this report be approved.

The Chairman: There are certain specific recommendations in the report, as I recall it, and some of them are laid out in detail on the program.

Mr. Harrison: San Francisco I think has recommended some things that are covered in the report.

The Chairman: The motion is to approve the report.

Governor Young: And to complement the committee on the splendid work they have done.

Governor Harding: I would like to discuss that for a moment, Mr. Chairman. I have taken considerable pains to look over this report and I have just a few suggestions to make with regard to it. It will not take but a few minutes to explain the amendments I would like to see made in it, and, if it is in order, I would like to have about five minutes.

The Chairman: Governor Harding.

Governor Harding: On the first page of the report there is a suggestion that there should be added to the



check collection circular,

"Every bank sending checks or other cash items to the Federal Reserve Bank of..... or to another Federal reserve bank direct for our account, by such act will be understood to have agreed to the terms and conditions of this circular and of Regulation J of the Federal Reserve Board."

Now, the circular letter which the Boston Bank has issued contains a short form of uniform liability suggested by the committee, and, as a legal necessity, our counsel thinks that the bank is adequately protected by the short form. As a practical convenience to member banks there appears to be no objection to adding the provisions of Section 5, but our circular has only recently been reprinted and it would be more convenient to defer re-printing until such time as other changes are necessary, when Section 5 of Regulation J could be added.

Now, on page five, Increase of service charge on unpaid items, I do not know what the other banks' experience has been, but our own experience is such that we find that a 15 cent charge is as effective as a 25 cent charge on non-cash items returned unpaid.

On page 9, under "Definitions of terms used by Federal reserve banks in effecting non-cash collections", the committee recommends the following uniform paragraph covering this subject be included in the non-cash collection circular. Then the paragraph is given, and our comment is that when we are ready to issue a new circular we are willing to insert the proposed paragraph, but prefer not to issue a new circular merely for the purpose of including it.

Governor Fancher: You mean that you will insert it when you issue a new circular?

Governor Harding: Yes.

On page 10, as to the paragraph "Every bank sending maturing notes, bills or other non-cash items to the Federal Reserve Bank of .....", and so forth, our counsel concurs in the committee's suggestion that for the words "our account" in the third line we prefer to use the words "the account of this bank".

Mr. Strater: That is not a material change.

Governor Harding: Now, on page 12, just about the topic "Withdrawals from par list", in regard to the original remittance draft not being converted immediately

into actually and finally collected funds when a bank draft is given in exchange for the draft of the drawee, our counsel is of opinion that the new Regulation J does not protect the Federal reserve banks against liability in case the original remittance draft is not converted immediately into actually and finally collected funds, but another draft accepted in lieu of the original. Neither does the bank's circular letter afford such protection. As a matter of practice our rules are against the acceptance of such a second draft. Our counsel is very clear that you cannot avoid liability if you take a bank draft.

Governor McKinney: Not even by contract?

Governor Harding: That is his opinion, yes.

Governor Calkins: Our counsel is of the same opinion.

Governor Harding: He does not object to trying it, but he just wants us that we are not getting anywhere.

Governor Calkins: I am willing to go further than your counsel and say that we ought not to escape liability. That the Federal reserve bank should surround itself with a bomb proof wall to protect itself from the consequences of negligence does not appeal to us at all.



Governor Harding: There is one other thing, about the endorsement guaranteeing prior endorsement on non-cash collections. Our counsel is of the opinion that where a bank has itself received an item with an unrestricted form of endorsement and then endorses it in the form used for non-cash items, that endorsement does not constitute a guarantee of prior endorsements.

Governor Calkins: That is a matter of real importance. I have an opinion from our counsel, with citations, which is almost diametrically opposed to the conclusion reached in the Boston bank. His conclusion is, and I believe it to be correct, that we cannot guarantee prior endorsements without using words for that purpose. A lot of counsel for the reserve banks are going to have a meeting here in December, I think, and this is a matter of sufficient importance, to be handed to them for discussion.

Mr. Strater: I think that would be a very good thing to do, because as a rule the average lawyer looks at a negotiable instrument only from the legal point of view and does not take into consideration at all the fact that commercial banks generally, and Federal reserve banks specifically, handle the same class of items in two differ-

ent ways, and therefore the distinction is rather in the method of handling than in the character of the items.

The Chairman: You refer to the fact that our custom-  
is to send direct and commercial banks do not always do  
that, but in fact endeavor not to do it as a rule.

Mr. Strater: Not exactly, Governor Strong. A com-  
mercial bank will take a check for collection for a defin-  
ite purpose, the purpose being to avoid responsibility, if  
possible, and not to turn over the funds until the check  
is collected. The Federal reserve bank does not do that  
to any great extent. The same is true of drafts and notes.  
They do not want to turn over to their customers the pro-  
ceeds of those items until they know they are actually col-  
lected, and they want to relieve themselves, if possible,  
from every liability in connection with their endorsement  
on the instrument, because if the endorsement is guaranteed  
specifically, or all prior endorsements guaranteed specif-  
ically, and if the court holds that an endorsement in blank  
constitutes or includes a guaranty, that means that the  
collecting bank is liable at any time, that is, the col-  
lecting Federal reserve bank is liable at any time to have  
the collecting agent come back on them with a claim of

forged endorsement.

Governor Calkins: The only way that liability can be avoided is by using words for the purpose.

Governor Harding: The committee's report calls attention to the desirability of referring this matter again to counsel of each of the reserve banks. There is nothing in what I have read that is contrary to the general tenor of the report, and I want to second Governor Young's motion that the report be adopted.

Governor McDougal: Before the vote is taken, I call attention to page 6, where the committee recommends an increase in the charge for handling non-cash collection items which are not paid.

The Chairman: Gentlemen, it is going to be quite impossible to take action upon this report in view of the great variety of exceptions to be considered in connection with it. If you will permit me to suggest a course of procedure that will facilitate action, let us take up each item, for instance, that suggests itself to Governor Harding, and act upon them.

Governor Harding: If you will read the report you will see the committee does not say arbitrarily that there



must be a 25 cents charge, but that the matter should be considered. I do not care to offer all these trifling verbal changes.

Governor Fancher: I might suggest that Mr. Strater has a condensation of the recommendations, and he might just read those recommendations from the committee as set up in the report here, in order to get them clearly before the conference.

The Chairman: What I wanted to accomplish was to take up exceptions offered by anybody to the recommendations in the report and act on them separately, and then adopt the report as a whole with the exceptions that we have adopted.

Governor Young: Let us take up the 25 cent charge first.

The Chairman: Are you willing to hold that matter up, Governor Young, until we have dealt with some of these matters individually?

Governor Young: Yes, Mr. Chairman.

The Chairman: Are you, Governor Harding?

Governor Harding: Yes.

The Chairman: The first question is the charge on return items of non-cash collections, as to whether that

charge should be 15 cents, 20 or 25 cents.

Governor Young: I make a motion that it be 25 cents.

Governor Wellborn: I will second it.

Governor Calkins: I am opposed to any increase in the charge. I do not think it will accomplish anything.

Governor McKinney: I agree with Governor Calkins.

Governor Fancher: I think it is unwise at this time to raise the charge from 15 cents to 20 cents or 25 cents.

Governor McDougal: I agree with that.

Governor Bailey: And so do I.

Governor Seay: I feel the same way about it.

Governor Young: Then I will withdraw my motion and make a motion that the charge be 15 cents and that it remain unchanged.

Governor McDougal: I will second that.

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

Governor Seay: There is one thing, apparently, that the committee had in mind, and that is that these charges were not always enforced. That is more important than any sum that may be fixed.

The Chairman: Will you offer a resolution on that, Governor Seay?

Governor Seay: I move it is the sense of this conference that the charge on returned, unpaid collection items fixed at 15 cents shall invariably be enforced by each Federal reserve bank.

Governor Harding: I second that.

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

Governor Seay: I also move that any bank that so desires may change the phraseology from "our account" to the words "the account of this bank".

Governor Harding: I second that.

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

The Chairman: The opinion of our counsel is that there is no question about the liability of a reserve bank were it accepts an exchange draft in payment for another exchange draft which has been accepted in payment of a collection item. The question is what to do about the recommendation of the committee in that respect.

Mr. Strater: The committee makes no recommendation at all. It merely calls attention to the fact that it is difficult to determine whether Regulation J covers that point or not, and suggests that the question be submitted to counsel for the various Federal reserve banks.

The Chairman: The suggestion is made that that is



an important point and that it should be submitted to the meeting of counsel to be held here on the 5th of December.

Governor Young: I will make such a motion.

Governor Norris: I will second it.

Governor Seay: Perhaps it should not be covered, because perhaps we ought to make ourselves liable.

Governor McKinney: I cannot agree with Governor Seay, for the reason that we are making our best efforts to collect the items and ought to fortify ourselves and protect ourselves in every possible way when we are doing the best we can.

Governor Young: In so far as Minneapolis is concerned, if we are liable in this, we are taking a liability of a million dollars a day.

Governor Seay: But you have not suffered by reason of it, have you?

Governor Young: No, but the liability is there just the same. We have to take these drafts or else go out of the par collection business.

The Chairman: Isn't the real question whether it is possible for the reserve bank to protect itself against things of that character by anything that it may put into

a circular? If it is not possible, is it not simply a question of policy as to whether you are going to take the risk?

Governor Young: Our counsel advises us that we are not liable under the circular we have.

Governor Calkins: I do not want to prolong the discussion, but as I said before in referring to this matter, I do not think the Federal reserve banks should be relieved of responsibility, and the best advice that we have is that the circulars now in effect have no effect on that particular aspect of it.

Governor McKinney: Why wouldn't it be a good idea to have Mr. Strater attend this meeting of counsel of several of the reserve banks and discuss these matters with them?

The Chairman: I think it is a very important question, especially important where we find radical difference of view between counsel for the reserve bank. It is a system matter and one bank cannot alter the terms of a circular of this character, without affecting the liability of other reserve banks. The suggestion that the matter be discussed by counsel of the various reserve banks while they are here together, strikes me as a very helpful one,

and the form of motion which occurs to me to be a wise one. would be to have the Conference submit this question to the Federal Reserve Board, requesting that it ask representatives of the Standing Committee on Collections and representatives of the reserve banks to be selected to attend the meeting in Washington on the 5th of December and arrange with counsel to hear a statement of the case from them and to render us an opinion.

Governor Young: I will withdraw my motion and make a motion to that effect.

Governor McKinney: I will second it.

Mr. Strater: I might say that when the amendment to Regulation J was submitted to the Board's counsel they also considered that particular phase of it and were of the opinion that there wasn't anything that you could put in Regulation J which would carry through indefinitely on the question of drafts in that manner; that liability would begin after you had exchanged your first draft for another draft.

Governor Calkins: If it did not begin there it would begin later on.

Governor Seay: How many steps would be contemplated?



Mr. Strater: That is just the point. You cannot tell; the thing might be carried on indefinitely. You might change one draft for another draft, and there would be no means of determining when your liability would begin if you attempted to cover it.

The Chairman: We have felt in our bank, according to what Mr. Harrison just tells me, that the new circulars being put out covering this and other technical matters make so many attempts to save the Federal reserve banks from liability, especially liability for its own negligence, or possible negligence, that dissatisfaction has developed which is pretty serious; that the reiteration of saving clauses in the circulars, quotations from Board regulations, and so forth, have a disquieting effect. Now, if we are liable for negligence, it seems to me that we ought to face that liability. We want to first find out whether we are liable.

Now, we have this meeting of counsel coming along. Mr. Baker will attend that meeting. He is making a study of this whole problem. His office is in Cleveland, right next door to the reserve bank, where he can get in contact with Mr. Strater and Governor Fancher, and it seems

very reasonable to me to ask this meeting to consider the matter and give an opinion on it.

Governor Seay: Is he counsel in this particular?

The Chairman: No, but he is counsel in the Pascagoula case. What I would like to have for the New York bank would be an opinion which would appear to be as conclusive as an opinion can be by counsel, that will satisfy the Federal Reserve Board and enable us to adopt a uniform practice in our circulars. Mr. Baker's opinion, I think, would carry great weight with everybody.

Governor Seay: It would still remain a question of policy, whether the opinion of counsel was uniform or whether it differed.

The Chairman: Well, it is for us to decide in each case. Governor Young may want to go ahead and assume liability on his collections by accepting an exchange draft for an exchange draft---

Governor Calkins: Mr. Chairman, there is one question in this that I think is important, and that is whether the Federal reserve banks in their operations with the public and their member banks, and with each other and so on should be relieved of responsibility for exercising due

diligence. I do not think that they should or can be.

The Chairman: They cannot be, in our opinion.

Governor Calkins: It may be good policy, of course, to decide that we are going to try to avoid it.

Mr. Harrison: If the conference of counsel agrees that we would be liable in accepting a draft in payment of a remittance draft, the question would be then what this conference would want to decide after counsel had determined that to be a fact, and we might save six months' time by passing on it now.

The Chairman: Do you think it would be wise to attempt to pass a resolution at this meeting, in case liability is perfectly clear in the event that you have described, which would be no more than an attempt to persuade the Governor of each bank that he should not accept the liability. Mr. Young undoubtedly will want to accept it. If it is a question of policy, why should not that policy be decided upon in each reserve bank, with the result that if loss does occur it falls upon the bank which, in the exercise of its discretion, assuming that the law is as it is, is willing to assume the liability. In other words, if we sent Governor Young an item for collection and he collected



it in the face of advice by counsel that he assumed liability in accepting such a draft, the loss would fall upon him and he could not pass it back on us under the terms of the circular.

Governor Seay: Unless he wanted to provide in dealing with you that he would not be liable. That would bring him in controversy with the other banks.

Mr. Harrison: I agree with all you say, but what I meant was that we might decide now that we did not want to put into the circular of each Federal reserve bank a saving clause which would exempt it from liability for taking a bank draft in payment of a remittance draft. If we eliminate the provision and do not include such a provision in this circular, there is no reason in the world why Governor Young should not accept a bank draft in payment of a remittance draft if he wants to.

Governor Young: I think it would be better first to settle the question whether we are liable or not through this conference of counsel. What the Minneapolis bank might do from then on I could not say at this time. If we have got to assume liability every day under such conditions as we had in 1920, 1921 and 1922, it will be my re-

commendation to the directors of our bank that we do not assume any such liability, and if that breaks down the par collection system it will break it down, and that is all there is to it.

The Chairman: Of course that puts you in a position where you are the unwilling victim of the other reserve banks that send you checks for collection. Isn't that so?

Governor Young: Why, we will just send it back to them; we won't take it. But there is another point we have to bear in mind. It doesn't make any difference what kind of regulation we get up, it has got to be a fair regulation to the member banks. This matter came up a short while ago in our district. There is a Swede in the southern part of the state. I think he runs a pretty good bank, because I never heard of him before, and he never borrowed anything from us. He got this Regulation J with our circular and he sat down and read it over. I do not think he knew what it was all about, but he figured that if it was a good thing for our bank he ought to have it in his bank, and he simply took excerpts from it, substituted his own name for the name of the Minneapolis Bank and sent it back to us and asked us to sign it first. He

was entirely within his rights, but if the other member banks do the same thing you have got the whole system in a hole, and that's all.

The Chairman: You ought to hire that Swede, Governor.

Governor Norris: What did you do?

Governor Young: I wrote him a long letter. I did not sign the agreement, and I do not think he signed with us.

The Chairman: The first question is to get a legal opinion, and the second question is a question of policy.

Governor Calkins: Let's have the legal opinion first.

The Chairman: I do not think the motion made was seconded.

Governor Young: It was seconded. Governor Norris seconded it.

The Chairman: The motion is, as I attempted to phrase it; it is seconded.

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

The Chairman: Do you wish to discuss the question of policy at this time?

Governor Young: I do not.

The Chairman: In the absence of a motion, Mr. Strater,



we will take up the next item of your report.

Mr. Strater: That is withdrawals from the par list. There is no objection to that procedure to be followed in cases where checks sent by member banks in one district direct to another Federal reserve bank when the bank on which is drawn has been removed from the par list.

The Chairman: That is a recommendation by the committee as to how the items should be treated, classifying them in items under \$500 and items over \$500. Are you ready to act on the recommendation of the committee?

Governor Young: I move the recommendation of the committee be approved.

Governor Norris: Seconded.

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

The Chairman: I want to refer to one thing in the proposed new circular to the effect that when a member bank gives a warranty to a reserve bank that it has received from its customer---

Governor McKinney: That is on the program, but it is not in the report.

The Chairman: I understand from Mr. Strater it is covered in the report of July.

Mr. Strater: The committee made no recommendation on cash items protested, but submits an exhibit showing the results for the twelve banks.

The Chairman: That has been discussed from time to time as to whether the limit of no protest items should continue at \$10 or be increased to \$20. The action at a previous conference, as I recall it, was to the effect that we would not consider that question unless the Standing Committee on Collections made some recommendation. Am I correct in that, Mr. Harrison?

Mr. Harrison: Yes.

The Chairman: And no recommendation has been made.

Governor Seay: My impression is that the committee considered it and had no recommendation to make.

Mr. Strater: The American Bankers Association recommended the ten dollar limit. That was stated at their convention in Chicago.

The Chairman: The matter is just submitted for consideration without any recommendation from the committee, then?

Mr. Strater: That is correct.

The Chairman: Then the question before the meeting

is whether we shall make any change in the present limit of ten dollars?

Governor Seay: I move that no change be made, Mr. Chairman.

Governor McDougal: Seconded.

Governor Calkins: I am very strongly in favor of making a change, but I haven't any disposition to stand out for it.

Governor Seay: We could not make a change unless the change were adopted throughout the country by commercial banks, because it would involve very complicated procedure. Inasmuch as it apparently has been settled to the satisfaction of the member banks throughout the country and the banks generally, I think it had better be left there.

The Chairman: Mr. Harrison calls attention to the last page of the report, which carries the recommendation by the Standing Committee on Collections that no change be made until the banks of the country come to us with a request to that effect. The motion is that no change be made. Is there any further discussion?

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

Governor McKinney: There is an important recommenda-



tion here that as an added protection against loss to the Federal reserve banks and branches the Federal Reserve Board print on the title page of the semi-annual inter-district collection system booklet, and the monthly supplements thereto, the following: "Subject to change without notice." That is important, in my opinion, and I therefore make a motion that it be presented to the Board with the request to print that on the booklet.

Governor Young: I will second that.

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

Governor Calkins: With regard to the counsel of Federal reserve banks in conference on the question of whether we have liability for the acceptance of a draft in payment of another, we did not specifically decide to refer to them the question of whether it was necessary to use words to avoid liability on the endorsement. I think that question should be referred to them.

The Chairman: Do you make a motion to that effect?

Governor Calkins: Yes.

