

Mr. Martin
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CONFIDENTIAL

Secretary's Minutes

GOVERNORS CONFERENCE

April 6 - 8, 1925

Washington, D. C.

Dictated to file

By

When initialed
by those indicated.

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PROGRAM
GOVERNORS' CONFERENCE

APRIL 6, 1925

Washington, D. C.

I. CREDIT TRANSACTIONS AND POLICIES

- A. Open Market Operations.
1. Report of Open Market Investment Committee.
 2. Organization of Open Market Investment Committee.
 3. Apportionment of Acceptances Bought by Committee. New York
- B. Recent Discount Rate Change at New York. New York
- C. Resumption of Gold Payments by Europe. (Discussion) New York
- D. Problem of Farm Credit. (Discussion) New York
- E. Repurchase Agreements.
1. Federal Reserve Board's Resolution referred to in Board's letter dated March 6, 1925. Chicago
 2. Should Federal Reserve Banks be permitted to buy Government securities from member banks and Federal Land Banks with a repurchase agreement for periods as long as 90 days. Kansas City
- F. Advisability of greater latitude for Federal Reserve Banks in their open market transactions up to or until they have earned their overhead expenses. (Discussion) Kansas City
- G. System policy with regard to maintenance of free services for member banks at times when the earnings of the Federal Reserve Banks are low or insufficient to cover overhead and dividend requirements. Kansas City
Chicago
- H. Report on Foreign Accounts. New York
- I. Report of sub-committee of General Committee on Bankers Acceptances.

II. COLLECTIONS AND CLEARINGS

A. Report of Standing Committee on Collections.

B. Uniform endorsement of non-cash items,

Recommended:

That some action be taken to make effective the recommendations of the Conference of Counsel of the Federal Reserve Banks at their meeting on December 5, 1924, with particular reference to the question of uniform endorsement of non-cash items.

Kansas City

C. Limit on Federal Reserve exchange drafts.

Recommended:

That the \$5,000 maximum limit on Federal Reserve exchange drafts be removed.

Cleveland

D. Service charge on returned transit items.

Recommended:

That on and after May 1, 1925, Federal Reserve Banks should make a service charge of 10¢ per item on all returned transit items.

Minneapolis

E. Should Federal Reserve Banks handle as cash items drafts drawn by a corporation on itself or its treasurer and items of similar nature, even though such items bear the notation "payable at" or "payable through" a specified bank.

(Discussion) Dallas

F. Procedure in handling collection of coupons forwarded by member banks of other districts or by other Federal Reserve Banks. (Discussion) New York

III. COIN, CURRENCY AND CIRCULATION

A. Gold Payments.

(Discussion) New York

1. Advisability of continuing for the present to maintain in circulation approximately the amount of certificates now outstanding.

2. Supply of available hand to hand gold in each Federal Reserve Bank.

IV. OPERATION

A. Formulation of Program for Governors Conference.

New York

B. Cost of securing reports of examination of national banks.

C. Elimination or consolidation of current reports by Federal Reserve Banks to the Federal Reserve Board.

New York

- D. Custody of securities for account of member banks in other Federal Reserve Districts. New York
- E. Semi-monthly statements of exceptions.
Recommended:
That the Federal Reserve Banks discontinue sending each other semi-monthly statements of open exceptions in their respective accounts. Cleveland
- F. McFadden Bills.
1. H. R. 8887 -- Enlarging powers of national banks.
2. H. R. 12453 -- Repealing certain so-called war-time amendments to the Federal Reserve Act relative to reserves and note issues. F. R. Board
- G. Should Federal Reserve Banks pass on to the requesting member banks the cost of telegrams sent over commercial wires representing transfers of funds when the leased wires are unavailable because of storms or other interruptions. Dallas
The Leased Wire Committee in May, 1924, recommended that when the leased wires are unavailable because of storms or other interruptions, any requests for transfers to be made over commercial wires should be accepted at the expense of the requesting member bank, and this topic is proposed because there is not now a uniform procedure in the several Federal Reserve Districts regarding this matter.
- H. Report of Leased Wire Committee.
- I. Report of Insurance Committee.
- J. Report of Pension Committee.
- K. Membership in American Acceptance Council and American Bankers Association. F. R. Board
The Federal Reserve Board in its letter of February 5, 1925, X-4263, requested that the views of the directors of the Federal Reserve Banks with reference to continuing membership in these two associations be reported to the Conference.
- L. Collection of actual charges incurred in handling of bonds, coupons, and negotiable securities forwarded by insured registered mail or express. Cleveland
Recommended:
That a uniform procedure be adopted by the Federal Reserve Banks regarding the collection of actual charges incurred in the handling of bonds, coupons, and negotiable securities forwarded by insured registered mail or express.
- V. FISCAL AGENCY
- A. Do Federal Reserve Banks guarantee to the Treasury of the United States collateral pledged to secure Special Deposit Accounts. Atlanta

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

April 6 - 8, 1925

Washington, D. C.

First Day's Session, Monday, April 6

Morning

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

Present:

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

Governor Crissinger addressed the conference with respect to (1)
what should be the policy of the Federal Reserve System concerning legis-
lation affecting the Federal Reserve System and banking matters generally.
He referred to the importance of having only wise and proper legislation
passed by Congress, and suggested that the conference consider appointing
a committee to study the whole question of banking legislation with
particular reference to the proposed McFadden bills, and to suggest what
might be the proper course for the Federal Reserve System to pursue without
subjecting the System to the criticism that it is trying unduly to dictate
legislation. Governor Crissinger concluded by saying that the Board would,
of course, be willing to cooperate with the committee in whatever might be
necessary to be done.

(See also paragraphs 12 and 19.)

After Governor Crissinger withdrew from the meeting there was an
informal discussion of his proposal. While it was felt that something
should be done along the line suggested, some of those present expressed the
opinion that rather than have the Governors Conference appoint a committee

representing the banks, it would be better to have the Federal Reserve Board appoint a committee of the Governors and Chairmen to act as a committee of the Board and to report to the Board.

(See pages 2 - 12 stenographic record.)

Topic I. A. Open Market Operations. (2)
(See also paragraphs 13, 14, and 15.)

This topic was passed until after the Open Market Investment Committee might have an opportunity to submit its report.

(See page 12 stenographic record.)

Topic I. B. Recent Discount Rate Change at New York. (3)

Governor Strong briefly reviewed the conditions prevailing in the New York money market at the time of, and the reasons prompting, the recent raise in the rediscount rate of the Federal Reserve Bank of New York.

(See pages 12 - 23 stenographic record.)

Topic I. D. Problem of Farm Credit. (4)

This topic was passed pending discussion of the McFadden bills.

(See page 24 stenographic record.)

Topic I. E. 1. Repurchase Agreements (5)

1. Federal Reserve Board's Resolution referred to in Board's letter dated March 6, 1925.

After informal discussion, this topic was passed without action.

(See pages 25 - 26 stenographic record)

Topic I. E. 2. Repurchase Agreements (6)

2. Should Federal Reserve Banks be permitted to buy Government securities from member banks and Federal Land Banks with a repurchase agreement for periods as long as 90 days.

After informal discussion, this topic was passed on request of Governor Bailey.

(See page 26 stenographic record.)

Topic I. F. Advisability of greater latitude for Federal Reserve Banks in their open market transactions up to or until they have earned their overhead expenses.

(7)

(See also paragraphs 13 and 14)

Governor Bailey called attention to the fact that the Federal Reserve Bank of Kansas City is not at the present time earning its expenses, and raised the question whether it might properly buy bills or long-term Government securities in the open market without reference to the Open Market Investment Committee. There was a general discussion by the conference to the effect that all Federal reserve banks may properly buy bills from their own members whether they originate within the district or not, and may buy bills even from dealers if the bills originate within the district of the buying Reserve bank. It was pointed out that the purpose of the Open Market Investment Committee is to do the System buying from dealers of general open market bills. So far as Government securities are concerned, it was pointed out that while a Federal reserve bank may unquestionably buy from their own member banks without going through the Committee, nevertheless, the present understanding is that no other purchases of Government securities will be made except through the Committee. Governor Strong then referred to the fact that the Open Market Investment Committee proposed at this conference to recommend a redistribution of its present holdings for the purpose of meeting just such a difficulty as that to which Governor Bailey had referred. It was accordingly

VOTED that this feature of the topic be deferred until after the meeting of the Open Market Investment Committee.

(8)

(See pages 26 - 53 stenographic record)

Topic I.G. System policy with regard to maintenance of free services for member banks at times when the earnings of the Federal Reserve Banks are low or insufficient to cover overhead and dividend requirements.

(9)

Governor Bailey again referred to the fact that the Federal Reserve Bank of Kansas City is not now earning its expenses and that while he has no objection whatsoever to a continuation of free services if the Federal reserve banks can earn expenses, nevertheless the present earning power of his bank is not sufficient to do so. It was stated by other members of the conference that in their opinion the System as a whole will always earn expenses over a period of years, and that most of the Reserve banks, and certainly the System as a whole, would probably do so even for the current calendar year. It was then generally agreed that it would be inadvisable for the System to change its policy on the question of free services merely because of the fact that one or two of the Reserve banks might not just now be earning expenses. This was felt to be particularly true in view of the contemplated reapportionment of the System's open market investments. Governor Strong then stated that in his opinion, it would be a mistake either to eliminate or place a charge upon any of the present free services at a time when member bank earnings are low and losses are large and added that it was to meet the difficulty presented by Governor Bailey that the Open Market Investment Committee intended to suggest a reapportionment of the present holdings of the Committee. Governors McDougal and Bailey stated that the discussion of this topic and the proposed reapportionment of the Committee's holdings was sufficient to cover what they had in mind. No action was asked for.

(See pages 53 - 79 stenographic record.)

Topic I. H. Report on Foreign Accounts

(10)

(See also paragraph 15)

Upon request of Governor Strong this topic was referred to the Open Market Investment Committee, with a request to report back to the conference.