The Chairman: Governor Calkins motion is that we refer to the meeting of counsel of Federal Reserve banks to be held in December the question of whether it is necessary

to use words in the endorsement on a check to relieve the reserve bank of liability for guaranteeing all prior endorsements, checks and non-cash items.

Governor Young: I will second that.

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

The Chairman: I think it is proper to put on record a request to our Secretary that in referring this question to the Board's attention he call the attention of the Board to the fact that there is a divergency of opinion of counsel of the Federal reserve banks, which makes it desirable.

Mr. Strater: The only other single item in the report that has not been acted on by the conference is the possible limitation of kind or dollar amount of non-cash items to be handled by the Federal reserve banks for collection.

Governor Calkins: What is the committee's recommendation on that?

Mr. Strater: The recommendation of the committee is that it is not only undesirable to limit the kind or dollar amount of collection items, but that it would be impractical to do so.

Governor Calkins: I move that the Committee's recommendation be approved.

Governor Seay: I will second that.

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

The Chairman: As I understand it, that covers everything in the report.

Mr. Strater: Yes sir.

The Chairman: Mr. Harrison is charged with the responsibility of determining whether or not recommendations involving action by the separate banks are adopted. Have all the banks adopted the recommendations of the October, 1922, committee report, or are there any exceptions?

Governor Young: You mean the report of the Standing Committee on Collections?

Mr. Harrison: Yes.

Governor Young: We have not adopted them.

Mr. Strater: You have adopted everything except the letter which was recommended to be exchanged between Federal reserve banks on direct sendings, have you not?

Governor Young: There are some other things that need argument, before adopting them, so far as I can see.

The Chairman: You mean in addition to the letter?



Governor Young: It is not necessary for us to send the letter. We have taken care of each particular bank. If it was a bank that sent directly, we sent the letter, and everybody is satisfied.

The Chairman: But I mean you have not sent out a blanket letter?

Governor Young: No sir.

Mr. Strater: There is another point here that has not been definitely acted on, Mr. Chairman, and that is, Definition of terms used by Federal reserve banks.

The Chairman: Governor Harding explained that he would be willing to incorporate that when he issued another circular, but that they had just issued a circular and did not want to make another edition until this one gets a little older. What is your pleasure about the definition of terms, gentlemen?

Governor Deay: I move that the recommendation be accepted.

Governor Young: I second it.

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

Mr. Strater: The uniform liability paragraph with regard to non-cash collection circular, was that specific-

ally acted upon?

The Chairman: There was a change made and acted on and it carried approval with that exception.

Governor Bailey: Mr. Chairman, I am going to vote <sup>not</sup> no on this report. In the Tenth Federal Reserve District we have given careful consideration to the collection of non-cash items. We find that only five per cent of the member banks of the Tenth District use non-cash collection items; that it costs us \$50,000 a year to make non-cash item collections. We think it is unfair to the other 95 per cent of our banks to pay \$50,000 a year to take care of the other five per cent. We have discussed this in our board, at our junior officers meetings, and we are all of one opinion, that that had not ought to be a part of the Federal Reserve System. We are constantly being spoken to with regard to economy and efficiency and about reducing expenses of the reserve banks. We all recognize that we have built up a great big, expensive piece of machinery. I think it is a good thing to give free service when we can give free service, but I believe that the same prudence in the Federal reserve system should be exercised that would be exercised in our individual lives--- if

we can't afford to do a thing, don't do it.

I want to make this further observation, that the Federal reserve system has never had a fair trial under normal, economic conditions. We came in just before the war. We did not pay a dividend up to the war. Then war came along and swept away all the safeguards that had been built up around conservative action. We got to making a lot of money, the same kind of money that Governor Calkins said that we made here yesterday, but we are not making it now. I have gotten a good deal of encouragement from Governor Strong's statements, and I know that his ability to visualize things is much better than my own, and he says that we are approaching a time when we can earn good dividends, but from our standpoint out there in the sticks, I cannot see it at this time. Our banks are full of money; they can take care of local conditions, and it does seem to me that if we are ever going to reduce the expenses of the Federal Reserve System that now is the time to do it, that here is a good place to begin.

It costs the Federal Reserve System a million dollars to maintain this non-cash collection system and, gentlemen, with all due deference to the committee and the very fine



work it has done, I am speaking for the Tenth District. It is unpopular with our country banks. They feel that we are taking something away from them that belongs to them and we feel it would bring back a better feeling toward the System if it were eliminated in the Tenth District. These little country banks feel that they have a right to make these collections. If you will look through the Blue Book you will see lots of them with double space advertisements of their collection systems. They were used to handling it and they do not get it. We can save a million dollars for the system. But someone will say what will that amount to? A million dollars is not going to help so much. But I know a distinguished gentleman who wanted to save money, and he made the remark that the way to economize is to quit spending money and they elected him President of the United States when he vetoed a couple of bills and took that position. If the Federal Reserve System would take that position I do not believe we would get any bad reaction from the bankers of this country by eliminating it. I say that I am not going to oppose it. It would be almost presumptuous for me to stand up and argue with you fellows because you are experts

on it, but I am speaking for the banks in the district for which I am responsible and I am expressing our sentiments. I think we are rendering more free service than we are justified in rendering. For instance, I would like to see something done about the payments on outgoing currency, because that is something that is abused with us more than anything else. Every fellow who wants to get \$5,000 worth of new currency will ask for \$10,000 worth, and we will divide it and send him \$5,000 and the day after tomorrow back will come the five thousand with a strap on it, and we raise the devil with him about it and he will change the strap and hold it one day more. For instance, we had a rather bad bank failure in Wichita last spring, a state bank, but matters were arranged and the bank was to be reopened, and the day before it reopened the member bank in that town ordered \$500,000 worth of currency, and we sent it to the bank, and they did it because they feared when the new bank was opened that its correspondents locally would heed the money. We paid the charges on that and they held it three or four days and sent it back. The Federal reserve system paid the charges on that both ways. Now, if we had only paid charges on it one way they would

not have sent for it. Now, if you are wondering whether you can inaugurate some economies that will bring about a good reaction, I am sure that the member banks of this country would be satisfied if they could get currency shipped one way.

Governor Harding: I would like to go on record as expressing my opinion that if any change should ever be made in our present practice of paying transportation charges on currency, that we should continue to pay the charges on the incoming currency rather than on the outgoing currency.

Governor Bailey: That would not work with us at all.

Governor Seay: It is the only thing which will save us a great many complications which I think will necessarily be involved.

Governor Bailey: I know what you are going to say, that they can put them in the cash letters, and that can be done, but I think the number that would do that would be negligible. I want to get through with this statement. I haven't taken much of your time, and I am going to insist on being recognized until I get through. It will not take much longer.



Now, I do not want this conference to think that I am just contrary and pugnacious, but we have studied this thing carefully as it applies to our district and to the System, and we believe that the System would be better off without the non-cash collection. I do not think it was ever contemplated in the original act. We do business with banks; that was the original idea of the Federal Reserve System. In this non-cash collection proposition you do not deal with the bank but you deal with the individual. It seems to me that the whole theory is repulsive to a reserve system.

Now, with these few words which I desire to go into the record, so that I can justify myself with my directors and friends, I want to call your attention to the fact that the American Bankers' Association went on record as against the non-cash collections. Somebody suggested to me that that was just talk, but they are mistaken, because they had a very diligent committee, which sent out questionnaires and got very good information. I do not know how many talks you gentlemen have made, but I have made a lot of them for the System, and I have apologized to the country banks, and have always got the glad hand when I

have said that I was in favor of taking off the non-cash collection system and turning it back to them. That always meets with a hearty response out in our section of the country.

Governor Harding: I want to express the opinion that if the voluntary services were curtailed, that the first curtailment should be made in the non-cash collection item.

The Chairman: May I say just a few words with regard to the history of this thing, because it has a bearing upon the attitude of the members in this room, and a very strong influence on my mind. It was in 1920, when the earnings of the reserve banks were very large, that new functions were assumed, which were assumed without cost to the members. We undertook to pay the costs ourselves. The Federal Reserve Act undoubtedly specifically authorizes us to do this. It does not fix the schedule of charges, nor does it make the charges mandatory, and the assumption of this enormous expense of a million dollars has been due to two things, in my opinion. One is the specific direction of the Federal Reserve Board that we should undertake this work for the members. As I recall it, there

was no recommendation before the Federal Reserve Board that we should make non-cash collections, but the Board directed that it be done. Am I correct in that?

Governor Harding: The action of the Board was based very largely upon representations made by the Dallas Bank.

The Chairman: The next point is that we were influenced by conditions at the time to do that and other things without pay, which I personally thought was a mistake. Now, we have undertaken an enormous operation in the Bank of New York, which is of great service to our members banks, an operation which, because of the volume that we handle, we can do much cheaper than the banks can do it themselves. My belief as to the treatment of the non-cash collection problem at the proper time would be to make a reasonable charge, which will be an inducement to those banks to use it that find it an advantage, a charge which nevertheless will protect us against this enormous expense. But as long as we have undertaken to do it and we have effected a readjustment of the service that is involved, it seems to me a very hard thing to cut it right off; but my mind is turning very strongly in the direction of some day mak-



ing a charge which will recoup us for the actual cost of doing it.

Governor Bailey: That would very largely relieve us. If we made a charge for everything above \$100 it would relieve us of this intolerable nuisance, because I think it would take care of itself.

Governor Young: I would like to go on record that our bank favors a charge for these non-cash items. The reason I have not brought it up for discussion here is because it has been pointed out by some of the eastern banks that they believe if a charge is made at this time it may result in a number of banks withdrawing from the system. I think it is much more important at the present time to hold members in the system than to argue over a million dollars worth of expense.

The Chairman: What I have in mind is this. It is exactly what I said to the Reserve Board last Saturday. This question came up and I said then what I have just said, substantially, with the addition that I do not think the time to withdraw the voluntary services for members was when bank earnings were as low and interest rates were as

low as they are now, and when the members are complaining a great deal. I am convinced that if we wait for a few months only that the conditions are going to change. Governor Bailey seems to feel differently about conditions, but I see a situation developing where my best judgment is that bank profits are going to be pretty good, and if they are it is going to cause much less dissatisfaction in our member banks if we wait until it is not so vital a matter to them, when every penny of expense that they pay is not so important. When the proper time comes they will just have to consider whether they would rather do it themselves, or rather pay our schedule of charges. When the time comes I am going to favor imposing a charge, Governor Bailey.

Governor Calkins: I think it would be very informing if you would include in your statement as to the origin of the proposition, the reasons that were urged for it, the reasons why the Federal reserve banks should take upon themselves the collection of non-cash items. The principal reason that was urged, and I believe the determining reason with the Federal Reserve Board, was that it was represented that many banks, because of the requirement that they carry all of their reserves with the reserve

banks, had been obliged to give up their correspondents who conducted such services for them, and it was only fair for those banks, the reserve banks, to provide them with the means of maintaining their non-cash collections, which they did not have in view of the fact that they could not carry accounts in the country. I think that is an entirely sufficient ground for us to stand upon in continuing to make non-cash collections. It is not a question of how much we spend so much as it is a question of whether we spend it for the benefit of the member banks. The expenditure of a million dollars is fully justified.

if

Governor Bailey: I would suggest that you are in sympathy with the member banks making profits, that you divide their executive charges with them, or buy their printing machines, or do something of that kind, because one is just as justifiable as the other.

Governor Wellborn: I want to back up what Governor Bailey has said, and I want to agree with Governor Calkins when he says that the reason for the Board putting out that circular was because the member banks had to keep all their reserves with the reserve banks and had to give up their correspondents. But I do not think the last reason



should prevail, because I know of very few of the banks that have given up their correspondents. I think that it is unfair competition with commercial banks, and it is very unfair to the commercial banks that are in reserve cities and branch cities to have this business taken away from them.

Governor Harding: I suggest that at the next meeting of the Conference we come here prepared to make a definite recommendation in the matter of making a reasonable charge on non-cash collections.

Governor Fancher: Governor Bailey has stressed the expense of the non-cash collections as being a million dollars. The exact figure for 1923 was \$960,000, and for 1924, - the last quarter estimated-- it will be about \$900,000. There is about \$55,000 saving in the present time on a larger volume of items.

Governor Bailey: How much larger?

Governor Fancher: The total number of items for 1923 was 4,205,000 and for 1924, 4,510,000. The decrease was \$55,000, and that is a comparison of the first three quarters of 1923 with the first three quarters of 1924. But we must bear in mind that you cannot save all

of that amount if you discontinue handling the non-cash collections, because you have got to maintain a department for collecting items discounted by the Federal reserve banks and sent around the country for collection. You can not save that much money and the saving would not be a large one. If you go back to the old method of making a charge I think you will get very few items, because we tried that.

The Chairman: At the outset we charged 15 cents an item.

Governor Fancher: Yes, and we got no items.

The Chairman: I think there is great difference, Governor Fancher, between conditions that existed when we made the charge and conditions which have now arisen, possibly as a result of making no charge. The member banks throughout the country are gradually learning two things. One is that the service is a very much more economical and advantageous service than anything that was possible under the old system, where they had to maintain reciprocal accounts, and all sorts of compensation accounts around for handling the business.

Governor Fancher: I feel very strongly that we would

not exceed a saving of \$500,000 by discontinuing, and on the other hand I fear a possible dropping away of some of our present members.

Governor Bailey: That would be a serious thing, but I cannot conceive of it happening.

Governor Fancher: I can conceive of it happening, because that is one of the things that has included some of our state banks to become members, the collection facilities, and they use them very freely.

Governor Bailey: For cash items, but not for non-cash items.

Governor Fancher: For both.

The Chairman: We have two classes of banks to deal with in connection with the non-cash items. One is that class of banks which uses the system and feels that it is an advantage and saving to them. The other is the class of banks that has handled these items in the past and feels that they are losing revenue because we are collecting them. My feeling has been that expressed by Governor Harding, that we cannot base our decision as to whether we shall charge or not charge, or whether we shall discontinue, without more additional data than has been collected



showing the desire of the banks.

Governor Harding: I agree that there should not be a discontinuance, but merely the question as to whether there should be a reasonable charge.

The Chairman: Should we not inquire a little more definitely into the attitude of the member banks who actually use the service?

Governor Harding: It seems to me if we had it under consideration for six months and came here prepared to discuss it, that something definite could be done, because conditions to which you have referred will have changed to some extent.

Governor Biggs: There is one angle of this that has not been brought out, and that is the prestige that is given to the collection because of the fact that it comes through the Federal reserve bank. In the case of a great many of our Jews in St. Louis, they believe that the government officials are after them and they will pay. Our member banks tell us that it has quite an influence in that way. They have told us that we go after them a great deal better and that they are afraid of us.

Governor Calkins: I will offer a motion to this ef-

fect, that the standing committee on collections be instructed to make a study of the operation of the non-cash collection system, the use of that system by the member banks who use, with a view to determining and recommending whether a charge should be made, and what it should be, and what the probable effect of it would be.

Governor Seay: There is one feature of this matter which has not been referred to, except perhaps inferentially. Our bank was opposed to the assumption of the non-cash collection feature at the beginning. The only effective appeal which the reserve banks can make to the banks of the country to become members is that of service. It has been stated that they desire the service of collecting checks and cash items, but they do not desire the service of collecting non-cash items. That may be. But certainly we weaken our position if, when we tender them service, we are not in a position to do the whole service and do it just as effectively as a correspondent bank can do it. Any bank might say to us with great effectiveness and force, what is the use of my sending checks to you for collection, when I have other items to send to you that you won't take or for which you make a charge, when my cor-

respondent will take them all. I think that is a very important item in the matter to be considered.

Governor Bailey: I think there is a very large distinction between a cash item and a non-cash item. In the very beginning our bank was opposed to going into the business, but we are in it now. The Board dia advance one very good reason for the performance of these services by the Federal Reserve Banks, and that still remains a good reason, and it is the only one, I believe, that can be justified, and that is that the Federal reserve banks are now holding the reserves of the banks of the country and should perform the services which formerly were performed by the correspondents of those banks. With respect to a very large proportion of the services rendered, that is perfectly true. The only service the city correspondent renders which the Federal reserve banks do not render, and perhaps ought not to render, is that of giving them advice as to their investments, and on purchase of paper. If the Federal reserve system is not in position to render the service to the banks of the country which the correspondent banks rendered, then the reserve banks are placed at a disadvantage.



The Chairman: There is another point in connection with this non-cash collection matter to which Mr. Harrison just called my attention. Under the terms of our understanding on this we are not collecting items in the cities where we have our offices, that is, not collecting items for the city banks. The members in the city we make collect their own items. The suggestion has been made to us in New York that we could do that service, by reason of avoidance of duplication of routing and so on, very much cheaper than they can do it, and that they would be glad to pay for it if we will do it. Now, if we made a charge equal to the cost, and inaugurated that proposition in the city collection service, we could then possibly put a charge on items in the non-cash collection service.

Governor Seay: Does not that indicate, notwithstanding the action of the American Bankers Association, that there is a demand for services of that kind?

The Chairman: Where they can save money I think there is.

Governor Bailey: There is a great big world outside of these central cities, gentlemen.

Governor Seay: Outside of Kansas City?

Governor Bailey: Outside of Kansas City and outside of New York and Chicago.

The Chairman: We have a motion before us, gentlemen.

Governor Fancher: I have seconded the motion.

Governor Calkins: I would like to speak to that motion a little further, in answer to Governor Young's suggestion, which was partly asked by Governor Seay. The basis for the service rendered by the correspondent banks was the balance carried with the correspondent banks. The transfer of reserves to the Federal Reserve banks has left a very much smaller basis for these services rendered by correspondent banks, and they accordingly render less service to their country correspondents. That is universal throughout the country districts, and there are not only some, but there are a good many country banks that have reduced the number of correspondent accounts with those banks and rely upon the Federal Reserve Banks to perform the service that the correspondents formerly performed, upon the basis of a balance which justifies that service.

Governor Bailey: That may be true in California,

but it is not true in the Tenth District.

Governor Young: I might say it is not true in Minneapolis.

The Chairman: There is a motion before the meeting and I am going to ask if anyone wants to vote on it, and the motion is that another study, in addition to the one made a year ago, be made by the collection committee. The study this time would include something not included before, and that would be to get directly the views of the members who use the service to determine if it is possible to make a charge and what the probably result of a charge for the service would be. The study would include the extent to which it would be used, the probable revenue, the attitude of the member banks, whether or not they would withdraw, and all of the collateral factors that we have discussed here. This report of the discussion will be in the hands of the committee and they can be guided in their investigation by it. There is a difference of opinion here about it, and we could discuss it all day. I gather that we are not ready to take a vote on the matter of making a charge right now, and if we are not let's pass a motion and get on to something else.



(There were calls for the question.)

Mr. Strater: If I may interrupt for a moment, I wish to say that when the Committee on Voluntary Services made its survey they sent to, or caused to be brought to the attention of, 917 representative banks a questionnaire.

Governor Fancher: That was a selected list of banks, was it not?

Mr. Strater: Yes. It was voted by the Conference when it was first proposed not to send a questionnaire, but that a representative of each Federal reserve bank visit the member banks.

Governor Fancher: I remember that was a selected list.

Mr. Strater: Yes, a selected list of banks. The idea back of that seemed to be that the questionnaire would only be reaching those banks whose opinion was requested, and the only way we could get the information that Governor Calkins would like to have would be to send a questionnaire to every bank using the non-cash collection service.

The Chairman: Hasn't the time arrived now when we should do that?

Mr. Strater: Of course the committee could very easily do it, but I wanted to bring that objection to it to the attention of the Conference.

Governor Harding: I do not know how the other banks are situated, but we can very easily find out in our district by personal contact. We are always having a representative making frequent visits around to the banks.

The Chairman: Would you be willing to leave that to the discretion of the committee?

Governor Calkins: I would be perfectly willing to leave it to the committee. I would suggest that information be obtained through the twelve banks and that each bank adopt its own method of getting the information.

Governor Fancher: It would be your suggestion that this deal with the twelve banks and that each bank determine how it shall obtain the information?

Governor Harding: Yes.

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

The Chairman: The next question before the conference is the approval of the report of the committee, with the various exceptions which have already been acted upon.

Governor Fancher: I move it is the sense of this

Conference that the report of the committee be received and approved.

Governor Bailey: I second the motion.

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

The Chairman: Now we have one other question having to do with collections, Topic 2-(g), suggested by San Francisco.

2-(g) Member bank's warranty that it has authority of customer to accept those provisions of Regulation J regarding responsibility of items.

It is recommended: That the Standing Committee on Collections be instructed to prepare a uniform circular containing a form of contract between banks and their depositors, requesting member and clearing-member banks to amend their contracts (contained on deposit slips and signature cards) in accordance with the form proposed in the circular; and

Recommended further: That the Federal reserve banks amend their check collection circular on March 1, 1925, to provide that the act of submitting checks to Federal Reserve Banks for collection will be construed as a warranty that the depositor has lodged with the depositing



bank the required agreements.

Governor Calkins: I will say in the beginning that it is a contentious question and a somewhat difficult one. We have attempted in various ways to get some sort of an agreement on regulation or contract to ensure or assure us that the banks sending items to us had authority from the depositor of those items to make collection through the means by which we make collections. I do not believe that has been accomplished, and I am not sure that it can be accomplished. The suggestion here is that the Federal reserve banks amend their check collection circulars to provide that the act of submitting checks to the Federal reserve bank for collection will be considered as a warranty that the depositor has lodged with the depositing bank the required agreement.

The Chairman: Governor Calkins, I am advised that it is desirable to have a meeting of the committee with <sup>investment</sup> the Reserve Board within the next ten minutes, and then have a joint session of the conference this afternoon, being prepared to finish up our program tomorrow, which we can easily do.

Governor Calkins: Mr. Chairman, this is a legal question and I do not know whether this Conference wants to act on it or not. I think it is an important question and one that will have to be dealt with sooner or later. The conclusion of our counsel is, and I have always been of the opinion, that the owner of the check is bound by the definite agreement set forth in Regulation J, even though such an agreement is made only between ourselves and the last endorsing bank, upon the theory that the last endorsing bank is a sub-agent of the owner and is therefore authorized, impliedly, by the owner to make any agreement necessary and reasonable in connection with the collection of the item. If that is the correct opinion, we would be justified in making our circulars to include the provision that the act of submitting checks to a Federal reservebank be construed as a warranty that the bank had authority from the depositor.

The Chairman: While you were out of the room, Governor Calkins, another phase of this matter was discussed, and Governor Fancher agreed that in his district, as in ours, there is a very restless feeling developing among some of the banks that the efforts being made in our circul-

ars to relieve ourselves of liabilities growing out of negligence. The second proposal in that topic, containing the guarantee, if you please, that the customer of the member bank agrees to do so and so, I think would just raise cane in our district and I do not believe the member banks would like it at all.

Governor Calkins: As you doubtless know there are two different kinds of proposals now being discussed, and in some cases adopted. One of them applies to what is known as the Massachusetts rule and the other applies to what is known as the New York rule, and the effect is that we are liable, not for negligence in this case, but liable because of the negligence of the endorsing bank. Whether we can correct that situation or not, I am not sure.

The Chairman: Suppose the customer of the member bank is not bound by the terms of the contract between the Federal reserve bank and the member bank. On that supposition you hold that the liabilities, which otherwise we should recover from our member banks, we would be unable to recover because of the failure on the part of the member bank to bind its customer.

Governor Calkins: Because of the fact that the en-



dorser might have a good claim against us which we cannot look to the member bank to protect us on.

The Chairman: Isn't that a condition that has existed for years between banks?

Governor Calkins: Doubtless. The question really arose because of the decision in the Malloy case, of which you may have heard, and the various clearing houses about the country are adopting rules and regulations, printed in pass books and on deposit slips, for the purpose of protecting themselves.

The Chairman: Would not this be a proper thing to refer to this meeting of counsel?

Governor Norris: I should think eminently so.

The Chairman: Would you like to have that course pursued, Governor Calkins?

Governor Calkins: Yes.

The Chairman: Is your counsel going to be present?

Governor Calkins: Yes.

The Chairman: You could instruct him to present it, or advise him that the matter is likely to come up and see that he is posted on the wishes of the conference.

Governor Harding: Then I move that this question

be referred to the meeting of counsel under the terms of the previous resolution.

Governor Young: I second the motion.

Governor McKinney: I think if all these matters are going to be referred to counsel of the various reserve banks, the counsel ought to be advised sufficiently in advance, before leaving home, in order to make some preparation to discuss the subject.

Governor Calkins: I suggest that the Secretary immediately advise counsel of those banks who are going to attend.

Governor McKinney: Would it be possible to send a letter to the Federal Reserve Board on these special topics and send a copy to the Governors, so that they will all be informed?

The Chairman: The motion is that this topic be also referred to the meeting of counsel, and that motion was seconded.

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

The Chairman: It will be necessary to adjourn now until this afternoon. We will go into joint conference with the Board at 2:15 o'clock p. m.

(Whereupon, on motion, duly seconded, the conference adjourned at 11 o'clock a. m., until 2:15 o'clock p. m. of the same day for the purpose of going into joint session with the Federal Reserve Board, and until 9 o'clock a. m., Thursday, November 13, at which time the separate Conference of Governors would reconvene.)

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FOURTH DAY.

Thursday, November 13, 1924.

The Conference of Governors reassembled, pursuant to adjournment, at 9 o'clock a. m.

Appearances as previously noted.

The Chairman: The conference will come to order.

We are down to Topic 3-(e).

- 3-(e) Registered mail insurance on Federal reserve notes.  
Consideration by Governors of whether it would be advisable to ask the Treasury to let Federal reserve banks place their own insurance.

This matter has been investigated by Mr. Kenzal, of New York, and the situation, I understand, is this:  
Effective June 1, 1924, the Treasury Department put into force a new policy of insurance on registered mail ship-



ments which was issued by a group of underwriters in response to invitations for bids. I think we are all insured under that policy. The Treasury claims that the rate on the new policy effects a saving on all shipments for all parties of substantially \$80,000 a year. It developed, however, that the new policy, instead of providing a scheme of rates which reflected in some measure the degree of risk, that is to say the length of territory to be covered by the shipments and so on, put in a flat rate of 4-7/8 cents, and it doesn't make any difference now whether the notes are shipped from Richmond to Washington or from San Francisco to Washington. The rate is the same in both cases. The effect upon the Federal Reserve Bank of New York was to ~~arrogate~~ a special rate of 2-1/2 cents which we had on cancelled material, like coupons, and put that rate up to 4-7/8 cents. The other effect was to reduce the rate on other shipments from 5 cents to 4-7/8 cents. The net result was an increase of \$8,000 a year for us.

It developed in the course of investigation that one half of all premiums are paid by the Federal reserve banks <sup>own</sup> for their account and one-third paid by others, such as

national banks and others insured under the policy, and only one-sixth of the premiums are paid by the Treasury. The result of the readjustment of the policy is to effect a saving of \$80,000, if the estimate is correct, about one half of that amount being for the Federal reserve banks, but the entire saving, apparently, is to the benefit of those banks which have the longest shipments to make and which get the benefit of the reduced rate, and those nearby banks which formerly had the benefit of a low rate on account of less risk are really not affected half as much.

We were successful in persuading the underwriters to produce a new policy and cut the rate on cancelled stuff down to 2-1/2 cents again, so that the excess cost to the New York Bank, and I suppose to those who are participating, has been somewhat reduced, but we urge upon the Treasury that steps be taken to secure a policy which would give everybody the benefit of the 2-1/2 cent rate, and then that we get a policy which would be a fairer measure of risk. There is much more risk involved in a shipment from San Francisco to Washington than there is in a shipment from Richmond to Washington, obviously, and Mr. Winston has recently said to me that the investigations

which were conducted to find out whether some better policy could not be arranged than this one, had resulted in stirring up the underwriters so that we have had great difficulty in getting as good a rate as this, and suggested that we wait until some time next year to take it up again, and that then, in cooperation with the reserve banks they would endeavor to get a new basis which will effect a more equitable adjustment of premiums. I haven't anything to recommend beyond the suggestion that what he has proposed strikes me as being the only feasible thing to do now. I am satisfied that we cannot get a better policy under present conditions from a big group of underwriters, which is the way that these policies are written. Are there any suggestions?

Governor Fancher: I might say, Mr. Chairman, that this new policy with the rate of 4-7/8 cents has been a little advantage to us. Our rate formerly was six cents and we are somewhat benefited. But the officer having charge of insurance matters had a talk with a representative of Delancy & Delancy who really lost this business, and of course are very anxious to get some part of it back, and that representative said that if he could get the



business of four or five of the large banks they would be in a position to quote a very attractive rate, much more so than the rate we are now enjoying.

The Chairman: I think if they are given a chance they can improve on this policy.

Governor Fancher: Yes, and he is very keen to get it. Did I understand from your statement, Mr. Chairman, that you were getting a rate of 2-1/2 cents on cancelled material?

The Chairman: Yes.

Governor Fancher: Is that a special rate that you have worked out for your bank?

The Chairman: I am not able to say.

Mr. Harrison: I think it applies generally.

Governor Seay: We have been informed recently that it applies generally.

Governor Fancher: You think all of the banks are getting a rate of 2-1/2 cents?

Governor Seay: Yes.

The Chairman: It is restored under that policy, so that they are all enjoying it now.

Governor Fancher: I was not quite clear on that.

Governor McDougal: As I understand it, the present plan is not equitable, but has resulted in imposing an extra charge.

Governor Fancher: It has resulted in a saving to Cleveland; it does not affect Chicago materially, and it must have a material benefit for the western banks, notably the San Francisco Bank. That is what you would like to adjust, isn't it?

The Chairman: Yes. It seems to me that in an equitable arrangement you must take into consideration that there is a greater risk in a long shipment than in a short shipment. That is one of the elements in rate making, and all of these insurance rates are based upon time in transit. We want to take up with our committee on Insurance, well before the expiration of the year, and ask that committee to make up a schedule of rates and do whatever we can by negotiation.

Governor McDougal: I move that that be done, Mr. Chairman.

Governor Calkins: I second that.

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

The Chairman: The next topic is 4-(a)-3.

4-(a)-3 Report of committee on Standardization of Supplies.

That report is as follows:

"The following is a summary of the work of the Committee on Standardization and Purchase of Supplies since its report to the Governors' Conference of April, 1924:

As indicated in that report the Committee forwarded to each Federal reserve bank a questionnaire on certain standard supplies on which it was hoped economies could be effected. By the end of May the Committee had received replies to the questionnaires, and the tabulation and analysis thereof formed the basis for a meeting of the Committee held in June. The replies to these questionnaires disclosed the fact that the Federal reserve banks were paying widely varying prices for the same or substantially the same supplies. As a result of this meeting a letter was addressed to the Governor of each Federal reserve bank under date of August 13, 1924, as per copy attached, containing recommendations and suggestions on purchasing procedure and use and application of certain supplies. Accompanying the letter was a complete tabulation of the replies to the questionnaires, thus enabling each bank to



to judge whether or not its qualities and prices are in line with those paid by the other banks.

It is practically impossible to set out in dollars and cents the value of the service which has already been rendered by the Committee and the amount of savings which may hereafter result therefrom. The Committee is confident, however, that all Federal reserve banks have benefited directly or indirectly through consideration of the wide variance in prices paid and the consequent closer scrutiny of purchases. Several of the banks have not reported directly or formally, but the members of this Committee have observed considerable correspondence between the purchasing agents of the banks, and the Secretary of the Committee has furnished information to inquiring banks as to sources of supply. At least one of the banks has advised that its purchasing procedure has been revised as a result of the Committee's reports and suggestions; that they are now using a more economical currency strap, have lowered the grade of paper in other forms and have instructed their purchasing agent to correspond with other Federal reserve banks in an effort to effect further economies.

The Committee has already arranged blanket contracts with certain manufacturers covering the purchase of lead seals, rubber banks and gom clips, in which the manufacturers have agreed to sell any Federal reserve bank of branch at a specific price much less than most of the prices previously obtained. Any Federal reserve bank is, of course, at liberty to take advantage of the contracts and obtain the quoted prices. As time goes on we will undoubtedly be in a position to arrange other contracts covering the purchase of other supplies, the advantages of which may be availed of by the reserve banks. The Committee considers that its efforts toward standardization of supplies will be the means of effecting economies of as much importance as the joint purchase of supplies, since it has been found that some of the Federal reserve banks have been purchasing articles of higher quality than necessary to properly fulfil their requirements.

The following recommendations and suggestions made by the Committee in its letter of August 13th to the Federal reserve banks, are reiterated at this time for the purpose of emphasis, because it is believed efficiency and economy will result from their adoption:

1- That the purchasing agent, before placing orders, report to the proper officer any instances where his prices are considerably above the lowest price paid for a similar supply by another Federal reserve bank.

2- That the purchasing agent report to the same officer cases where operating departments refuse to use less expensive materials suggested by the Committee or those in use in other Federal reserve banks.

3- That the purchasing agents be encouraged to correspond with one another and exchange ideas on qualities and prices of any articles or materials which they may have occasion to buy.

4- That all branch purchases of principal supplies, with the exception of emergency purchases, be made by or approved by the head office upon requisition from the branch.

Respectfully submitted,

Committee on Standardization and Purchase of Supplies

C. A. Worthington, Chairman  
A. K. Lauckner, Secretary  
J. H. Dillard,  
J. S. Walden, Jr.,  
C. A. Huston



August 13, 1924.

Mr. \_\_\_\_\_, Governor,  
Federal Reserve Bank of \_\_\_\_\_

Dear Governor:

Under date of March 25, 1924, the Committee on Standardization and Purchase of Supplies addressed a letter to the Governor of each bank relative to the work and purposes of the Committee and sent with that letter schedules listing certain supplies and asking for information regarding them. These schedules or questionnaires have been received from all the banks and have been considered at a recent meeting of the Committee.

Due consideration was given to each of the supplies covered in the questionnaire, both from the standpoint of price and adaptation to the work. It was noted in the case of most of the supplies that the prices paid and the qualities used varied considerably.

The Committee assumed that freight and express charges were included in the prices quoted. Therefore, the fact that one bank pays slightly more than another bank for the same article does not necessarily imply that the latter is buying at a lower basic price as the difference in price may be caused by the freight.

There is being forwarded to you under separate cover a tabulation of the replies to the questionnaires which we hope will be of considerable aid to your bank in making future purchases. We believe that by using the questionnaire in the following manner, economies will result:

1 - By a careful study of the stock of material used for each supply, it may be possible for you to standardize on a cheaper grade of material which will be sufficient to answer the purpose for which the article is intended.

2 - By a careful study of the prices paid for similar supplies by the other Federal reserve banks and branches, you can determine whether or not you are buying at a fair price.

3 - By insisting that your Purchasing Agent, before placing future orders, report to the proper officer any instance where his price is considerably above the lowest price paid for a similar supply by another Federal reserve bank. The Purchasing Agent should also report to that officer cases where operating departments refuse to use less expensive materials suggested by the Committee, or those in use in other Federal Reserve Banks.

The Committee believes that it can be of considerable

benefit to the banks by acting as a clearing house for information not only on the supplies considered in the questionnaire but also on any other supplies. It hopes that the banks, particularly the Purchasing Agents, will adopt this means of exchanging information of benefit to all concerned.

It is almost impossible, except by elaborate detail, to cover the full specification for each supply listed in the tabulation of the questionnaires. The Secretary of the Committee will be glad to furnish any bank with specifications on any of the supplies listed and on any other supplies on which specifications may be desired. It is suggested that the Purchasing Agents be encouraged to correspond with one another and exchange ideas on qualities and prices of any articles or materials which they may have occasion to buy. Through the exchange of such information it is hoped that the banks will come to use the least expensive fabrics and materials that will satisfactorily serve the purpose for which the supplies are intended. For the time being, however, the Committee would like to have referred to it those inquiries which have to do with the articles covered in the questionnaire in order that



it can be kept fully informed on all matters pertaining to these supplies and thus be in a position to furnish information to inquiring banks.

The Committee noticed particularly in going over the questionnaires that the branches are paying in the majority of cases, considerably higher prices for supplies than the head offices. The Committee recommends that all the branch purchases of principal supplies, with the exception of emergency purchases, be made by or approved by the head office upon requisition from the branch.

Below are suggestions and recommendations in respect to each of the supplies listed on the Committee's questionnaire:

#### Money Straps.

The tabulation of the questionnaires, together with the Committee's study, discloses the fact that a 50 lb. kraft strap is the most economical strap to use and that it is entirely satisfactory for the purpose. The bank that is buying currency straps most economically is using the following:

Straps for fit currency:

A 50 lb. Nibroc kraft (or equal) uncolored is delivered

in ungummed sheets 12 x 18 (cutting exactly out of a standard size sheet 24 x 36). Straps are cut down to the size of 9-1-1/2 on a money cutting machine. Colored printing is not used to distinguish the denominations; this is accomplished by distinctive designs. All straps are printed in black ink. Pins are used rather than glue; the pins received on incoming shipments are salvaged for this purpose (see Exhibit "A" enclosed with tabulation of questionnaires).

Straps for unfit currency:

A 50 lb. Nibroc kraft ( or equal) uncolored stock is delivered in ungummed sheets 12 x 18 (cutting exactly out of a standard size sheet 24 x 36). Straps are cut down to the size of 9 x 1-1/2 on a money cutting machine. Straps are printed with the proper colored ink as required by the Treasury Department. Glue is applied to the straps by a brush. (See Exhibit "A").