(See page 79 stenographic record.)

Topic I. I. Report of sub-committee of General Committee
on Bankers Acceptances.

(11)

Upon motion of Governor Young, it was
VOTED to receive, approve and file this report.
(See pages 79 - 82 stenographic record.)

At 12:45 o'clock p. m. the conference adjourned in order to
permit the Open Market Investment Committee to meet, before the Confer-
ence reconvened at 2:30 o'clock p. m.

First Day's Session, Monday, April 6, 1925

Afternoon

The meeting was called to order at 2:45 o'clock p. m.

Appointment of Committee to Study Legislative Matters
(See also paragraphs 1 and 19.)

(12)

Governor Strong reported that the Open Market Investment Com-
mittee had discussed the suggestion of Governor Crissinger with respect to
the appointment of a committee to study legislative matters and recommended:

First, that the conference impress upon the Federal Reserve Board
its view of the importance of having the Federal Reserve Board and the
System take a definite affirmative position in matters of legislation
directly or indirectly affecting the Federal Reserve System.

Second, that the Federal Reserve Board be requested to appoint a
System committee to make a thorough study of such matters and to advise
with the Board in regard to the best method of dealing with the so-called
McFadden bills or other banking legislation. Governors Harding, Young,
Seay and Strong, and Chairmen Wills and Talley were suggested as possible
members of such a committee.

Third, that Dr. Stewart of the Federal Reserve Board be associated
with the work of the committee.

Fourth, that Professor Sprague, of Harvard University, be associated with the committee in some sort of an advisory capacity and

Fifth, that steps be taken to secure the participation of the Comptroller of the Currency.

Upon motion of Governor Bailey, it was

VOTED to approve all of the above recommendations and to transmit them to the Federal Reserve Board as recommendations of the Conference.

(See pages 82 - 83 stenographic record.)

Report and Recommendations of Open Market Investment Committee
(See also paragraphs 2, 14 and 15.)

(13)

Governor Strong reported that the Open Market Investment Committee had met and submitted the following recommendations:

(1) That under authority now vested in it, the committee should increase its holdings up to approximately \$300,000,000 as and when market conditions warrant, it being the belief of the committee that present and prospective gold movements make this increase advisable.

(2) That the chairman shall later suggest to the individual members of the committee a plan relative to the reapportionment of the existing account so as to make proper provision for those Federal reserve banks which are now not earning their expenses.

(3) That a reapportionment be made of any further purchases that may be made by the committee in order to facilitate the accomplishment of this same purpose.

Upon motion of Governor Strong, it was

(14)

VOTED that the report and recommendations of the Open Market Investment Committee submitted above be accepted and approved. It was informally understood that the committee in making the redistribution of present holdings or reapportionment of future purchases should give consideration to the needs of the Federal Reserve Bank of Minneapolis for a

larger proportion of bills than Government securities in order that it might have sufficient collateral for Federal reserve note issues.

(See pages 83 - 88 stenographic record. The report is printed at end of stenographic record.)

Foreign Accounts.

(See also paragraphs 2, 13 and 14)

(15)

Governor Strong made a brief report concerning certain foreign accounts of the Federal Reserve Bank of New York and stated that he would later submit to the Open Market Committee a plan for the apportionment of those accounts among the several Federal reserve banks.

Upon motion of Governor Young, it was

VOTED to approve the recommendation of the Open Market Committee that Governors Strong and Harding be authorized to work out a redistribution of the foreign accounts in order to include the Federal Reserve Bank of Boston as a participating bank.

(See page 88 stenographic record)

Topic IV. A. Formulation of Program for Governors Conference

(16)

Governor Strong referred to the difficulty in preparing a comprehensive program of topics for conferences unless all of the Reserve banks give careful thought to the question of submitting topics for consideration. It was suggested by some of those present that if each Governor would keep a list of topics that arise currently between conferences, it would greatly facilitate the preparation of the program. It was informally agreed that it is better to continue the present procedure for preparing the program than to have a committee appointed for the purpose. The topic was passed without action.

(See pages 90 - 95 stenographic record)

Topic IV. B. Cost of securing reports of examination
of national banks.

(17)

Governor Strong referred to the fact that a committee had been appointed by the last Conference of Governors to consider this question with the Federal Reserve Board, and that while it had been planned to have a meeting of the committee with the Board, the Secretary of the Treasury and the Comptroller of the Currency, no such meeting had ever been held because of the fact that the present Comptroller had stated that he would endeavor to reduce the price of the reports. Upon request of the chairman, the secretary read a copy of a letter dated March 5, 1925, which Governor Strong had forwarded to the Comptroller of the Currency, suggesting the importance of recognizing the principle that Federal reserve banks should not be asked to pay more than the actual cost of preparing copies. On March 16, 1925, the Comptroller advised the Reserve banks that he had reduced the cost from \$10.00 to \$7.50, effective on and after April 1, 1925, and also stated that he hopes for even further reductions in the future. Upon motion of Governor McDougal, it was, therefore,

VOTED that the Committee of Governors should be continued and report again after any further action might be taken.