The Committee believes that the plan outlined <sup>above</sup> for buying, printing, and using money straps will be found to be the most economical and it is recommended therefore that all Federal reserve banks and branches use a kraft money strap and that a variance in design of printing be

used to distinguish between various amounts of fit currency, and a difference in the color of printing be used to distinguish between the various kinds of unfit or mutilated currency, which is to be cut and sent to Washington for redemption in accordance with the requirements of the Treasury Department. With reference to straps for unfit currency, it is likely that some Federal reserve banks will prefer to use a full gummed strap instead of applying glue with a brush to an ungummed strap; in which case it is recommended that the same stock of paper be used but that it be gummed instead of ungummed. The Committee suggests that the branches might use the same straps as are used by the head offices and identify them by including the name of the branch in a rubber stamp used by the money counters for initialing the money handled by them. This would obviate the necessity for printing individual straps for the head office and each branch.

#### Coin and Currency Bags.

Apparently the experience throughout the system with this supply has not been the same as the fabrics used vary considerably. Some of the banks are buying cheaper grades of material for the various sizes than other banks. As



the use of each size is practically the same in all districts, the Committee feels that the mere fact that such bags are in use is sufficient proof that they are entirely satisfactory for the purpose. The Committee, therefore, recommends the following in this connection.

1 - That the banks try out the least expensive fabric that is in use by any other bank for each size and keep the Committee fully advised as to their experience.

2 - That the banks attempt to reduce the number of sizes they are carrying as better prices can be obtained on larger quantities.

An analysis was made some time ago of the various sized bags that were used by all the Federal reserve banks and branches and average sizes were arrived at for each range of size. It is believed that the following sizes should apply take care of the coin, currency and coupon requirements of any of the banks. The recommended sizes and their uses are as follows:

5-1/2 x 9-1/2 - \$2,000 Gold, Gold Bars and mixed coin of small amounts.

5-1/2 x 13 - Up to 300 notes.

7 x 14 - 400 to 700 notes, \$5,000 Gold, \$100 Silver

9 x 15 - 1,000 notes, \$500 Silver.

11-1/2 x 17-1/2 - 2,500 notes, \$200 nickels, \$50 pennies .  
11-1/2 x 21 - \$1,000 silver  
14 x 23-1/2 - 4,000 notes, canceled coupons.

The quality of the thread used in stitching and the style of stitching have much to do with the strength of the bag.

#### COIN BAGS.

The total expenditure for this supply by the entire system is not very great. In some cases, economy could be brought about through the purchase of a long fibre rope coated tag stock instead of the so-called "linen" by using a basic stock and printing in colors and through the simplification of design. The Committee would be glad to furnish any desired information in this connection.

#### Adding Machine Rolls.

The Committee realizes that the grade of paper is controlled by individual requirements. It believes that the cheapest grade consistent with usage is being purchased.

#### Typewriter and Adding Machine Ribbons.

It is recommended that the banks test out various kinds of ribbons on similar work so that a satisfactory ribbon may be procured for as little cost as possible.

## Pencils

Some banks appear to be paying much higher prices than other banks for the same brand of pencils. The Committee recommends that not more than two grades of pencils (other than special, such as colored, indelible, etc.) be purchased; one for official use to cost between 30¢ and 40¢ a dozen and one for general use to cost up to 20¢ per dozen. In the tabulation many good pencils between the above price ranges are listed.

## Pins.

The Committee assumes that pins purchased by any Federal reserve bank or branch are satisfactory for the purpose for which intended. The Committee recommends that the Purchasing Agents of the banks be asked to go further into this question and attempt to buy a satisfactory pin for less money.

## Gem Clips.

The Committee recommends the same in this connection as in the case of pins.

## Lead Seals.

The Committee will try to arrange for a blanket contract for lead seals with one of the standard manufacturers



so that each bank may have the privilege of buying at a lower price than the majority of banks are not paying. As soon as such a contract becomes effective, you will be advised.

#### Liquid Soaps.

By an exchange of information as to sources of supply, economy can probably be brought about.

#### Rubber Bands.

The Committee will attempt to arrange for a blanket contract with a standard manufacturer so that each bank may have the privilege of buying at a lower price than that which is generally paid.

#### Sealing Wax.

The Committee has nothing definite to recommend in this connection, but it would like to point out the fact that price is not the only factor to be considered as the quality has a very direct bearing on the amount of wax used.

The Committee will be glad to hear to what extent you think the digest of the questionnaires will be of assistance to your bank. It will also welcome and appreciate any suggestions which you may wish to offer relative to

the Committee's work to date or to its future activity.

Very truly yours,

C. A. Worthington, Chairman

By \_\_\_\_\_  
Secretary, Committee on Standard-  
ization and Purchase of Supplies.

The Chairman: I have only one suggestion to make with regard to this report. The report contains recommendations with regard to some collaboration between the purchasing agents of the various reserve banks to insure full benefit by each bank of the recommendations in the report. Inasmuch as the man who does that work in our bank is a member of the committee, I think it has been followed up pretty closely in New York, but there may be some doubt as to whether each reserve bank is in communication with the committee and getting the benefit of the prices on supplies purchased at somewhat lower rates.

Governor McDougal: I have a memorandum on that report to the effect that the report should be carefully studied by the operating officers, and I would suggest that the report be accepted, with the understanding that that will be done.

Governor Seay: I will second the motion.

Governor Norris: I have a few comments on the report which I will make for what they may be worth, although it is doubtful in my mind how much they will be worth. We had a representative on the committee who was a mere purchasing agent and nothing more. I do not know the other four members of the committee, but I understand that some, if not all of them, are officers or managers of reserve bank departments and not strictly purchasing agents. I must admit that our representative is a rather excitable and explosive sort of fellow. When this report was sent to him for his signature he rather went up in the air and said he could not sign it. I did not have time to study it myself, but I asked Mr. Hutt, our Deputy Governor, to go over it with him and find out whether or not there was anything substantial in his objections. Mr. Hutt did go over it with him and reported to me that on two points he thought this representative of ours was right; that the report contained a general recommendation that purchasing agents be encouraged to correspond with one another, but that no method or machinery was set up by which they should do so.



The other objection is the statement of the third paragraph on the first page of the report: "The committee has already arranged blanket contracts with certain manufacturers covering the purchase of lead seals, rubber bands and gem clips". His objection to that is, according to his statement, that whatever arrangement has been made in reference to these contracts/<sup>was</sup>without all members of the committee being given opportunity to get the lowest prices on those particular supplies. I inquired whether that was a mere academic objection or whether he had reason to believe or knew that he, for instance, could get lower prices on those things, to which he replied that he can and that he was not given the opportunity.

As I say, I submit these not as facts that are within my personal knowledge but which upon investigation in our office appear to be objections well taken.

The Chairman: As to the matter of communication between the purchasing agents, he refers to the fact that the method or machinery is not set up. It occurs to me that the method is the English language and that the machinery is the typewriter. They do not need anything more than that for the purpose of intercommunica-

tion. As to these bids, this man is a member of the committee and must have attended meetings, and must have known that this effort was being made to get supplies at lower prices, and if he failed to get notice of it, why did he not protest at the time.

Governor Norris: I do not think he understood that an effort was being made, but understood that it was desirable that it should be made. The committee sent out a questionnaire to get the prices that the various banks were paying for various supplies, but according to his statement there was never any request that the members of the committee find out the best prices at which these supplies should be bought.

The Chairman: Pardon me, Governor Norris; my recollection is that the committee before seeking prices on these supplies investigated the question of which bank was buying at the lowest price, and each bank was requested to look into it. If Philadelphia was buying at a lower price than the other banks I am surprised that he did not advise the committee.

Governor Norris: Of course our purchases were small in comparison, for example, with yours, but he claims

that on a contract in which a large number of the banks would probably participate, which would cover a very large quantity, a larger quantity than any one bank would buy, that it would have been possible to get prices for these things lower than the prices that any individual bank would pay.

Governor McDougal: This committee was appointed after deliberation and the men who were selected were selected because of the belief that they were fit for their jobs. The man from Philadelphia was recommended to us or we would never have put him on. Under the circumstances stated I think he never should have signed the report, but should have made a minority report. This is the first I have heard of any dissatisfaction on the part of any member of the committee.

Governor Norris: He did make a minority report.

Governor McDougal: They had one meeting in Chicago, they have given the matter careful study and I think the committee has justified its appointment and the expense of it. In regard to the contracts, there is nothing which obligates any Federal reserve bank to make use of them. The intent was to canvass the situation and, if possible,



ascertain where supplies could be bought of the proper standard at the lowest rate. They have made some very good suggestions, and I am very sorry that we got the wrong man in your bank.

Governor Norris: I do not know that we did.

Governor McDougal: I thought you said he was very excitable.

Governor Norris: He is excitable, but he is a very good purchasing agent.

Governor Seay: The very information developed by the activities of this committee is on the face of it full justification for the appointment of the committee. Having had a very good man on the committee, I do not know that there was any attempt to invade the prerogatives of the purchasing agents. The committee has secured certain bids, of which the Federal reserve banks can take advantage or not, as they please. As to the suggestion of correspondence between the purchasing agents the utility of that suggestion is shown at once by the fact that the agent at Philadelphia says that he can buy something cheaper than the committee found it could be bought at, and if he will be good enough to communicate with the pur-

chasing agents of the other banks that fact, it will give them the advantage of it. That is an illustration in point, and I second the motion that we adopt the report, which binds no Federal reserve bank, but gives it information which will enable it in many cases, according to the facts developed, to buy things very much cheaper than they have been buying them.

Governor Biggs: I understand it was 400 per cent cheaper in some cases on rubber banks.

Governor Seay: It is probably a fact that the federal reserve banks were not given opportunity to invite bids in their localities, with the understanding that the bidders might be able to furnish other Federal reserve banks. It was not necessary for them to do that. They just developed such information as could be developed, and they are giving the other banks the benefit of it, to take advantage of it or not as they please.

Governor Young: If I remember correctly, our purchasing agent told me that we can do much better on some of these items, but we did not feel that we were bound by any of the contracts that this committee entered into. If Philadelphia can buy Gem clips cheaper than anybody else

can buy them there is no reason why Minneapolis should not buy through the Philadelphia agent. If, on the other hand, we can buy rubber bands cheaper than any other bank, then why should not the purchasing agents buy rubber bands through the Minneapolis bank. That is the way I thought it would work out.

Governor Seay: It will if the agents will use the machinery of the typewriter to communicate those facts to the other banks.

The Chairman: I do not see why it was not the proper thing for your man and for Governor Norris' man to bring that at once to the attention of the committee and have the committee investigate and advise the reserve banks.

Governor McDougal: There was one development in connection with the investigation which in itself was enough to justify the appointment of the committee. That was the fact that they found out, with respect to some specific supplies--- what they were I do not know--- that the various banks were buying them from the same distributors and paying prices, some fifty per cent and some 100 per cent over what the others were paying. That was a very interesting development, and the committee did go ahead and secure a



promise from the distributors that they would sell to all banks on the same basis and that they would make the price charged to any bank the general price. I think that was a very interesting development.

The Chairman: The motion is that the report of the committee be accepted, and that each Governor be requested to ask his purchasing agent to get into communication with the committee with regard to the various things brought out at this meeting, and with regard to cases where supplies are bought cheaper in certain places than the rates quoted by the committee, that that shall also be brought to the attention of the committee. That motion has been seconded.

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

The Chairman: The next topic is 4-(a)-4, report of insurance committee.

4-(a)-4 Report of Insurance Committee.

That report is as follows:

Since the last conference no new matter has been referred to the Insurance Committee and there is, therefore, nothing new to report, but the attention of the conference is directed to the fact that under the head of unfinished business there are two inter-insurance plans which were re-

ported upon by the committee under date of April 28, 1924, to the last conference, (as per copy of report attached hereto), one for the self-insurance of the employees group life risk. The Board raised the same legal objections to both of these plans and the last word on the subject as quoted on the last page of the said report was a letter from the Federal Reserve board in which the following statement was made:

"The Board has not decided whether it is opposed to inter-insurance plans in principle (i.e., as a matter of policy); but the Board would be unwilling to approve any such plan until Congress has amended the law in such a way as to remove all doubt as to the legality of Federal Reserve Banks participating in such arrangements."

The banks undoubtedly would have an opportunity to save a considerable amount of money through the operation of either or both of these plans. The only way to get any progress in this direction, however, would be to get the Board to decide whether or not it is opposed to inter-insurance plans in principle and, if the Board approved in principle, to take appropriate steps toward procuring the legislation deemed essential by the Board.

Respectfully submitted,

November 3, 1924. E. R. KENZAL,  
Chairman, Insurance Committee.

The main report of the committee was submitted at the May Conference. There is only one item to be specifically dealt with in connection with the report, and that is a plan of self insurance to be arranged between the twelve reserve banks was considered by the committee and it was found that there was a legal question as to the right of the reserve banks to join together in insuring themselves. This applies to the fidelity bonds and likewise applies to the group insurance policies on the lives of the clerks.

The question has been submitted to the Federal Reserve Board and the Board has taken the position, I understand, that they consider the plan for inter-bank self-insurance as illegal and they do not care to pass upon the question or principle involved. We believe there is a large saving to be effected, if we have the legal power to do so, by some plan of inter-bankself-insurance, and the committee has now recommended that the Board be asked to pass upon the question of principle involved, and if they



do favor inter-bank self-insurance that then steps be taken to get the legal authority for doing it.

Governor Fancher: I move the adoption of the report.

Governor Biggs: I will second it.

Governor Young: Our directors have taken definite action on this. They do not believe in the principle of self-insurance and do not approve of the plan presented. I would have to vote no on this.

The Chairman: Of course we are dealing with two separate types of insurance. One is the fidelity insurance and the other is life insurance.

Governor Young: I understand that, but they disapprove of the whole thing.

The Chairman: In both cases?

Governor Young: Yes.

The Chairman: I have some question about the life insurance, but I have very little question about the wisdom of inter-bank self insurance with regard to the fidelity of clerks. I think with 12,000 employes in the Federal reserve system, and with the report of premiums and losses which we have now over a period of years, that if we develop some scheme of self-insurance we probably could save

quite a lot of money. There was a motion that the report be accepted and the recommendations adopted.

Governor Bailey: I will have to vote no on that. Our Board of Directors has discussed it fully and reached the same conclusion as stated by Governor Young.

Governor Calkins: I will second the motion.

The Chairman: The report contemplates that the Board be asked to pass on the question of principle, and then if it is found to be illegal, we will consider whether steps should be taken to get legislation to amend the act.

Governor Bailey: I could vote aye to that.

Governor McKinney: So can I.

Governor McDougal: There is only one reason for pushing this matter, and that is to help the Board clean up some of their business. They are very anxious to have everything cleaned up. I am opposed to the inter-insurance plan, but the Board has this as unfinished business on their hands, and we put it there.

The Chairman: Let us frame a motion which meets the situation. Certainly the first one does not.

Governor Young: What difference does it make, Mr. Chairman,

The Chairman: I do not see that it makes any difference.

Governor McDougal: I think I can vote for this resolution if it is properly framed.

Governor Seay: It would not be necessary if there was unanimous disapproval of the plan or idea.

The Chairman: Let us first vote upon a motion which will disclose whether we do or do not favor inter-bank self-insurance.

Governor McDougal: I will make that motion.

The Chairman: Governor McDougal moves that it is the sense of the meeting that the Federal reserve banks do not approve of inter-bank self-insurance.

Governor Young: Seconded.

Governor Calkins: Should we not consider the two kinds of insurance, fidelity and life?

Governor McDougal: I think the question arose in connection with the fidelity insurance alone and not in connection with the life insurance.

The Chairman: You will find life insurance covered in the report.

Governor McDougal: But I believe that the pension



plan bill, the legislation that we are going to ask from Congress, will take care of the life insurance feature of it.

Governor Seay: Could you not separate them in putting the motion. Some of us might be in favor of fidelity insurance, and not in favor of group life insurance.

The Chairman: The Chair will promptly ask for a vote on any motion that is put.

Governor Harding: Wouldn't it be well to vote on the original motion?

The Chairman: Governor Harding has asked for a vote on the original motion, which is seconded, and which was that the Board be asked to advise the Federal reserve banks as to their position on the principle of inter-bank self-insurance. The question of legality has got to be dealt with later. If it does, as we are advised, require legislation, then the question will arise as to whether it is necessary to do anything. So far as the principle of it is concerned, we have a pending motion. There is a question here of unfinished business, we will call it. Was the motion, as I have stated it, seconded?

Governor Bailey: That is, to adopt the report of

the committee?

The Chairman: I mean as I stated it just now, simply to ask the Federal Reserve Board to give an expression of their view as to the principle of inter-bank self insurance, which would apply to both these items, that is, the fidelity bonds and life insurance that are now provided for for the clerks. When that question is answered, then we must determine whether, in view of the opinion of counsel as a matter of policy we should undertake to have the law amended so as to permit it, or whether we are opposed to it.

Governor Wellborn: We won't be expressing our opinion at all?

The Chairman: Not at all.

Governor Wellborn: Don't you suppose the Board wants our views on this matter?

Governor Harding: I have some individual views as to the proposition. I believe that an organization having 12,000 employes has got a proper basis for self insurance, but I do not know what the views of our directors would be.

Governor McKinney: That is my position exactly.

Governor Harding: There is no use of my expressing my individual views. I have discussed it once or twice with our directors, and in view of my discussions I am at a loss to know how they would vote on it. I am not prepared to commit the Boston Bank to the proposition. All that I could do would be to express my individual view. It seems to me that no matter what our individual views are, if the Board is against it, that seems to settle it. Therefore, I think the first motion is a very proper motion.

Governor Seay: You cannot avoid the conclusion, if we ask the Board to consider this, that it will imply that those present are in favor of it, else why ask the Board to consider it.

Governor Harding: I suggest that if you want a referendum on the proposition it be taken in this way, not an expression of sentiment of a board of directors on the matter, but just an expression of his opinion as to how the bank feels about it.

The Chairman: I understand that the directors have not given expression to their views.

Governor Harding: They have discussed it some in our



bank but have not given an expression of views.

The Chairman: That is the situation in New York.

Governor Seay: And the same thing with us.

Governor Norris: We have never even discussed it.

Governor Young: Our directors have taken action on it and have disapproved it in principle.

Governor Calkins: Our board has not taken any action. My individual opinion is in favor of inter-bank insurance applied to fidelity insurance, but not to life insurance.

Governor Biggs: No action has been taken with us, but my view is similar to that expressed by San Francisco.

Governor Fancher: We have had no action by our board.

Governor McKinney: Our Board has taken no action. There has been some little discussion of it.

Governor McDougal: Our board has given consideration from the standpoint of inter-bank insurance as it relates to fidelity insurance, and have declared themselves opposed to it.

Governor Bailey: We are opposed to it.

Governor Wellborn: And we are opposed to it.

The Chairman: It seems to me that the majority of

those here are not in a position to express the views of their directors. Therefore, it seems to me the best way to get progress is to get an expression from the Board as to the question of policy and principle. Are you ready for the motion?

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

The Chairman: The next is Report of the Committee to Study cost of securing credit information.

4-(a)-5 Report of Committee to Study the  
Cost of Securing Credit Information.

No report has been received. Mr. Childs was Chairman.

Governor McDougal: There is a report on that.

Governor Seay: There is a reference to it in the Committee's report on Efficiency and economy and salaries. That is the only one I know about.

Mr. Harrison: I have never seen any separate report from the committee itself.

(This topic was passed for the moment.)

The Chairman: The next topic is 4-(b)

4-(b)-1. Report of Pension Committee,  
Mr. Kenzal Chairman.

That report is as follows:

"On February 1, 1924, the Federal Reserve Board adopted a report of a committee of the Board expressing general sympathy with the principles underlying the Pension Plan but stating that the Board was opposed:

(1) to the general life insurance principle;

(2) to the inclusion of any employees having salaries over \$5,000 per annum;

(3) to the participation of member banks in the plan; with the added stipulation that the contribution of Federal reserve banks be limited to 50 per cent of the total cost of administering the fund.

At a meeting of the Pension Committee of this Conference, attended by all of its expert advisors and counsel, it was the unanimous view that while none of the first three limitations named by the Board would necessarily prevent a fairly satisfactory, although limited, operation of the plan for a large percentage of the employees in Federal reserve banks, those limitations nevertheless would eventually cause the plan to prove inadequate for the purposes for which it was intended and it was the unanimous view of your committee that the Board should be requested to hear the advisers of your committee on this subject.



Accordingly, a conference of the committee with the Federal Reserve Board was arranged and held on October 30, 1924, at which the features of the plan were quite fully discussed and in the course of which it was emphasized by your committee that, notwithstanding any present limitations on the scope of the inaugural operations of the plan, legislation should be obtained of such a character as would not prevent either at the inauguration of the plan or at a future time, the inclusion of the features heretofore recommended by your committee and approved by each of the twelve Federal reserve banks.

At the meeting of October 30 there was also discussed the provisions of the plan for providing pensions for the officers and employes of the Foreign Service of the State Department, as indicated in the Rogers Bill, which became law in July of this year, and the more liberal pension provisions of that plan were compared with the relative provisions of the plan recommended by your committee.

The result of this conference was that the counsel for your committee was requested to redraft the bill which has been prepared for introduction in the Senate, bringing it down to date and leaving it in such form as would not

prohibit and features of the plan as recommended by your committee, but leaving the determination of all details of the plan and its supervision to the Federal Reserve Board, as heretofore recommended by your committee, and to promptly forward to each member of the Board copy of the bill as redrafted. Mr. Curtis, the counsel for the committee, is now engaged in redrafting the bill accordingly and it is expected that copies of the redraft will be in the hands of the members of the Federal Reserve Board before this conference convenes.

Respectfully submitted,

E. R. Kenzel,

Chairman, Committee on Pensions."

Governor Young: I move that the report be accepted and approved.

The Chairman: I suppose copies of the redrafted bill have been distributed?

Governor Young: No, Mr. Chairman.

The Chairman: It has just been printed. I got a couple of copies from Mr. Curtis only a few days ago. If it has not been distributed it will be. Mr. Curtis has redrawn the bill in such fashion as to meet the changed con-

ditions, the changes in the names of the incorporators, particularly on account of the change in personnel. He has incorporated in it, I think, twelve changes to meet the objections of the counsel for the Federal Reserve Board, and he considers that the bill is now in good shape for consideration by the Federal reserve banks and the Federal Reserve Board. The bill was not printed in time to be distributed at this meeting.

Governor McDougal: We received a copy of it in Chicago some time ago. It may be interesting to the conference to know that the committee has held two meetings. Mr. Kenzel was very insistent that we come together prior to this conference, feeling that some forward step should be taken by the committee or the committee be discharged. We held a meeting in New York first, and at that time there were present all members of the committee, and all of the experts, which included Mr. Sayre, Mr. Buck and Mr. Mayer and Mr. Curtis. Very careful consideration was given at that time to the most recent action of the Federal Reserve Board in which, as I remember it, they approved the plan in principle but imposed restrictions which would really make the entire undertaking impracticable and unsatisfactory.



It was agreed at that time that the committee would be entitled to a hearing by the Board. The hearing was given and all parties I have mentioned were again present, except Mr. Fancher, who could not come. At that time the committee had opportunity of hearing from the experts and from the others present, and I am quite sure that some members of the Board had some points cleared up in their minds in respect to which they had not been fully informed, and the net result was, as the Chairman has stated, that it was decided to have the bill redrafted, to make changes such as you have referred to, Mr. Chairman, and to make any changes necessary because of the developments during the long period which has passed since the bill was first considered. We felt that we made real progress with the Federal Reserve Board and were led to believe, although they did not act upon it, that they would give us support.

The Chairman: The present status of the plan is this, that the Board desired to have the bill redrafted, to make sure that protection was afforded on certain principle points. One was an objection to the plan being extended so that it might be taken advantage of by member banks.

Another was the limit of salary of any officer of the reserve banks that might participate in the plan. The bill is now drawn in such a way that the determination of the scope of the plan entirely rests with the Federal Reserve Board. It developed at the time this was discussed, as I am told by Governor McDougal, that the Rogers Bill, which is a bill for the reorganization of State Department Services, provides a pension plan which is very considerably more favorable to the men than is contemplated under our plan, and I know that that had some influence upon the Board. I talked with Mr. Mellon about the plan and legislation some time ago and pointed out to him the much more scientific character of our proposal than is contained in the Federal Employees' Pension Plan, and he was very much impressed by it and I think from what he said that he was rather in favor of going ahead with this pension plan for employes of the reserve banks.

Now, the report which is before you will only require action to accept and approve it and to request the Federal Reserve Board to finally express their attitude in respect to the bill submitted and the plan submitted, and after that has been done the committee can be instructed

with regard to proceeding toward securing legislation, or possibly the Federal Reserve Board will undertake to do that itself. What is your pleasure in the matter?

Governor Young: I make a motion to that effect, Mr. Chairman.

Governor Norris: Seconded.

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

The Chairman: The next topic for our consideration is 4-(b)-2

4-(b)-2. American Federation of Labor  
Organization of Bank Clerks.

I put that on the program for the purpose of advising the Governors that on the 15th of September, after some preliminary correspondence and discussion, I received a call in New York from Mr. Frank Morrison, Secretary of the American Federation of Labor and Mr. Hugh Frayne, one of their organizers, and Mr. Bright, who is connected with the Association of Stenographers and Bookkeepers, which is the first effort to organize the clerks in banks, offices, insurance companies, and so on. They came to my office to ascertain what our attitude would be with regard to having the clerks in our bank organized under this Section of



the American Federation of Labor. They inquired specifically whether the bank would approve the principle of collective bargaining, as to salaries, and so on. We spent a good part of an afternoon together. They submitted to me what they stated was a schedule of the standard principles applying to these matters; that is, conditions of work in the bank, conditions of dismissal, vacations, hours of labor and so on. I wanted to be friendly and considerate and I went over it with them and it developed in the course of the discussion that there was not a point in their specifications that not only was not covered by the practice in the Federal Reserve Bank of New York, but more than covered; that if in point of fact we should literally adopt the program which they submitted to us as to standard scale of treatment of our clerks that they would be worse off than they are today. The one exception to it, of course, was whether through the instrumentality of organization and collective bargaining they might succeed in getting their salaries increased. They were very insistent upon that point of collective bargaining. I took them all through our new building and we were partly occupying it then--- and after we got through Mr. Morrison

said to me, "I am frank to say that there isn't a thing that we could suggest with regard to conditions under which your clerks will work in the building." They were very complimentary about the arrangement for feeding the clerks, ventilation, the medical department, hospital and so on, and when we returned to the bank they asked me specifically what my attitude was with regard to organizing and collective bargaining. I told them that I was definitely and positively opposed to it; that it would be a disadvantage to our clerks, and would just introduce an element of discord; that they were pretty happy in the bank and well treated, and I did not want any such steps to be introduced.

After I left New York, that is to say, sometime in October, I received from the bank some clippings from the New York newspapers, in which I was quoted by Mr. Baum, who had not attended the meeting, although I had some correspondence with him, as favoring collective bargaining.

Now, I did not want any of you to misunderstand what my attitude was, I did not want to have any mistake in memory arise, so immediately after this meeting I dictated a brief memorandum of just what I did say to them, and I would like to read it to you, to show you what respect for

veracity this man Baum has:

"I had a long talk with Messrs. Morrison, Frayne and Bright of the American Federation of Labor, and then took them all through out new building. They agreed that we made the best show ing of any institution they knew of in conditions of work. They had no comments of an adverse character to make. Their idea was to convince us of the soundness of the principle of organization and collective bargaining. I told them that as at present advised, our institution was opposed to it, and it was not a matter which I was authorized to decide, anyway. It was finally decided that there is nothing to be done just now. When we are all moved into our new building and thoroughly organized, and I get back from the West, they said they might come in and have a further chat. Meantime, I gather that they are going to have a talk with other bank presidents. September 16, 1924."



In the course of the discussion they admitted, although it is not in this memorandum, that under the conditions of labor that prevail in federal reserve banks, where people are highly specialized and where salaries are graded, and so on, if any demand for increased pay was made it would be entirely of domestic origin in the organization and be handled by the clerks themselves; that it should not be handled by what might be called a strike organized of the American Federation of Labor from outside.

I speak of this because it was disclosed at that discussion, and this is what I want to get at, that there is underway a very comprehensive plan to effect labor organizations in large offices that employ large numbers of clerks, like banks, insurance companies, and so forth. It cannot be done, as Mr. Morrison said, over night; it cannot be a matter except of slow growth, but the American Federation of Labor has undertaken to carry on this program, and he stated that in time he believed they would succeed. I would like to ask whether any other banks have been approached with regard to it.

Governor McKinney: We have not.

Governor Wellborn: No.

Governor Fancher: We have not. There was an effort about four years ago to effect some organization in Cleveland; one meeting was held, but nothing came of it.

Governor Seay: You may have observed in the papers some accounts of interviews with several of the large trust companies and bankers with reference to representations made by these same organizers, which were afterwards denied by both institutions mentioned.

Governor Wellborn: Mr. Chairman, I want to bring up a matter which has to do with correspondence I received in New York with reference to a Federal reserve bank registering commercial papers. This correspondence wrote to the other Governors at the same time, and I told him that it would have to be decided at a Governors' Conference. I have no desire to bring it before the Governors formally, because I haven't studied the question thoroughly at all. I am not prepared to advocate it or to oppose it.

Governor Seay: One enterprising agency undertook to publish, over fac simile signatures, the replies of several governors.

Governor Wellborn: It was a private letter anyway.

I never regarded it as a public letter.

The Chairman: There is nothing in it. Fifteen years ago, when I was in the Bankers' Trust Company the International Paper Company and some other concerns which I knew about were selling very large amounts of paper. There was a good deal of feeling developed at one time because of some forged paper which got into the market, purporting to be the notes of borrowing concerns, and we made a very exhaustive study of the whole thing in the Bankers' Trust Company and finally made an arrangement with the International Paper Company by which we did register their paper. Then we tried to extend it to many other concerns, but as a matter of fact it did not work very well; it did not appear to be supplying a demand of any kind, and it just petered out.

Governor Harding: It is a very improper function for a Federal Reserve Bank to exercise, because if we were to do that the impression would get out that we were standing responsible for that business.

Governor Wellborn: The day I arrived here a young lady correspondent of the Universal News Service came to see me and asked me if we had taken any action on the mat-



ter. I told her she would have to see the Chairman of this Conference at the close of the conference to secure information.

The Chairman: The next topic for discussion is  
4-(c)-1 Report of Leased Wire Committee.

Governor McDougal: The report which was submitted and approved at the last conference recommended certain restrictions on the class of business to be sent over leased wires. These recommendations were included in the revised leased wire regulations sent out under Federal Reserve Board's letter X-4099.

The number of messages handled over the main line of the leased wire system shows a considerable reduction when compared with the number sent over the wires a year ago.

While a part of this falling off has been due to business conditions, it is largely the result of the leased wire regulations which were made effective July 15, 1924.

The decrease in volume of messages has permitted a reduction in the number of circuits, making a saving for the system in wire rentals of approximately \$21,800 per annum, and in operators salaries of approximately \$22,000 per annum.

All of this saving is not yet shown in the monthly reports, as some of these changes were made in September. However, most of it should be reflected in the October report. The saving to the individual banks will not be as great as those figures indicate, due to the fact that the Treasury Department, which pays in accordance with the use of the wires, based on the volume of business handled in the preceding year, is now paying \$3,000 per month less than prior to July 1, 1924.

The reduction in the number of circuits has been made without causing any delay in the handling of messages, the service at present being very satisfactory.

Governor Seay: I move that the report be received and approved.

Governor Young: Seconded.

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

Governor McKinney: In connection with the leased wire committee's report, I want to call the attention of the Conference to one matter that has come up in connection with our operations, and that is that during certain seasons of the year we discount quite a number of bills of

lading, sight demand drafts, which are payable for the most part in other districts. We send those items out to the Federal reserve bank or branch where they are payable and the other Federal reserve banks have been treating them as collections and have reported payment to us over the commercial wires. We pledge these items with the agent and it is very important that we should get advice of payment on the date of payment for purposes of computing interest against the member bank which discounts them with us. We feel that items of that character should be distinguished from other collection items, and that we are entitled to the leased wire service in getting report of payment.

The Chairman: You get prompt advice of payment?

Governor McKinney: Yes; and I want to submit that proposition to the Conference.

The Chairman: I think that is a very reasonable request. Are we the fellows who offend?

Governor McKinney: Well, you have.

The Chairman: A number of those have come to us.

Governor McKinney: We haven't fallen out with you about it.



The Chairman: Will it be satisfactory to you if Mr. Harrison makes a note of this and sees that it is corrected?

Governor McKinney: I think probably action by the conference would be desirable.

The Chairman: Your motion is that we give leased wire advice of payment of these bills of lading drafts, that have been discounted?

Governor McKinney: I would go further than that and provide that the sending Federal Reserve Bank put some sort of notification or stamp on the remittance letter.

The Chairman: Put a slip on it?

Governor McKinney: Yes, which clearly indicates that the bill has been purchased by the Federal Reserve bank and is a part of its own assets. I think we ought to acquaint the collecting bank with our relation to the paper.

Governor Harding: That lets the slip set forth the fact that you have discounted it and request leased wire advice.

Governor McDougal: I am glad to have this matter brought up. This conference in the past has seen fit to appoint the Chicago bank as a kind of custodian and overseer

of the operation of this leased wire system from a central standpoint. The Conference appointed a committee. That committee is still in existence, Governor Fancher and myself. Governor McKinney brought this matter up, and I might say it is not unusual for the question to be brought up to the leased wire committee as to whether or not certain transactions would be within the scope of the leased wire regulations. We considered the matter. The question involved drafts, bill of lading drafts of a character which innumerable numbers are handled in every financial center and we considered the matter and felt that without a change in the leased wire regulations it was doubtful whether we could permit the use of the wires for that purpose.

Governor McKinney: That is you felt that as a committee?

Governor McDougal: As a committee, yes. It is perfectly right that it should be brought up here. The consideration was based upon, I think, No. 6 or 7 of the leased wire regulations, that the leased wires shall not be used for tracing or advising payment or non-payment of non-cash collection items. That is where the thing hinges.

I am perfectly satisfied to have it brought up here, and I want this body to understand that if we followed the practice that I think is indulged in, that if we all followed the practice that I think is indulged in by Dallas and handled that class of paper freely in that way, the leased wire system would not be great enough to carry the burden.

What I want is a decision on the question of whether the leased wire regulations will permit us to carry that class of business. We are perfectly willing to do it if the Conference says that we should.

Governor Harding: It is not a non-cash collection item, but is a discounted item.

Governor McDougal: These are discounted drafts, that are not different from other drafts that are drawn, hundreds of which are drawn every day in Chicago against shipments of grain, both at the Seaboard, to interior points in New York, Pennsylvania, and points in the South.

Governor Harding: But suppose you were operating a commercial bank?

Governor McDougal: I have operated a commercial bank and I have handled thousands of these items.

Governor Harding: You keep the discounting department



and the collection department separate. If you have drafts that come strictly within the collection class you would send them out as collection items, but if you had stuff discounted you would not call it a collection item.

Governor McDougal: It is a collection item until it is paid. It is not a bank item.

The Chairman: Any discounted piece of paper is a collection item. The question is this, that in one instance, where you are collecting an item for a member bank you are simply an agent of the bank, collecting it and turning over the proceeds when you get it; in this instance the bank has discounted it, and it is collected for its own reimbursement, and it wants telegraphic advice by the promptest possible method. As a matter of fact it is unusual for us to ask for telegraphic advice in connection with items that have been discounted, but this is one exception.

Governor McKinney: The peculiar nature of the item requires telegraphic advice.

Governor McDougal: I am not opposed to it, but I doubt whether the regulations will permit carrying the items. I am not in doubt as to whether the present system as setup will carry the load if we deal in them generally.

because the first thing you know they will be drawing drafts against half a carload of potatoes and things of that kind.

Governor McKinney: That is perishable stuff and the bank would not discount it. I want to know whether or not it is possible to amend the regulations here to cover it?

The Chairman: Certainly.

Governor McKinney: Then I offer it in the form of an amendment to the regulations.

The Chairman: Governor McKinney moves that upon those bill of lading drafts which have been discounted by a federal reserve bank and which bear on the advice of collection evidence of that fact, that advice of payment be given over the leased wires by the collecting Federal reserve bank, and that the regulations governing the use of these wires be amended so that that be made possible.

Governor Wellborn: I will second that motion.

Governor Seay: Would it not meet the situation if this conference were to pass a vote to the effect that such drafts, when discounted by a Federal Reserve Bank, do not come within the definition of non-cash collection items?

Governor McDougal: That was stated very well.

Governor Seay: And that proper notation on the draft or attached to the draft, which will enable the collecting Federal reserve bank to determine that it is a discounted paper of a Federal reserve banks, will suffice to show that it is <sup>not</sup> a non-cash collection item.

The Chairman: I suggest that we leave the drafting of this resolution to the Secretary. He has got the sense of it, and he will accomplish the object that Governor McKinney desires and which we all understand.