(See pages 95 - 102 stenographic record)

Topic IV. C. Elimination or consolidation of current reports
by Federal reserve banks to the Federal
Reserve Board.

(18)

Upon motion of Governor Seay, it was

VOTED that the Federal Reserve Board be requested to arrange to to have representatives of the Federal Reserve Board meet with a committee of Reserve bank operating men, to be appointed by the Federal reserve banks, with a view to determining whether some of the statements and reports now submitted to the Federal Reserve Board by the Federal reserve banks may be

reduced, simplified or eliminated.

(See pages 102 - 105 stenographic record)

At this point of the discussion the Federal Reserve Board entered the conference room.

Appointment of a committee to study Legislative Matters
(See also paragraphs 1 and 12.)

(19)

Governor Strong reported to the board the action taken by the conference relative to the question of the McFadden bills and other banking legislation, stating that the conference unanimously recommended that it was desirable that in matters of legislation affecting the Federal Reserve System directly or indirectly, the Federal Reserve Board and the System should take a definite affirmative position, and recommended that the Board appoint a System committee composed of Governors Harding, Young, Seay and Strong, and Chairmen Wills and Talley, to make a study of the matter and cooperate with the Board in dealing with such legislation; that such committee should have the advice and services of some such expert as Professor Sprague, of Harvard University; that Dr. Stewart, of the Federal Reserve Board, should be associated with the work of the committee; and that steps should be taken, if possible, to secure the participation of the Comptroller of the Currency. The Board stated that they would take some action with respect to these recommendations at their meeting the next day, and thereupon withdrew from the conference room.

(see pages 105 - 110 stenographic record)

Topic IV. D. Custody of securities for account of member banks in other Federal Reserve Districts.

(20) X

There was general discussion of the objections to having one Federal reserve bank hold securities for safekeeping for account of member banks in other Federal Reserve Districts, it being pointed out that the

expense would be great and the risk large and that if permitted there might be no limit to its scope.

Upon motion of Governor Calkins, it was

VOTED that it should be the practice of Federal reserve banks in holding securities in safekeeping for other Federal reserve banks to limit such securities to those actually owned by the depositing Reserve bank, except in special or emergency cases. It was informally understood that any securities which may now be held for account of member banks in other districts should not necessarily be returned at once, but should be permitted to be withdrawn in the usual course.

Hill
X

(See pages 110 - 116 stenographic record)

Topic IV. E. Semi-monthly statements of exceptions.

(21)

Recommended:

That the Federal Reserve Banks discontinue sending each other semi-monthly statements of open exceptions in their respective accounts.

Upon motion of Governor Fancher, it was

VOTED that beginning May 1, 1925, Federal reserve banks discontinue sending each other semi-monthly statements of exceptions in their respective accounts.

Hill
X

(See pages 116 - 119 stenographic record)

Topic IV. G. Should Federal Reserve Banks pass on to the requesting member banks the cost of telegrams sent over commercial wires representing transfers of funds when the leased wires are unavailable because of storms or other interruptions.

(22)

The Leased Wire Committee in May, 1924, recommended that when the leased wires are unavailable because of storms or other interruptions, any requests for transfers to be made over commercial wires should be accepted at the expense of the requesting member bank, and this topic is proposed because there is not now a uniform procedure in the several Federal Reserve Districts regarding this matter.

Governor Seay made a motion that it should be left to the discretion of each Federal reserve bank whether they should charge back against a member bank the cost of making wire transfers over the commercial wires when leased wires are unavailable because of storms or other interruptions. This motion was not seconded.

Upon motion of Governor Young, it was

VOTED that Federal reserve banks should absorb the costs incident to such transfers.

8 ayes and 4 noes.

Upon motion of Governor Seay, it was then

VOTED to reconsider the above vote on Governor Young's motion.

7 ayes and 5 noes.

Governor Young thereupon moved that Federal reserve banks should absorb the costs incident to making such transfers over the commercial wires.

Before any vote was taken on this motion, Governor Seay moved to lay the topic on the table.

The motion to lay on the table was lost - 6 ayes and 6 noes.

Vote was thereupon taken on Governor Young's motion to absorb the costs, and the motion was lost - 6 ayes and 6 noes.

It was later decided to refer this topic to the Leased Wire Committee.

(See pages 119 - 128 and pages 228 - 229 stenographic record.)

Topic IV. H. Report of Leased Wire Committee.

(23)

Upon motion of Governor Norris, it was

VOTED that the report should be accepted and approved.

(See pages 128 - 129 stenographic record.)

Reimbursement for services performed by Federal Reserve Bank of New York for account of other Federal reserve banks. (24)

Governor Strong referred to the fact that at the present time services performed by the New York bank for other Federal reserve banks cost somewhere between \$75,000 and \$100,000 a year, and that while the New York bank is opposed to any plan providing for reimbursement on account of these services, it was felt that the Leased Wire Committee should study whether the present system of allocating wire expenses is the proper one or whether the basis of charge in proportion to the number of words sent should be changed in so far as it relates to certain telegrams sent by the Federal Reserve Bank of New York for account of and at request of other Federal reserve banks. It was informally understood that the Leased Wire Committee would make this study and also a study as to how many of these telegrams might properly be omitted.

(See pages 129 - 132 stenographic record.)

Topic IV. I. Report of Insurance Committee. (25)

Upon motion of Governor Young, it was
VOTED that the report be accepted, approved and filed.

(See pages 132 - 135 stenographic record.)

Upon motion of Governor Fancher, it was
VOTED that the attention of the Federal Reserve Board be (26)

called to the fact that nothing can now be done by the Federal reserve banks with respect to effecting the economies of inter-bank fidelity insurance unless the Federal Reserve Board is willing to make an attempt to procure appropriate legislation.

(See pages 135 - 136 stenographic record.)

Topic IV. J. Report of Pension Committee (27)

Upon motion of Governor Young, it was

VOTED to accept, approve and file the report, with the suggestion, however, to the Federal Reserve Board that the subject of legislation relative both to inter-bank fidelity insurance and pensions might properly be referred to the new Legislative Committee if and when appointed.

(See pages 136 - 138 stenographic record.)

Report of Committee on Standardization and Purchase of Supplies. (28)

Upon motion of Governor Young, it was

VOTED to accept, approve and file the report. It was informally understood that Governor Strong should appoint a man to succeed Mr. Lauckner, resigned, as a member of this committee.

(See pages 138 - 141 stenographic record.)

Topic IV. K. Membership in American Acceptance Council and American Bankers Association. (29)

The Federal Reserve Board in its letter of February 5, 1925, X-4263, requested that the views of the directors of the Federal Reserve Banks with reference to continuing membership in these two associations be reported to the conference.

Upon motion of Governor Calkins, it was

VOTED to be the sense of the conference that the Federal Reserve System should continue its membership in the American Acceptance Council.

Governor Wellborn voted no.

Upon motion of Governor Seay, it was

VOTED that membership in the American Bankers Association (30)
appears to be a matter of some doubt in the minds of the directors of many of the Federal reserve banks, but that the Conference recommends that each Federal reserve bank continue its membership for the present

with the hope that if membership is extended beyond the current year a better working relationship will be established by the American Bankers Association in their consideration of matters having to do with the Federal Reserve System.

(See pages 141 - 144; and 218 - 221 stenographic record.)

At 6 o'clock p. m. the conference adjourned to reconvene again at 10 o'clock a. m. on Tuesday, April 7, 1925.

Second Day's Session, Tuesday, April 7, 1925

Morning

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

Non-Cash Collections.

(31)

(See also paragraph 32)

Mr. Strater, chairman of the Standing Committee on Collections, summarized the special report of his committee addressed to the Conference of Governors and the Federal Reserve Board, dated April 6, 1925, concerning:

(1) The desirability and effect of possible charges for handling non-cash collections, the topic referred to the committee by the last Conference of Governors, and

(2) The brief of the American Bankers' Association Committee (The Barton Committee) on Collection of Non-Cash Items by Federal Reserve Banks.

As to the first question, the committee recommended that no service charge should be imposed for the collection of non-cash items unless it is determined that the income of the Federal reserve banks will not justify this service free of charge. Even in that event, the committee questions whether some of the other free services which are more costly, might not be abandoned before the free collection of non-cash items. The committee expressed the belief that the expense of this function will not materially increase even if the volume of collections continues its gradual growth. It stated, however, that if as a last resort some action becomes necessary, a

charge should be made possibly for items collected in Federal Reserve Bank and Branch cities rather than abandon a service to which it believes member banks are entitled.

(See pages 145 - 207 stenographic record.)

At 11:00 o'clock a. m. the conference recessed in order that the Committee on Voluntary Services might meet to consider the Reports of the Standing Committee on Collections, referred to above, and also the request of the Federal Reserve Board that the conference consider a possible regulation that Federal reserve banks should handle only those non-cash items that are payable by or at member banks, or banks that are on the par remitting lists of the Federal reserve banks, or that are collectible through clearing house associations.

Non-Cash Collections (continued)
(See also paragraph 31)

(32)

When the conference reconvened at 12:00 o'clock noon Governor Fancher submitted the recommendation of the Voluntary Services Committee that the conference reaffirm all of the recommendations contained in the report of the Committee on Voluntary Services, approved by the conference, and submitted to the Federal Reserve Board under date of March 24, 1924, and that the conference approve the supplementary report filed by the Standing Committee on Collections, addressed to the Conference of Governors and the Federal Reserve Board under date of April 6, 1925. Before action was taken on this recommendation of the Voluntary Services Committee, Governor Fancher summarized as follows the recommendations contained in the committee's report dated March 24, 1924:

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

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

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

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

Upon motion of Governor Fancher, it was

VOTED to approve the recommendation of the Voluntary Services Committee and to reaffirm all of the recommendations contained in its earlier report of March 24, 1924, summarized above, and to approve the supplementary report filed by the Standing Committee on Collections under date of April 6, 1925.