Governor McDougal: I would like to hear from Governor Fancher, the other member of the committee with regard to this matter, because he probably has some ideas on it.

Governor Fancher: Mr. McDougal and I conferred when Governor McKinney made this inquiry of the committee. I agreed with Governor McDougal that there was a good deal of question whether the present regulations, as adopted and sent out by the Board, would permit of it. Then, looking to the actual operation, assuming that it might be permitted, there came the question of the volume and the further question of whether these items could be properly distinguished when they came from collection departments of Federal reserve banks and whether the wires would stand



the load. I haven't any knowledge of how great the volume is, but if these drafts are clearly distinguished so that the collecting bank knows that particular drafts have been discounted by the Federal reserve bank, I see no reason why the wires might not be used, if the wires will carry them. I feel very strongly that proper care should be taken that the collecting bank would know that these drafts have been discounted by some other Federal reserve bank and that we do not go back to our former practice of advising payment of run of collection items.

Governor McKinney: As to the volume, it is not very large yet, but the facility, in my judgment, is a very important one to the banks in the south, particularly with reference to the movement of cotton. If in the course of time it should be developed that the volume has grown so great as to prove <sup>an</sup> unsatisfactory feature of the leased wire operations, we could then give it further consideration.

The Chairman: You have heard the motion, gentlemen. What is the pleasure of the conference?

Governor Wellborn: I wish to second that, because we are in the same fix as the Dallas Bank. We discount

these drafts. I have no idea what the volume of the business is.

Governor McDougal: I would like to make a suggestion that the leased wire regulations, as written, be interpreted to include the right to telegraphic advice of payment of drafts of the class described.

The Chairman: That is, in effect, the motion already offered.

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

The Chairman: The next topic on the program for consideration is 4-(c)-3

4-(c)-3 Reconciliation of provisions of Telegraphic Transfer circulars of F. R. Banks with recommendations embodied in Board's letter X-4099.

It is recommended that the Leased Wire Committee be instructed to review the telegraphic transfer circulars of the Federal Reserve Banks, and require reconciliation of the provisions therein with the committee's recommendation embodied in the Federal Reserve Board's letter X-4099. That was put on the program by St. Louis and San Francisco.

Governor Biggs: The only point I want to bring out there is in regard to No. 4 in the Board's letter. In ad-

dition to using the usual mail advice from member banks receiving cash or telegraphic transfers of funds, immediate advice by telegraph or otherwise should be given by the Federal Reserve Board receiving the transfer, except in case where the credited member banks have stated that other than the usual mail advice is unnecessary.

The Chairman: That is just a reconciliation of the regulation.

Governor Biggs: Replying to that letter we made an analysis of the transfer records and found that if we were to comply literally with the provisions of that paragraph it would mean sending four or five hundred additional telegrams each month, the expense of which would either be borne by the Federal Reserve Banks or the member banks, and if by the member banks without authorization on their part. In issuing the revised circular regarding telegraphic transfers being effective on the 15th of the month, I purposely omitted this matter, because it was simply an expense, and if we followed it literally it would mean 500 more telegrams a month over the leased wire, which we thought was unnecessary.

Governor Calkins: The reason that this is submitted



is that the Federal Reserve Bank of Richmond declines to afford the member banks of other districts the same privileges regarding notification by wire by Richmond at Richmond's cost on telegraphic transfers received from other districts for account of member banks within Richmond district.

The Chairman: I would suggest a motion that the circular concerning operations of the leased wires in this particular be made to conform to the Committee's recommendation, which is embodied in the Federal Reserve Board's letter X-4099, paragraph 4.

Governor Seay: As a substitute for that I move that the matter be referred to the standing Committee on Collections and that the Committee be instructed to report on telegraphic transfers.

The Chairman: Inserted in the circular letter X-4099 is a letter sent out by the Federal Reserve Board on recommendation of the Leased wire Committee, as I understand it, Governor McDougal.

Governor McDougal: Yes.

Governor Biggs: Yes. That letter is dated June 21st. I have it here.

Governor Seay: Before definite action is taken I would like to explain the position of the Richmond Bank. The provisions of our circular upon telegraphic transfers and leased wire services in effect, in our opinion, carry out the purposes of the Board's circular. It saves us from ten to fifteen thousand dollars a year, is working with perfect satisfaction to our member banks. We do not give telegraphic advice unless the desire is expressed to receive telegraphic advice. We should have to make several hundred a day and we do not find it necessary. Our member banks do not seem to desire it. There is perfect harmony in our district with respect to our present practice, although we recognize that technically it varies slightly from the wording of the circular.

The Chairman: These gentlemen wish the practice amended so as to have it conform apparently to what you are now doing.

Governor Calkins: I do not.

The Chairman: I believe Governor Biggs does.

Governor Biggs: Our idea was simply to save the expense of 500 telegrams a month.

The Chairman: Governor Calkins, what suggestion have

you to offer on this topic?

Governor Calkins: The suggestion is that all the Federal reserve banks conform to one practice, and that is the practice set up by the Federal Reserve Board. If the Federal reserve board's instructions are to be changed, that raises a new situation. In X-4099 there is the provision that in addition to the usual mail advice the member banks receiving credit for telegraphic transfer of funds immediate advice by telegraph or otherwise should be given by the Federal Reserve Bank receiving transfer except in case a bank stated that it did not want it. That is diametrically opposed to the practice that Governor Seay has described in his bank.

The Chairman: You want that reversed so that you will not make advice by telegraph unless requested to do so; is that the point?

Governor Calkins: My opinion is that the provision is correct and satisfactory as it is, but if it is to be reversed it should be reversed by all of us and not by one or two of us.

Governor Seay: As the matter is quite an important one, involving a very large sum of money to the system, I



would like to read this memorandum:

"Under practices existing prior to July 15, 1924, all kinds of telegraphic transfers were made over the leased wires, and it is apparent to any one that in connection with certain transfers, particularly those for odd amounts and those in which third parties are involved, it was essential that telegraphic advice of credit be given to the banks receiving credit. However, under the new practices, transfers are made over leased wires only in multiples of \$100.00 and consist of bank balances, and such transfers are not subject to the same elements of danger in case telegraphic advice of credit is not given when it is expected.

"When we were giving telegraphic advices on all transfers, our experience was that in a great majority of cases they were not needed or desired and consequently we were imposing upon ourselves a large item of expense which was unnecessary and not justified. We found it necessary to send from fifty to seventy-five such telegrams each day at a cost of about \$1.00 each, resulting in a daily expenditure of from \$50.00 to \$75.00. At \$50.00 a day this cost was more than \$15,000 annually. Since we changed the

practice on July 15th, we have had no complaint whatever on the part of our member banks and no single case has come to our attention in which a bank expected to receive advice of credit and failed to do so.

"Taking all of these circumstances into consideration, therefore, we feel that our present policy is warranted, and we do not feel that we are called upon to change our practice in this respect under the regulations or as the result of experience."

The Chairman: I gather there is no objection raised to changing the phraseology of the regulation, or the letter X-4099, to accomplish the purpose which Governor Seay expressed and which Governor Biggs has expressed, that is to say that no telegraphic advice of payment be made unless it is requested.

Governor Fancher: We have the provision in our circular by which when necessary we send a wire advising a member bank of credit, collect over the commercial wire.

The Chairman: This will also involve a change in the circulars of some of the reserve banks.

Governor McDougal: The circulars are not uniform, Mr. Chairman.

The Chairman: But it will involve a change.

Governor McDougal: I think we can handle it without making those changes by ascertaining, as we have done in Chicago, over a considerable period of time, those banks that are in the habit of sending transfers, and find out whether they want the wire advice. In our case we have a great many banks that have said that it would not be necessary, and by working that plan we have effected a great saving. I think it would be unnecessary and inadvisable to impose upon the banks as a whole the necessity of literally adhering to a plan under which all transfers were to be immediately advised of by wire if necessary.

The Chairman: There seems to be no disagreement now, except possibly by Governor Calkins.

Governor Calkins: There is no disagreement on the part of Governor Calkins, but there is a very marked disagreement by those who are using a practice exactly contrary to that set up in the circular.

(Further discussion followed.)

Governor Harding: I move that we lay the topic on the table, Mr. Chairman.

Governor Norris: I second the motion.

The Chairman: The motion is that the topic be laid



on the table.

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

Governor McKinney: Now, may I address the Chair on this subject.

The Chairman: Certainly.

Governor McKinney: It is my understanding, particularly after talking to Governor McDougal, that as to the leased wires between the head offices and branches in a district that we have complete liberty of action in facilitating transactions between member banks within any district with each other and with the head office.

The Chairman: That is purely an autonomous matter.

Governor McDougal: The situation is this, as I have told Governor McKinney, that as between the parent bank and the branches, that is nothing that concerns us with regard to leased wires.

Governor McKinney: I just wanted to have a definite understanding on that.

The Chairman: The next topic is 4-(d), suggested by New York.

4-D. Cost of securing reports of examination of national banks.

It is recommended, That the principle ultimately to

apply shall be that the Reserve banks pay no more than the expense of preparation of the reports; and

Recommended further, That the conference adopt a resolution specifying the time for which the rate of \$10 a report shall be continued, and fixing the rates which should be paid permanently for reports thereafter.

I am afraid it will be necessary for me to review very briefly the history of this matter of the cost of securing reports of examination of national banks. Due to some unavoidable delay in dealing with this matter, after it came up at a conference where I was not present, I learned when I came to discuss the matter with the Comptroller of the Currency that he felt at that time that every bank had assented to the proposal at \$10 a report to be paid for the reports of examination, with the exception of the Federal Reserve Bank of New York. The report of the discussion between the Conference and Comptroller was made to me very largely by him, and after considerable correspondence with him and a number of meetings with him and some discussion with the Board, I recommended to our directors that we discontinue taking the reports. But our directors, I think acting under the advice, or inspired

somewhat by the urgency of some of the officers ~~who~~ <sup>ing</sup> dealt with these reports, feel that with the other eleven banks having agreed to pay for them, it would put us in a rather difficult position, and that we should for the present agree to make payment under protest, upon instructions from our directors. That would bring the matter up at <sup>and</sup> this conference, as between our bank and the Comptroller's office it is now in that condition.

Governor Harding: I wish to state that we objected very strenuously to any increase in the rate for these reports. I exchanged several letters with the Comptroller and only agreed to pay \$10 per report after he had advised me that we would have to take all or none at that price, that we could not have the privilege of selecting those that we wanted to pay for. He clearly intimated in that correspondence, and I got the impression, that the Boston Bank was the only one that had not agreed to it. The correspondence speaks for itself. I do not think it is a fair charge and we pay it very reluctantly.

Governor McKinney: You did pay it?

Governor Harding: We are paying \$10 a report, but we are not doing it with any pleasure at all.



Governor Norris: We had correspondence of the same character with the Comptroller, in which we endeavored to obtain the right to get only such reports as we wanted. He said the arrangement was predicated upon every bank taking all the reports, and that was the only way in which he could get the amount of money that he needed. We then agreed to it, on the provision that every other Reserve Bank did it.

The Chairman: I would like to call attention to one important point in this connection. We are paying very large costs for the performance of a service of the Treasury Department, the effect of which is simply to reduce the amount of the taxes which the Government will ultimately receive out of the net earnings. This was discussed at the meeting with Mr. Dewey, it is in a sense only bookkeeping. It is the only item of any importance where the net revenues of the reserve banks are reduced by a considerable sum, about \$180,000 per year for the benefit of someone other than the Treasury. It is credited upon the cost of examination which otherwise would be assessed upon the national banks, and my first objection was to making payment beyond the actual cost of making duplicate reports.

The second objection is that the principle that we should make any contribution of any kind out of our revenues for services performed of this character that produces a profit to a department of the Government for its expense account, so to speak, is to my mind a very unwise principle for us to accept. There are other objections that could be urged. Now, I want to get the benefit of these reports if we can, and I certainly want to preserve to the utmost the spirit of cooperation between the examiners of the Comptroller and the Federal reserve banks, but my recommendation is that we effect an adjustment of this matter of charges, so that by gradual stages the amount will be reduced to a point where the Comptroller is put to no expense whatever in preparing them, but on the other hand that we make no contribution to the cost of examinations or of conducting the office for the Comptroller; that that be done over a period of time sufficiently long that it will not involve any hardship upon his program of expenses which is now apparently adjusted to take up this amount of revenue. I am frank to say that my recommendation to my directors would be that if no adjustment can be made we discontinue taking the reports.

Governor Harding: That will be my recommendation also.

Governor Wellborn: My recollection is that Mr. Cris-singer started that when he was Comptroller of the Currency, as a temporary matter.

The Chairman: For a year.

Governor Wellborn: Yes, until he could get the appropriation necessary.

Governor Harding: How would it do to pay \$10 until the 30th of next June, for the last six months of 1925 \$7.50, and thereafter only the actual cost?

Governor McDougal: Our position in this matter is somewhat different from that of Boston and New York. The outlay in Chicago of course is greater than in any other district because of the number of banks we have. It is true that this was a temporary matter to begin with. It is also true that the present Comptroller made a statement of situation, and if I remember correctly, he suggested that we consider this charge from the standpoint of service rendered, and not from the standpoint of actual cost of preparing carbon copies. The matter was very carefully considered by our board, and it was concluded that the



service was worth what we are asked to pay for it, and that under the circumstances we would meet the demand, and make the payment. The net result to us is very different from that which has been stated by Governor Harding and Governor Strong. We consider it saves us considerable instead of costing us anything, because under conditions which are current and have been current for the last few years, it would have been necessary for us to have greatly extended our department of examinations in order to have made these examinations ourselves.

The Chairman: Yes, but, Governor McDougal, if you find justification for the belief, by the very terms of the Federal Reserve Act itself, that this information was to be available to the Federal Reserve System without cost, would you consider it a prudent thing to pay a service charge for information which I believe, under the spirit of the Act was contemplated to be put at our disposal automatically, without any payment being made for it?

Governor McDougal: I do not believe you are correct in that, Governor Strong.

Governor Strong: I think an analysis of the Federal reserve Act has convinced our counsel that that is the case.

Governor McDougal: Until the establishment of the Federal reserve banks examiners reports were safeguarded and were never disclosed to anyone on the outside. My impression is that in placing them at our disposal they have simply acted in a spirit of cooperation

The Chairman: Then why did the Act provide that salaries of examiners should be fixed, subject to approval of the Federal Reserve Board, and why did they provide for what the Act provides as special examinations? I think it was the intent of the Act that any examination made by a Federal reserve bank would be a special examination because it was intended that the examinations ordinarily made would be available to us through reports made by examiners to the Comptroller, to get credit information.

(After discussion:)

Governor Harding: I move that this conference authorize the Chairman of the conference to appoint a committee, of three, of which he shall be the Chairman, to take this matter up with the Federal Reserve Board.

Governor Young: I will second that motion.

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

The Chairman: The Chair will appoint Governor Norris

and Governor Bailey as members of that committee.

(Whereupon, at 11:50 o'clock p. m., the Conference adjourned until two o'clock p. m. of the same day, the committee just appointed by the Chair to consult with the Federal Reserve Board during the recess.)

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A F T E R   R E C E S S

The conference reconvened pursuant to the taking of recess, at 2:15 o'clock p. m.

The Chairman:    The meeting will come to order.

Governor Norris:    Your committee of three met with all of the members of the Reserve Board, except the Secretary of the Treasury and the Comptroller of the Currency. Governor Strong stated that the copies of reports of national bank examiners, which were secured by the Comptroller, were of varying value in different districts; that in some districts they were valuable almost, if not quite, to the point of being indispensable, but that there was a general feeling on the part of the Governors that the practice of paying to the Comptroller a figure for these reports which was based upon what might be called their commercial value to us, rather than upon the cost of making



copies, was a practice that was of doubtful legality and which we felt was distinctly improper, because it was imposing upon the Federal Reserve Banks an expense which the law contemplated should be imposed upon the national banks that were examined, and to the extent that charge was imposed upon the reserve banks it diminished the revenues of the United States Government and was in relief of the national banks. The general attitude of the members of the Board was to inquire what they could do about it; what suggestion we had to make; that they could not issue any order to the Comptroller of the Currency, that they had no control over him, and that they had been advised by counsel that the law did not impose upon him the obligation to furnish these reports to us free of charge or to furnish them at all. There was considerable discussion as to what, if anything, might be done about it, and it was finally agreed, and the motion was adopted, that a further conference should be held between the Secretary of the Treasury, the Comptroller and the members of this committee with the Governor of the Board, or with the members of the Board, at which the matter should be discussed further.

The members of your committee took the position that if this practice was to be continued at all they did not wish it to be continued as a private or secret matter, and they thought the Secretary of the Treasury should have knowledge of it, and it also was desirable that Congress should have knowledge of it.

The Chairman: I think what you say, as I listen, Governor Norris, does not give the impression that we tried to give the Federal Reserve Board, that there were those in the meeting here who felt that if some of us withdrew from buying these reports it would place an added burden upon the other banks because of the probable raised price. We also pointed out that this was originally a matter which was dealt with by the Board officially with the first comptroller, and that we now felt that they were unwilling to continue to deal with it, and also there was no limit to the amount of charge that might ultimately be made by some new Comptroller when he came in. The matter was left by the passage of a resolution, which left it with Governor Crissinger to arrange for a meeting with the Secretary of the Treasury and Under-Secretary Winston, who works up the details of this matter as a rule for the Secretary,

with the Comptroller of the Currency and the members of the Federal Reserve Board, and the committee representing the Governors' Conference. Governor Bailey explained it would be impossible for him to come back and attend a meeting at a later date, at a nearby date, at least, Mr. Dawes has left the City until next week, and it was suggested that someone be appointed to act in Governor Bailey's place. I took the liberty, notwithstanding what Governor Harding stated before lunch, and because of his great familiarity with these matters--- he is the only one who is familiar with both sides of the negotiations with Comptroller Williams, of suggesting that Governor Harding be made a member of the Committee to take Mr. Bailey's place. Besides that I am sorry to say that there has been a little evidence that Comptroller Dawes rather resented my attitude about this and I did not want to <sup>him</sup> feel that I was leading a movement to defeat this program and I would very much like to have someone there who is familiar with this to discuss it. Governor Norris served on the committee that negotiated the first matter with the Comptroller, Governor Harding knows the previous history better than I do, and I think it would be very proper



for him to discuss this matter with them, because I can not adequately deal with it.

Governor Harding: If it is the desire of you gentlemen that I serve, I will be glad to do it.

The Chairman: I think everyone will be glad to have you do so. Are you satisfied with the report, Governor Young?

Governor Young: Yes.

Governor McDougal: I am satisfied, Mr. Chairman.

Governor Young: I am satisfied with the method of procedure.