9 ayes and 3 noes, Governors Bailey, Young and Wellborn voting in the negative.

It was pointed out that by taking this action, the conference necessarily covered both the question of a charge and the proposed form of regulation referred to the conference by the Federal Reserve Board.

(See pages 207 - 218; and 221 - 228 stenographic record.)

Topic II. A. Report of Standing Committee on Collections (33)
concerning routine matters.

The conference thereupon considered in detail the regular report of the Standing Committee on Collections, addressed to the Conference of Governors, dated April 6, 1925, and voted to accept and approve each of the recommendations contained therein. For convenience, they are summarized as follows:

Absorption of postage on cash letters sent direct
by member banks to other Federal reserve banks and branches. (34)

It is recommended that all of the Federal reserve banks should uniformly adopt the practice of not absorbing postage on such cash letters.

Aeroplane Mail Service. (35)

It is recommended that no change be made in the present time schedules of the Reserve banks to conform with possible service by aeroplane until such time as air mail service schedules are sufficiently regular to justify it; but that in the meantime, checks be dispatched by air mail and availability be given in keeping with resulting earlier presentation in any case where a member bank requests forwarding by air mail and pays the postage therefor. It was suggested, however, that in such cases, the transaction might more conveniently be accomplished by having the member bank itself route direct.

Possible charge for the non-cash collection service and its effect. (36)

The recommendation of the committee concerning this topic was contained in its other report previously acted upon by the conference. (See paragraphs 31 and 32.)

Reconcilement of provisions of telegraphic transfer circulars of Federal reserve banks with recommendations embodied in Board's letter X-4099. (37)

It was pointed out that this topic was already disposed of by the Federal Reserve Board's letter X-4301, dated March 25, 1925.

Whether or not a Federal reserve bank may properly receive maturing collection items with instructions to deposit the proceeds in some commercial bank for the account of a member bank. (38)

It is recommended that in so far as possible, the handling of items with such instructions be discouraged. X

Recommendations of Conference of Counsel for the Reserve Banks.

(a) Conditions under which maturing notes, bills or other non-cash items will be accepted for collection. (39)

The committee recommends that the non-cash collection circular of each Reserve bank be amended as indicated on pages 6 and 7 of its report, so as to comply with the recommendation of counsel relative to this topic. X

(b) Guarantee of all prior endorsements (40)

The committee recommends that the non-cash collection circular of each Reserve bank be amended so as to include a new section, as drafted on page 7 of the committee's report. The committee suggested that the letter of the Reserve banks transmitting the new non-cash collection circular should make special reference to the requirement of this new section relative to the guarantee of prior endorsements. X

(See pages 230 - 249 stenographic record.)

Topic II. B. Uniform endorsement of non-cash items. (41)

Recommended:

That some action be taken to make effective the recommendations of the Conference of Counsel of the Federal Reserve Banks at their meeting on December 5, 1924, with particular reference to the question of uniform endorsement of non-cash items.

Inasmuch as the approval of the report of the Standing Committee on Collections necessarily covered this topic, it was passed without further action.

Limit on dollar amount of cash items sent direct by a member bank in one district to a Federal reserve bank in another district. (42)

Upon motion of Governor Young, it was

VOTED that the Standing Committee on Collections be requested to study the question of placing a minimum limit on the aggregate dollar amount of cash items sent direct by a member bank in one district to a Federal reserve bank in another district. ✓

(See pages 249 - 254 stenographic record.)

Direct Sendings. (43)

Following some discussion of the principles and risks involved in the direct sending of cash items by member banks, upon motion of Governor Young, it was

VOTED that the Standing Committee on Collections be requested to investigate and study the whole subject of direct sendings of cash items, and to report and make such recommendations as they see fit to the next Conference of Governors. ✓

(See page 254 stenographic record.)

Instructions in letters transmitting items sent direct. (44)

It was pointed out that in spite of prevailing regulations requiring uniform instructions, many direct sending banks fail to comply with those instructions relative to protest and other such matters. Upon motion, duly seconded, it was

VOTED to request the Standing Committee on Collections to prepare a uniform letter which might be sent by all Federal reserve banks to all direct sending banks advising them of the regulations covering direct sending of items and requiring their enforcement. ✓

(See pages 254 - 259 stenographic record.)

Instructions for handling Bill of Lading drafts. (45)

Upon motion of Governor Seay, it was

VOTED that the Standing Committee on Collections also be re- ✓

requested to consider the question of handling bill of lading drafts contrary to instructions contained in the letter of transmittal. ✓

(See pages 259 - 260 stenographic record.)

Costs of telegraphic advice of non-payment of checks over \$500. (46)

Upon motion of Governor Fancher, it was

VOTED to refer to the Standing Committee on Collections the question whether Federal reserve banks should charge back to depositing member banks the cost of telegrams between the drawee bank and the Federal reserve bank and between the Federal reserve bank and the depositing bank in giving advice of non-payment of checks. ✓

(See pages 260 - 261 stenographic record.)