The Chairman: In view of the action taken by the Federal Reserve Board, I understand it to be the sense of the conference that there is no further immediate action to be taken at this meeting; that the committee is now changed by the substitution of Governor Harding to take the place of Governor Bailey, who cannot attend a subsequent meeting, and that the committee will await the pleasure of the Federal Reserve Board in arranging a meeting with the Secretary of the Treasury.

I want now to refer to two matters that have already been discussed on the program. We discussed the matter of

reserves against time deposits in the California district and disposed of that before we acted on the appointment of the committee on reserves. I did not want to foreclose Governor Calkins from an opportunity to ask that that be referred to a committee, if he would prefer to have that action considered by the conference.

Governor Calkins: I am satisfied with the action of the conference. There was some inconsistency shown in the subsequent discussion.

The Chairman: Yes, but I just wanted to make sure that we did not have an inconsistent record. It was an oversight on my part and was called to my attention by Mr. Harrison.

Governor Calkins: Personally, I do not think it should be referred to the committee on reserves.

Mr. Harrison: How is the matter left now?

The Chairman: That we did not refer the question to the committee.

The other matter is the question of the amendment of the regulation in the Board's letter X-4099, which was discussed just before lunch. That is bound to come up again as unfinished business. I just want to remind you that we

are going to make an effort to dispatch this program definitely by some action. If you are satisfied to leave it as a matter laid on the table, all right, but it will probably come up again to bother us.

Governor Norris: I would like to ask a question about that. Those advices are given over the commercial wires, are they not?

The Chairman: Yes, they are supposed to be.

Governor Norris: Governor Seay's objection to it and Governor Biggs' objection to it was the cost. Now, if those are the facts, I would like to ask the further question whether the whole matter might not be taken care of by sending those telegrams collect.

The Chairman: Do you send them over the private wire system, Governor Seay?

Governor Seay: No.

The Chairman: You pay for them yourself?

Governor Seay: We do not make them unless it is requested by the sending bank, or the transaction bears evidence that it should be sent.

Governor Fancher: At your expense, or the expense of the member bank?



Governor Seay: We absorb it, and that is what we pay.

Governor Biggs: That is the leased wire instead of the commercial wire.

Governor Seay: That is where we save. It would cost us ten or fifteen thousand dollars if we gave the right.

The Chairman: The regulation seems to contemplate that this regulation should apply to the leased wire service.

Governor Biggs: That is what it is, the leased wire. We had it up with the Board, and we figured it out that there was a cost for sending 500 telegrams a month, and estimating each telegram at a dollar, it represented \$6,000 a year, and our idea was not to burden the wires with them.

The Chairman: I think a way that would be satisfactory to everybody would be refer it to the leased wire committee.

Governor Young: I will move that the previous action of this conference on the matter be reconsidered, and that a resolution be passed, not in the terms you propose, but that it be referred to the leased wire committee, to study the matter in collaboration with the standing commit-

tee on Collections and make recommendations to the Federal Reserve Board which will bring about a reconciliation of practices with the regulations or of the regulations with the practices.

Governor Seay: I will second that.

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

The Chairman: The next topic for consideration is 4-(e).

4-(e) Branch Directors.  
Effects of increasing the number of directors of branches in conformity with the Board's letter X-3956; and advisability of recommending to Board that branches be operated under rules and regulations approved by the Board as provided by law, rather than by by-laws.

Governor Calkins: The Federal Reserve Board has issued a regulation which increases the number of directors in each branch from five to seven and prescribes the way in which they shall be elected, and so forth. We have five branches in our district and we have been operating branches longer than any other Federal Reserve Bank. We have a very satisfactory organization. The matter has been discussed by the Board of Directors of the Federal Reserve Bank of San Francisco, the opinions of all of the

branch directors have been secured, or practically all of them, and without one dissenting voice they agreed that it was undesirable to increase the number of branch directors or to change the present organization. One of the members of the board suggested that if that regulation was a tentative regulation, and if the San Francisco bank was of opinion that its present mode of operation was satisfactory, the Board might suspend it. I do not know how the other governors who have branch banks feel about it.

Governor Bailey: They will have to suspend ours if they do yours. We do not need seven directors at our branches any more than a cat needs another tail.

Governor Calkins: The net result would be a considerable increase in the cost with no increase in efficiency, and that seems to be contrary to the purpose of the Federal reserve banks at the present time and also the purpose of the Board.

I would like to ask whether any governor is of the opinion that the efficiency of his branches would be increased by increasing the number of directors from five to seven?

Governor Seay: Mr. Chairman?



The Chairman: Have you that opinion?

Governor Seay: Quite the contrary, Mr. Chairman.

The Chairman: Let us get a response to that first.

Governor Wellborn: I will respond to that. I think it is a good thing to bring in some outside men from the town in which the branch is located, if they are influential men and they add to the efficiency of the bank. I think it is an opportunity to popularize the Federal Reserve System itself and get them acquainted with it, and all of that helps when it comes to the question of a renewal of the charter of the System.

Governor Harding: How many men have you in the Birmingham Branch?

Governor Wellborn: We have five.

Governor Harding: Who would you get?

Governor Wellborn: We would get a good man from Montgomery, Mr. Hardy. He would be glad to come. I think it would help. We do a great many things that are more expensive than that, and I would endorse the action of the Board.

Governor Seay: Mr. Chairman, I am genuinely apprehensive of the ultimate effects of this move on the part of

the Board. What Governor Bailey stated is an illustration, to begin with, as to what is likely to happen in the choice of these directors. The heading of the provision of the Federal Reserve Act which authorizes the Federal Reserve Banks to establish branches is headed "Branch offices". In the text of the provision itself it alludes to a "branch bank". We are advised legally, I believe competently, that a Federal reserve bank is one entity and that the directors of a federal reserve bank cannot divest themselves of responsibility for branches. The directors of the Federal reserve bank do not run it. If they attempt to run it, as I believe it is very likely that they will, I cannot see how anything but disruption is likely to result. They have nothing but a supervisory capacity; they have nothing to occupy them in running the details of the bank. I do not think they ought to be invested with power in the operation of a branch that is not given them under the Act. The directors of the federal reserve banks themselves I think are charged with that authority. As sure as anything is true, which has not already transpired, it will result in contention for independent action on the part of the branches. I believe the creation un-

necessarily of a board of that size, if they are men of standing and influence, will inevitably result in their feeling that they are coming together for no purpose, and they will endeavor to develop a situation whereby they will be brought together for some purpose, and it cannot result in anything but some clamor for independence on the part of the branches.

The Chairman: I do not like to interrupt, but I do want to shorten this discussion in some way.

Governor Seay: I do not want to prolong it unnecessarily, but the matter is of such far reaching consequence in my personal judgment--- I have not discussed it in this manner with our directors--- but I believe it is one of the most serious things that the Reserve Board has undertaken to do for a long time.

The Chairman: We are one of the banks that has a board of seven directors in our branch at Buffalo. It was increased to <sup>seven</sup> members in order to give representation to banks in the City of Rochester, which is quite an important city. Mr. Harrison feels that the Board could be reduced to five, and we feel that a board of five is desirable rather than a board of seven, and would prefer it. The



only thing I have recently heard about the activities of the directors in Buffalo is that some of them feel that they would like to have a larger field of business, that they would like to have the accounts actually transferred to Buffalo, and they feel that they are only rubber stamps so long as the branch is controlled by New York. My only feeling is that uniformity is desirable, but if it involves the increasing of the boards from five to seven, where there are five, then it would be better not to have it uniform, and if uniformity is essential, then it would be better to have five rather than seven.

Governor Harding: Section 3 provided for not less than five or more than seven, and it specifically leaves a little latitude in the matter.

Governor Wellborn: The New Orleans branch has always had seven directors, two from the outside.

Governor Calkins: I move it is the view of this conference that it is undesirable to have an increase in the number of directors of branches from five to seven, but that the matter should be left to the judgment of the directors of those Federal Reserve banks that have branches.

Governor Young: I will second that.

Governor Seay: There is one other point that is undesirable, in my judgment, and that is the changing of of the the title ~~to~~ Chief Executive of the branch to managing director.

Governor Calkins: I will amend my resolution to include the statement that it is undesirable that those banks operating branches should be required to change the character of their organization by increasing the number of directors from five to seven, providing that one of the directors other than manager be made Chairman of the Board, and providing that the manager shall be called managing director, because it will have a tendency to increase the autonomy of the branch directorate and bring about contention between it and the head office.

Governor Seay: I will second that.

Governor Wellborn: I would prefer to have the motion in the original form. I am with you on the matter of the changing of the title to managing director.

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

Governor Calkins: I would like to ask Governor Wellborn why he feels that it is objectionable to vote on the question of requiring those branches that now have five to have seven? It would not change his situation at all.

Governor Wellborn: It would change it. How would we be permitted to have seven?

Governor Calkins: The act says so.

Governor Wellborn: I remember once when we established a branch we wanted seven and they said five would be sufficient.

Governor Seay: I hope Governor Calkins will now offer a distinct resolution covering his amendment to the first one, and I will take pleasure in seconding it.

Governor Calkins: I move it is the sense of the meeting it is undesirable to require that a member of the Board of directors of the branch, other than the manager, shall act as Chairman, and not desirable to change the title of manager of the branch to managing director.

Governor Seay: I second the motion.

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



The Chairman: Governor Calkins, your topic also includes a reference to operating under rules instead of by-laws. Do you wish to discuss that?

Governor Calkins: I do not desire a discussion of that, Mr. Chairman.

The Chairman: Then that topic is withdrawn.

The next topic is 4-(i)

4-(i) Holdings of real estate by Federal Reserve Banks.

Has there ever been a ruling made by the Federal reserve Board authorizing the reserve banks to hold real estate? This especially applies where real estate has been taken in due course of business. The National Bank Act provides for such cases.

That is put on by Dallas.

Governor McKinney: I think there must be some mistake. I did not put that topic on the program.

Governor Bailey: The only thing is that under the National Bank Act there is a provision that you can hold land that you take in in due course. There is no provision in the Federal Reserve Act. I would like to have that clarified because I would like to take one or two pieces of land. Are we compelled, under the Federal Reserve Act, to sell the land in five years?

Governor Young: No.

Governor Calkins: Section 7 of the Federal Reserve Act reads: "Federal reserve banks, including capital stock and surplus therein, and the income derived therefrom shall be exempt from federal, state and local taxation, except taxes on real estate."

Governor McKinney: Might not that be construed as applying only to the bank buildings?

The Chairman: If there was legislation on this subject you would be less free in dealing with the matter than you are without legislation.

Governor Bailey: That is probably true, but I wanted to know whether or not we could carry it until we got ready to sell it.

The Chairman: There is nothing in the Act to prohibit you from exercising the constitutional right which you enjoy to collect your debts. As it is, you are pretty free in handling the matter.

Governor Calkins: I would like to read another provision of the Act, Section 4: "Seventh, to exercise by its board of directors, or duly authorized officers or agents, all powers specifically granted by the provisions of this act and such incidental powers as shall be necessary

to carry on the business of banking within the limitations prescribed by this Act."

Governor Biggs: We take anything. I took two hundred chickens for twenty-four hours.

The Chairman: If Governor Bailey is satisfied with the present status of the proposition, we will pass to topic 5, Fiscal Agency and Depository Operations.

5-(a) Procedure now being followed in the execution of orders for the Treasury Department.

I would like to ask this question, and in order to shorten the discussion, I will assume that anyone who does not reply has no answer to make to the direct question. We have a rule in the Bank of New York, which was adopted after the most careful consideration of this matter with the Treasury and with our own directors, that no broker shall be employed by the Federal Reserve Bank who has any association of a personal character with anyone connected with the Federal Reserve Bank. Second, every broker employed to execute orders, whether for the Federal Reserve bank or for the Treasury, shall submit an annual statement to the bank of condition; <sup>his financial</sup> third, that we shall not appoint any broker who carries speculative margin ac-



counts; fourth, that the directors shall make all of these appointments, that they shall not be given out by the officers. I wanted to know whether that practice was followed in the other reserve banks. Then I would like to ask if there is any material dissent from any of the views that I have expressed with regard to our procedure in throwing a safeguard around this matter?

Governor Young: None whatever, Mr. Chairman. I think you have guaranteed it as well as you possibly can.

Governor McDougal: I would like to inquire from Governor Strong whether the purchases now made by the Treasury Department are all registered or made on the exchanges--- I know they are not, and I really do not mean to ask it in that way.

The Chairman: They are all made that way except in certain cases when the Treasury--- when we have opportunity to buy for the Treasury in large blocks, and those cases are always specially submitted to the Treasury, where it is cut off from the exchange, and we get special permission to make the purchase. When it is made a record of the transaction is kept which shows what price that particular issue was selling on the board for at that time, so that

the question of price, which is an important thing, and which can be fixed by the records of the Stock exchange, is fixed in the Federal Reserve Bank instead of by reference to stock exchange trades. We always get a quotation from the board showing at what rate they are selling on the board at that time.

If there is nothing further in connection with that we will pass to Topic 5-(b), suggested by St. Louis.

5-(b) Redemption of debenture bonds  
issued by Federal Land and Inter-  
mediate Credit Banks.

Governor Biggs:

It is recommended that in the interest of economy and uniformity, the same policy be pursued in connection with the redemption of the debenture bonds issued by the Federal Land and Intermediate Credit Banks as is now followed in connection with the payment of Federal Farm Loan coupons.

As a result of the last report of the leased wire committee, it is no longer the practice to send telegrams to New York advising the amount of Federal Farm Loan coupons each day, but instead the totals of coupons paid are handled as deductions from credit to the gold settlement fund of

coupons, and the necessary advice goes forward by mail. In the interest of economy and uniformity, we have suggested that the same policy be pursued in connection with the redemption of debenture bonds issued by the Federal Land and Intermediate Credit Banks.

The Chairman: Is that offered in the form of a motion?

Governor Biggs: Yes.

Governor Young: I will second that.

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

The Chairman: The next is

5-(c) Cancelled United States bonds, notes and Treasury certificates of indebtedness lost in the mails while en route to Washington. Experience of Federal Reserve Bank of San Francisco, which was requested by Treasurer to make restitution for lost bonds because serial numbers of bonds stolen while in transit could not be correctly given.

Governor Calkins: The Governors have all been advised with regard to the experience of San Francisco in connection with the handling of cancelled certificates. The matter was put on the program for discussion, if any discussion was desired. Apparently that incident is now closed, but the question is whether it is desirable that we should have



some further protection.

Governor McKinney: Was it closed in a manner satisfactory to your bank?

Governor Calkins: No, I should say not. It was closed by reason of the fact that we were able to finally discover the records that enabled us to give the numbers that the Treasury Department required, in other words which enabled us to determine what mistake had been made and where. If we had not been able to do that the Treasury Department would undoubtedly have insisted upon our making restitution.

The Chairman: In our bank the men feel that we are in a position where we will always be able to locate the numbers. I think the Treasury was in a position where they were confronted with the situation of having no discretion in the matter.

Governor Calkins: We felt that we would be in a position to find the numbers, and apparently discovered that we were not, at first; and I can easily see another situation that might arise in which you could not furnish the numbers and in which we could not furnish the numbers.

Governor Seay: That refers to a matter that happened

about two years ago?

Governor Calkins: Yes. My own opinion is that the Treasury is unable to relax its ruling, and that the only remedy we have is to insure them at our own expense or at the expense of the Treasury, one or the other. If the Treasury cannot relax its ruling, I think we ought to be allowed to insure for our own protection. I do not think any action is needed by this conference, unless the matter comes up again. The Treasury has not brought it up again. The Governors, so far as I have communicated with them, with the exception of the New York Bank, were unanimous in favor of the position that we have taken, that we should not be called upon to stand a loss of that sort unless we are protected by insurance.

The Chairman: The next topic is 6-(a).

6-(a) Voluntary Services - In view of small earnings, can Federal Reserve Banks continue the free voluntary services, or should the actual cost of some or all of these services be charged to the member banks?

This is a matter that has really been disposed of by our action recommending that no discontinuance be made and no charge be made, except in the same of non-cash collec-

tions, which has been referred to a committee for study.

Is any further action desired?

Governor McDougal: I was one of those who put that subject on the program.

The Chairman: Are you satisfied with the action taken?

Governor McDougal: I am for the moment. I want to call the attention of the conference to a very satisfactory development in the discussion of that matter, a matter that you pointed out yourself, and that is that we are being hammered in every way, we are having frequent interviews with respect to expenses, and I think it should be borne in mind by all who have supervision over the operation of these Federal reserve banks that the expenses now are traceable very largely to the voluntary services which we give. I think the Board itself should bear that in mind, and if it is in that respect that they want expenses cut down, we want them to tell us, that is all.

The Chairman: The next is 6-(b).

6-(b) What can be done when a member bank refuses to comply with the regulations?

(Topic 6-(b) was withdrawn from the program.)



The Chairman: The next is topic 6-(c).

6-(c) Examination of State banks.

Governor Calkins: This was put on for the purpose of discussing the procedure in various districts as to action taken by examining department regarding state member banks which have not maintained, after membership, as high a standard in the value of assets as would entitle them to pass an examination for admission to the system. In other words, Mr. Chairman, a state member banksman be admitted to the system in proper condition and may go from that condition into a bad condition, and there is no authority plainly indicated on the part of the Board or anyone to continue to make special examinations of that bank.

The Chairman: Do I understand you wish a discussion of what is taking place in other districts?

Governor Calkins: I would like to know what the other banks do with regard to examination of State banks.

The Chairman: Governor Seay?

Governor Seay: We expostulate with them, Mr. Chairman.

Governor Harding: Mr. Curtiss makes regular examinations of state banks in Rhode Island and charges them for it.

The examination fees for one of the banks were \$800, and they paid it very cheerfully and said it was the best examination they had ever had and were glad to have it. It is done once a year.

Governor Norris: We examine them regulably, and my understanding is that since the recent ruling of the Board we charge the state member bank with the cost of so much of the examination as represents anything beyond the securing of credit information.

Governor Seay: Does that cover the matter fully? What do they do if after examination you find that they have not maintained their standard?

Governor Norris: Governor Calkins did not ask that question.

Governor Calkins: I will ask it now. If, after an examination of the state banks you find the condition unsatisfactory, what is your course of treatment?

Governor Young: We examine where we want to and when we want to, and we charge the banks that owe us money. Those that are in good condition and do not owe us anything, after we examine them I think we come to the conclusion that it is a credit investigation and make no charge.

Governor Biggs: We have a very satisfactory arrangement with all the banking commissioners. We make a joint examination of every state institution, and in that way the charge that we make is only for the time for the men. The examination is made jointly with the State banking commissioners, under agreement, and it has turned out very satisfactorily with us.