Appreciation of work of Standing Committee on Collections. (47)

Upon motion of Governor Calkins, it was

VOTED that the conference express its appreciation of the work of the Standing Committee on Collections for their thorough study of the question of non-cash collections.

At 1:00 o'clock p. m. the conference adjourned to reconvene at 2:30 o'clock p. m.

Second Day's Session, Tuesday, April 7, 1925

Afternoon

The meeting was called to order at 2:30 o'clock p. m.

Topic IV. L. Collection of actual charges incurred in handling of bonds, coupons, and negotiable securities forwarded by insured registered mail or express. (48)

Recommended:

That a uniform procedure be adopted by the Federal reserve banks regarding the collection of actual charges incurred in the handling of bonds, coupons, and negotiable securities forwarded by insured registered mail or express. ✓

Upon motion of Governor Fancher, it was

VOTED that this topic be referred to the Standing Committee on Collections for consideration and report. ✓

(See pages 262 - 266 stenographic record.)

Topic II, C. Limit on Federal Reserve exchange drafts.

(49)

Recommended:

That the \$5,000 maximum limit on Federal Reserve exchange drafts be removed.

(See also paragraph 50.)

The conference discussed at some length the difference between the Federal reserve exchange draft and the transfer draft with special reference to the merits or demerits of the exchange draft and demand for its use by member banks.

Governor Fancher moved that the present \$5,000 maximum limit on Federal reserve exchange drafts be removed.

The motion was lost - 6 ayes and 6 noes.

(See pages 266 - 287 stenographic record.)

Governor Calkins moved that the Federal reserve transfer draft be abolished.

The motion was lost - 5 ayes and 7 noes.

(See page 288 stenographic record.)

Upon motion of Governor Calkins, it was then

VOTED / that the limit on the Federal reserve exchange draft be raised from \$5,000 to \$50,000, with the understanding, however, that each Federal reserve bank give each other Federal reserve bank immediate advice of the names of member banks to which permits are given to draw exchange drafts and that care be exercised by all reserve banks in checking up such permits before passing credit on any exchange draft, making telegraphic inquiry in any questionable cases. It was also understood that permits

Hall
X

might be withdrawn under advice to all other Reserve banks to that effect. /

This motion was carried - 7 ayes and 3 noes.

(See pages 288 - 295 stenographic record.)

Upon motion of Governor Seay, it was

VOTED / that the preparation of uniform advice of the action of the conference in raising the limit on Federal reserve exchange drafts be referred to the Standing Committee on Collections so that all Federal reserve banks will issue the same notice to their respective member banks. /

Hall (50)

X ✓

(See page 306 stenographic record.)

Upon motion of Governor Biggs, it was

VOTED to reconsider Governor Calkins' motion to abolish the Federal reserve transfer drafts.

7 ayes and 5 noes.

Governor Fancher then moved to abolish the Federal reserve transfer draft.

This motion was lost - 6 ayes and 6 noes.

(See pages 295 - 296 stenographic record.)

Topic II. D. Service charge on returned transit items.

(51)

Recommended:

That on and after May 1, 1925, Federal Reserve Banks should make a service charge of 10¢ per item on all returned transit items.

Governor Young referred to the great number of transit items being returned by the Federal Reserve Bank of Minneapolis because drawn on banks not on the par list. After some discussion of other reasons for returning cash items, Governor Young moved that on and after May 1, 1925, Federal reserve banks should make a service charge of 10¢ per item on all returned transit items.

This motion was lost - 10 noes and 2 ayes.

(See pages 296 - 301 stenographic record.)

Governor Young then moved that a charge of 10¢ per item be placed on all transit items returned because of the fact that they are drawn on non-par banks.

The motion was lost.

(See pages 301 - 302 stenographic record.)

Misrouting Transit Items

It was informally understood, that Federal reserve banks should make a particular effort not to forward to other Federal reserve banks for collection, checks drawn on non-par banks, and that each Federal reserve bank should investigate the subject of return items to see how far the practice of misrouting items has grown, it being the sense of the conference that the transit departments of the various Federal reserve banks and member banks should reduce very substantially the number of non-par checks that are being erroneously forwarded for collection through other Federal reserve banks.

(52)

Silman

X

(See page 302 stenographic record.)

Topic II. E. Should Federal Reserve Banks handle as cash items drafts drawn by a corporation on itself or its treasurer and items of similar nature, even though such items bear the notation "payable at" or "payable through" a specified bank.

(53)

After an informal discussion, this topic was passed without action.

(See pages 302 - 306 stenographic record.)

Topic II. F. Procedure in handling collection of coupons forwarded by member banks of other districts or by other Federal Reserve Banks.

(54)

Mr. Harrison outlined the difficulties encountered by the Federal Reserve Bank of New York in handling the large quantities of coupons forwarded to it for collection from other districts and explained that the recent request that other Federal reserve banks and direct sending member banks consolidate in one envelope all coupons of one issue rather than forward them in the envelopes of individual customers, had become necessary as a matter of operation because of the enormous volume of coupons handled by the bank. Upon motion of Governor Calkins, it was

VOTED that the question of having all reserve banks uniformly adopt the procedure now required by the Federal Reserve Bank of New York, or some other procedure designed to simplify the handling of coupons, be referred to the Standing Committee on Collections for consideration and report, but that the New York bank should continue its present practice pending such report.