Governor Fancher: We cooperate closely with the state banking departments in the several states in our district and make regular examinations. In special cases where we have to make examinations to get credit information we do it at the expense of the banks.

Governor Biggs: At the expense of your own bank?

Governor Fancher: Yes. We have had several cases where the banks have not maintained their proper standard and in some cases we have made frequent examinations at the expense of the banks. This procedure so far has required one member bank to withdraw from membership.

Governor McKinney: We participate with the state banking authorities in at least one examination a year of every state bank member, and if it is in an unsatisfactory condition, if any bank is found that way, we sometimes make



an independent examination of that bank.

Governor Calkins: Is that a credit examination or a regular examination?

Governor McKinney: Usually it is a regular examination and we charge the member bank. If they do not develop a satisfactory condition, we sometimes examine them again and give them practically the same treatment that we do a national bank whose affairs are in unsatisfactory condition.

Governor McDougal: The state banking departments, generally speaking, cooperate with us and as a rule we accept their reports. There are many instances, however, in which we have felt the necessity and have proceeded, to make our own examinations. I do not think the question of expense is youched upon in the topic at all.

Governor Seay: May I ask what you do if they do not keep themselves up to standard?

Governor McDougal: We undertake to assist them by making such recommendations as we can properly make, and have been very successful in carrying out that policy.

Governor McKinney: You do just about the same as you do with a national bank in similar circumstances, do you not?

Governor Seay: In other words, you do the best you can?

Governor McDougal: Certainly.

Governor Bailey: We have a plan of cooperating with the state banks in state bank examinations. We join with them in the examination and in lots of instances assist them--- in the examination of one of the biggest banks in Kansas City, a trust company, we joined with them and furnished some clerks to kind of supervise it, but the state did the big end of it. We have been getting along fine with our state departments. They take our advice as being superior to our own, and we can get them to act.

Governor Wellborn: We make joint examinations with the state banking departments in our district. Whenever the state superintendent wishes to examine a bank which is a member of our system, we send our examiner with him. We make the examination on the basis of a credit examination and make no charge for it.

The Chairman: Our practice in New York is much the same. Our examinations are made jointly with the state departments. In some cases we have gone in alone to make examinations. The practice in New York, where a state

bank shows an impaired condition at all, is just to deal with each case on its merits and we always cooperate with the state banking superintendents.

Governor Calkins, has your question been answered?

Governor Calkins: Sufficiently, Mr. Chairman, yes.

The Chairman: Mr. Harrison calls my attention to the fact that someone in the Federal Reserve Bank of New York has prepared a little statement of procedure in connection with the execution of orders for the Treasury Department, but on reading I have found that apparently the man who prepared it did not think it was well to go into this more personal question that I have referred to, so that it really does not cover the whole story. It can be distributed for what value it has for the information of the Governors as to how we actually conduct the business in New York.

The next is Topic 6-(d).

6-(d) Committee of Trust Company Division A.B.A. on "Relations with the Federal Reserve System", for the purpose of crystalizing the present membership of trust companies and inducing wherever possible eligible nonmember trust companies to join the system.

That was suggested by New York because of correspond-



ence that I have had and that you have doubtless had with the Trust Company Section of the American Bankers Association with regard to enlarging the membership of trust companies in the Federal Reserve System. I told Mr. Lucas that if he desired I would bring the question up before this meeting and see whether there was anything that could be done by the system to promote what he was endeavoring to bring about, as it was our wish to take any action which would encourage the association to bring trust companies into the System.

Governor Fancher: I suppose each of the Governors received the letter which I received from McLucas in September. We furnished him with a list of trust companies in our district that were eligible for membership, giving him what he wanted as to capital, surplus, and so forth. I do not know how effective their effort will be to bring the trust companies into membership.

The Chairman: I am willing to dispose of the topic by passing a resolution authorizing your chairmen to advise Mr. McLucas, or authorizing Mr. Harrison to do so, that this subject was brought up at the meeting and that it was the sense of the meeting that each Federal reserve

bank would cooperate to the extent of its power in any proper way to promote this matter in the respective districts, and to please call upon us if they need any such cooperation, and to express our appreciation of the action of the Trust Company Section of the American Bankers Association.

Governor Fancher: I will second that motion.

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

The Chairman: That disposes of the regular program and we will now take up the supplemental program. Topic No. 1 on this program was received too late by the Secretary to go on the regular program, and the same is true of all other topics. We will take up No. 1.

1. What amendments to the National Bank Act are necessary in order that national banks may be better able to meet banking requirements and that the development of the national banking system may more closely follow the trend of banking development in the country at large so far as experience shows that this development is along sound and strong lines?

I want to call the attention of the meeting to the fact that the proposed amendment to the national bank act which was introduced by Congressman McFadden, after collaboration with the Comptroller of the Currency, was the product

of many months of work; there has been a tremendous amount of discussion about it here in the Treasury Building, and I do not see how it is possible, on such short notice, for us to make a recommendation. So far as New York is concerned, I do not feel that we have had sufficient time to formulate anything. I do not know how the rest feel about it.

Governor Harding: I will offer a resolution that we pass the topic on the ground that some of us have not had opportunity to discuss it, and that we do not feel justified in making any recommendations until we do have such opportunity.

Governor Fancher: Second.

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

The Chairman: The next topic is 2.

2. What steps should be taken to bring about the gradual retirement of the national bank currency and the final retirement of the legal tenders?"

That matter was on the program of the Agents' Conference and they made a report, and the substance of it was that it should be brought about gradually, very much in line with the substance of a report which has been made to



the Treasury by a little committee which has been studying this matter separately. I would be willing to vote that we in general endorse <sup>the</sup> recommendation ~~of~~ the Conference of Federal Reserve Agents.

Governor Fancher: There are two questions involved. One is the retirement of national bank currency, and the second the final retirement of legal tender.

The Chairman: Yes, and I think they are both covered in the Agents' Report.

Governor Seay: I move that the Secretary be requested to draft a resolution, similar in purport, to that submitted by the Federal Reserve Agents.

Governor Young: I will second that.

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

The Chairman: No. 3 is

3. Reports of Examinations of National  
Banks.

The recommendation is that the office of the Comptroller of the Currency revise reports of examinations of National banks so that these reports will contain a separate schedule showing notes rediscounted with the Federal reserve banks and pledged as collateral, classifying same slow, doubtful, undesirable and loss, with such other in-

formation as would be of value to the Federal Reserve banks.

I see that Governor Wellborn is absent and we had perhaps better pass that for the time being.

No. 4 is

4. Correspondence between Examiners and Comptroller's Office.

It is recommended that the examiners furnish the Federal reserve banks with copies of letters to the Comptroller's Office by directors of banks under criticism and the replies to such letters by the Comptroller's Office.

That also was proposed by Atlanta, and we will pass to No. 5 in Governor Wellborn's absence from the room.

No. 5 is whether or not a Federal Reserve Bank may properly receive maturing collection items with instructions to deposit the proceeds of the collection in some commercial bank for the account of a member bank.

That is proposed by San Francisco.

Governor Calkins: Personally, I do not see any reason why we should not carry out that transaction and I suggest that it be passed.

Governor Seay: If it is not necessary to have immediate action, we have had some correspondence on this subject

with the San Francisco bank, and we are of the opinion that it might well be referred to the Standing Committee on Collections.

Governor Calkins: I will move to that effect.

The Chairman: It is moved that this topic be referred for examination and report with recommendation, to the Standing Committee on Collections.

Governor McKinney: I will second that.

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

The Chairman: The next topic is

6. Communication from the Austrian Association of Banks and Bankers relative to counterfeiting currency.

The Chairman: There is an association of banks and bankers in Austria, which I believe was the greatest headquarters in the world for a gang of counterfeiters at one time, who plied that trade for the purpose of counterfeiting the currency of Europe--- European countries have been flooded with counterfeit currency, as you know--- and it includes a good many attempts to counterfeit American currency--- that Association is a protective association for the purpose of keeping closely informed about new issues of counterfeits that are being made, and to run down the criminals. They have secured cooperation of the



United States Treasury, the Bureau of Secret Service in the Treasury, and now they wish us to send them certain limited information which we would do, if we agreed to do anything, under the supervision of the Treasury. They desire to print our names on the publication which is sent out regularly to the banks of issue through the Treasurers of the various nations that are taking part in this and to put us on the mailing list for the publication. There are certain reports that will be expected of us, which I understand will be made by the Treasury Department. We have had this organization investigated through the Department of State and they report back that it is an eminently respectable and desirable thing, with which our Government is cooperating. Now, if you desire to authorize us to make an arrangement to join so that we may get the literature, a resolution should be passed authorizing the Secretary to take the necessary steps.

Governor Norris: Are there any dues, Mr. Chairman?

The Chairman: There are no dues. It involves no financial responsibility.

Governor Norris: I so move, Mr. Chairman.

Governor Young: Seconded.

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

The Chairman: The next is

7. Member bank expense.

Discussion of circulars issued by the Federal Reserve Banks of Boston and New York relative to the comparison of the operations of representative member banks.

The Chairman: It seems that the Federal reserve bank of Boston got out a circular or communication to the member banks concerning a study of sources of revenue---

Governor Harding: Pardon me, that was gotten out by the Federal Reserve Agent on his own responsibility. It is not a bank publication. It is a Federal Reserve Agent proposition.

The Chairman: It attracted some attention. It was also done by the Federal Reserve Bank of New York. I have not seen them compared, but I think they are much alike. At any rate, the one which we issued received a good deal of very favorable comment and I have had a great many requests for it. The suggestion was made that possibly other reserve banks might want to do it.

Governor Harding: Mr. Curtiss' circular received a good deal of comment. I merely stated that it was not a bank proposition in order that he might receive due

credit for it.

The Chairman: This topic really should not be on our program, but should be on the Agents' program. My suggestion is that the Secretary be authorized to refer this to Mr. Jay to take up with the Federal Reserve Agents and if there is no objection, that action will be taken.

The next topic is

8. Whether or not it might be advisable to suggest to the Federal Reserve Bank of Atlanta the question of employing a counsel representative of all Federal Reserve Banks to take part in the pending case of Pousson v. Federal Reserve Bank of Atlanta.

Governor Harding: I have read the bill of complaint in this Iota case, and I have talked with our counsel and he believes, as I do, that there is no general legal principle involved, of interest to the system. The whole thing hinges upon a question of fact.

The allegation is made that this bank in Iota being in practically an insolvent condition, that the said New Orleans Branch of the Federal Reserve Bank of Atlanta, on learning of said insolvency in the spring of 1923, practically took charge of the said bank of Iota, placing a large sum of money in said bank, dictating to the Board of directors of the said Iota Bank in what manner the affairs



of the bank should be conducted, naming Mr. Joseph A. Sabatier to look after its interests in handling and passing on all loans in said bank of Iota, and that the Board of Directors of the said Bank of Iota thereupon, by reason of the insistence of the Federal Reserve Bank, appointed Mr. Joseph A. Sabatier, on March 19, 1923, manager of the said Bank of Iota, giving him full control over the bank's affairs, with full power to pass upon all loans or advances made by the bank, and full power to administer all of the affairs of the bank", and so forth.

The point is then made "that in accordance therewith the said Federal Reserve Bank advanced to the Bank of Iota a large sum of money for the purpose of carrying for and taking off the crop of 1923, and placing it in an apparently solvent condition, the said Joseph A. Sabatier remaining in practical charge and control of the said bank under the said resolution of the board, and as the direct representative and agent of the Federal Reserve Bank.

"Upon the completion of this transaction, as above stated, the said Federal Reserve Bank practically controlled, operated and became responsible to all of the creditors

and especially the depositors of the Bank of Iota by reason of the fact that it held itself out to the world as the governing authority and owner of said bank, putting in its money and getting possession of practically all of the assets of said bank by reason of said advances;"

The whole thing hinges on a question of fact, and our counsel advises us that it would be very improper action on our part to participate in the case.

Governor Fancher: Our attorneys advise us that it is not a matter that our bank should participate in, that it is a local matter and not a system matter, and I have so advised the Board.

Governor Norris: I was going to say I presumed every bank had received a letter from the Board making the inquiry, and I suppose most of us have replied to it, and I do not suppose it is necessary for me to go over the grounds stated in our reply.

Governor McKinney: Mr. Chairman, I would like to say that we have a somewhat similar suit on hand. Some of the depositors of the First National Bank of Magdalena, New Mexico, which suspended business a year ago, have brought suit against us in the Federal Court of New Mexico

for the specific sum of \$250,000. The allegations in some respects are similar to those in the other case. They charge that we put our man in to take charge of the bank, that he took out the best collateral and then went off and left the bank. It never occurred to us it was anything but just what Governor Harding has stated, a question of fact, a question of whether we did the things that they charge against us. Of course we know that we did not.

Governor Harding: Governor Wellborn tells me that he can disprove these allegations, and if he can it will end it. It is not a system matter.

Governor Seay: I move it is the consensus of opinion that it is not a system matter and that counsel representing all of the other reserve banks should not be employed to take part in the pending case.

Governor McDougal: I will second the motion.

The Chairman: I would like to say that I am ready to vote for the motion, the discussion having convinced me that the situation does not justify our requesting the Federal Reserve Board to engage counsel for the system to appear in this proceeding.

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



The Chairman: The next topic, No. 9, is

9. H.R. 9768 - Congressman Thomas, Oklahoma. This bill would remove the Secretary of the Treasury and Comptroller of the Currency from membership on the Federal Reserve Board as ex-officio members, provide for an additional appointive member to represent labor, and increase the salary of all Board members to \$25,000 per annum, etc.

(Discussion of this topic followed.)

Governor Harding: I offer the resolution that the Conference of Governors prefers not to express any opinion on this subject for two reasons: First, that the members of the conference have had no time for consideration of the subject matter of the bill; second, because the bill does not appear directly to affect the operations of the Federal reserve banks, but relates to the personnel and compensation of the Federal Reserve Board, and in the opinion of the conference this is a matter for consideration by the members of the Federal Reserve Board itself, rather than for the operating heads of the Federal Reserve Banks.

Governor Norris: Seconded.

Governor Seay: I will second.

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

The Chairman: There are certain subjects on the supplemental program which were suggested by Atlanta. Governor Wellborn not being here, and neither of them being matters of great importance, I might suggest that we pass them, in his absence, if there is no objection.

Governor Young: As to Topic No. 3, Mr. Chairman, I will make a motion that those banks desiring the information take it up with the Comptroller of the Currency.

Governor Biggs: Seconded.

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

Governor McDougal: With regard to No. 4, I will move that it would be inadvisable to ask, and unreasonable to expect, to be furnished with the information called for in the topic.

Governor Young: Seconded.

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

The Chairman: That completes our program. I want to advise the meeting that I have agreed, subject to your approval, to hold a short conference with the Federal Reserve Board at nine o'clock tomorrow morning, and I suggest that we now run over our program with the idea of

selecting the definite matters that we wish to take up with the Board.

(Whereupon, on motion, duly seconded, the conference adjourned until tomorrow, Friday, November 14, 1924, at 1:10 o'clock p. m., the morning session being devoted to a joint conference with the Federal Reserve Board.)

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FIFTH DAY.

Friday, November 14, 1924.

1:10 o'clock p. m.

The conference of Governors reconvened, pursuant to adjournment of yesterday, at 1:10 o'clock p. m.

Appearances as previously noted.

The Chairman: The conference will come to order. If we proceed quickly, I think our business can be transacted in time to accommodate everyone.

My understanding is that a member of the Board suggests that, in order that everything be covered by action of the conference, we consider now the subject of discount rates.

The belief of the Governors has been uniformly for some years past that the operations of the Open Market Com-



mittee are designed, if you please, to exert some influence on matters preliminary to the possible need for changes in discount rates. The discussion of the Open Market Committee with the Federal Reserve Board, of which no stenographic record was kept, included a discussion of the possibility of a change in discount rates in the various Federal reserve banks, and inasmuch as this question is suggested for further discussion at the Joint Conference with the action on the report of the Open Market Committee, I take the liberty of suggesting that our further discussion of the rates be in executive session, any action taken, however, to be reported to the Federal Reserve Board with a preliminary statement.

(Whereupon, the conference went into executive session, the reporter leaving the room. At the conclusion of the executive session, the reporter returned to the conference room and the following proceedings were had:)

The Chairman: After discussion by all of those present of the subject of discount rates, it appears, first, that the discount rates of the reserve banks were reviewed in every meeting of the directors, and it developed that the directors of the reserve banks recognize that a change

has taken place which will make it necessary to give special consideration to the subject of discount rates at this time. It also appears that steps are now being taken to effect progressive increases in the rates at which the System is to purchase bills in the open market, and in view of the action which has been taken with respect to the operations of the Open Market Committee in government securities, which action, as consistently understood in recent years, was preliminary to final consideration of changes in discount rates, it was the opinion of those present at the meeting that no immediate action towards an increase in discount rates was at the present time needed, although it would be considered at every meeting of the directors of the bank with a view to changing, if a change was indicated by changing conditions.

It was not felt by the conference that any recommendation of that sort should be made to the Federal Reserve Board, and that their position in this regard was in exact conformity with the remarks at the Joint Conference of Dr. Stuart and Dr. Miller, who discussed the matter on behalf of the Federal Reserve Board.

The attention of the Federal Reserve Board is called

to the fact that one of the preliminary steps that must be considered by the Open Market Committee in connection with any proposal to increase the rediscount rate would be the possible sale, beyond that now authorized, of some part of the investments in government securities handled by the Open Market Committee. In view of this fact a meeting of the Committee has already been arranged to be held in New York immediately after the 15th day of December, quarter day, and if an earlier meeting of the committee is desired or required by developments, the Chairman has been instructed to arrange to have such a meeting at which time it may be desirable to consider whether the authority now held by the committee is adequate.

It was further the sense of the meeting, without dissent, Governor Calkins and Governor Wellborn only being absent, that there would be no dissent on the part of any reserve bank to adopt<sup>ing</sup> a policy of liquidating the accounts the minute occasion to do so was indicated.

At the conclusion of the meeting attention was drawn to the fact that an article had appeared in a Washington newspaper, in a recent issue relating to the possible discussion of discount rates and other matters at this meeting,



and in view of that fact all of those present at the meeting entered into a pledge that the fact of the holding of this meeting and the subject discussed and the conclusions reached had not been and would not be discussed with anyone except the proper officers or directors of the respective reserve banks, and except the report to be made by the Chairman to the Federal Reserve Board.

Governor Fancher: Mr. Chairman, before we adjourn, I want to move that Governor Strong continue as Chairman of this conference.

Governor McKinney: I second that motion.

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

The Chairman: There being no further business before the conference, I will entertain a motion to adjourn.

(Whereupon, upon motion duly seconded, the conference adjourned sine die, at 1:45 o'clock p. m.)

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