(See pages 306 - 317 stenographic record.)

Direct Sending of Non-Cash collection items.

(55)

Governor Strong referred to the fact that the New York bank contemplated requiring all New York City banks to send direct to other Federal reserve banks all non-cash items payable in other districts. It was explained that that requirement might properly be made under existing Federal reserve bank rules and procedure. No objection was expressed on the part of the conference and no action was asked for.

(See pages 317 - 319 stenographic record.)

Mr. C. S. Dewey, Assistant Secretary of the Treasury, joined the conference during discussion of matters of interest to the Treasury.

Topic III. A. 1. Gold Payments

(56)

1. Advisability of continuing for the present to maintain in circulation approximately the amount of certificates now outstanding.

Mr. Harrison reviewed the gold payment policy of the Federal Reserve Bank of New York for the past two and a half years and stated that while that policy was first adopted primarily for the purpose of paying out certificates in amounts sufficient to offset imports of gold, nevertheless, even though imports have now materially reduced and exports have commenced, it was planned to continue the payment of gold certificates in sufficient quantities to maintain the gold certificate circulation at about its present figure of \$900,000,000. It was stated that it would be helpful in carrying out this policy if other Federal reserve banks would pay out at least as much gold as they received on deposit in the usual course of their business. Mr. Dewey referred to the fact that the Treasury would like to keep the gold certificate circulation at about its present level or possibly to increase it slightly.

(See pages 320 - 325 stenographic record.)

Topic III. A. 2. Gold Payments

2. Supply of available hand to hand gold in each Federal reserve bank.

(57)

There was some discussion of the present holdings of Reserve banks of gold coin and certificates in their relation to liabilities. While it was pointed out that the aggregate of gold coin and certificates is now approximately 20 per cent of total liabilities, nevertheless the supply of coin was considerably less than the amount which the committee representing the Treasury and the Reserve banks had suggested as desirable. Mr. Dewey then referred to the present minting program of the Treasury and stated that about \$38,000,000 of double eagles had been coined during March and that the Treasury hoped to continue gold coinage at that rate. He then referred to the fact that the increased appropriations for the next fiscal year would make it possible to build up a larger reserve of both gold

coin and gold certificates.

Standard Silver Dollars

(58)

Mr. Dewey referred to the fact that the Treasury had become convinced that there is no substantial demand for the circulation of standard silver dollars and that the Treasury would not try further to force them into circulation.

(See pages 325 - 333 stenographic record.)

Topic V. A. Do Federal Reserve Banks guarantee to the Treasury of the United States collateral pledged to secure Special Deposit Accounts.

(59)

After a general discussion of this topic, it was agreed that, in event of a loss, the Federal reserve banks would not be liable to the Treasurer as an insurer but only for the usual responsibilities of an agent to exercise reasonable care. No action was thought to be necessary.

(See pages 333 - 340 stenographic record.)

Insurance Contracts.

(60)

Mr. Dewey discussed the question whether or not Government securities bought under original subscription should be shipped at Treasury expense if the purchaser asked for shipment only some time after the subscription. During the course of the discussion some of the Governors pointed out that it might be advisable to have the Treasury specify a reasonable time in which such deliveries might be made subject to Treasury expense, with the understanding that the cost of shipment be at the expense of the buying bank in any case where delivery was requested after a lapse of such reasonable time. It was informally understood that Mr. Dewey would send out a letter to each Federal reserve bank suggesting the various possibilities and giving the Reserve banks an opportunity to express their views.

(See pages 340 - 344 stenographic record.)

Postal Rates.

(61)

The secretary referred to a memorandum from Mr. Wm. S. Broughton, of the Treasury Department, dated April 4, 1925, concerning the provisions of an act of February 28, 1925, requiring a fee of 3¢ whenever the sender of registered mail requests a return receipt. It was understood that a copy of the memorandum would be forwarded to each Governor.

(See pages 347 -- 348 stenographic record.)

Capital Grain and Feed Company vs. Federal Reserve Bank of
Atlanta.

(62)

The secretary referred to a file of papers handed to him by Mr. Eddy of the Federal Reserve Board, with the request that the conference consider whether or not each Federal reserve bank should pay a pro rata share of the expense of prosecuting an appeal of the case of the Capital Grain and Feed Company vs. the Federal Reserve Bank of Atlanta. Upon motion of Governor Harding, it was

VOTED to be the sense of the conference that the Governors are not sufficiently advised on this subject to act intelligently, and that in any event the matter of pro rating the expense for this appeal is something that they would have to refer to their respective boards of directors.

(See pages 348 -- 349 stenographic record.)

At 5:30 o'clock p. m. the conference adjourned, to meet in joint session with the Federal Reserve Board on Wednesday, April 8, 1925, at 10:00 o'clock a. m.

George L. Harrison,
Secretary, Governors Conference.

