

CONFIDENTIAL

Secretary's Minutes

GOVERNORS CONFERENCE

November 2 - 4, 1925

Washington, D. C.

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PROGRAM

GOVERNORS CONFERENCE

November 2, 1925.

Washington, D.C.

I. CREDIT TRANSACTIONS AND POLICIES

- A. Report of Open Market Investment Committee.
- B. Discount Rates. Chicago
- C. Credit functions at the Federal reserve banks.  
The Governors' discussion of this topic to be based on the report of the sub-committee of deputy governors designated to make a study of the bank examination and credit functions at the Federal reserve banks.  
(See Board's letters of June 4, 1925, St. 4543, and September 8, 1925, X-4416). F. R. Board
- D. The recommendations contained in the report of the Agents' Committee on Member Bank Reserves.  
(Report forwarded to each Governor by Chairman of Committee on June 30, 1925). F. R. Board
- E. Advisability of an arrangement whereby the reserve banks would report chronic cases of reserve deficiencies to the superintendents of banks in the various states and to the Comptroller of the Currency, after an understanding has been reached with these officials that they will promptly communicate with the directors of the banks concerned, acquainting them with the financial loss which the bank is suffering through its failure to maintain required reserves and calling their attention to the fact that they are continually violating the law. F. R. Board
- F. Ratio of Bank Capital to Deposits New York
- G. In the extension of credit or handling transit items is it the duty of Federal reserve banks to assume the responsibility of determining the solvency or insolvency of member banks? Is not this entirely within the province and a duty of the Comptroller of the Currency? Kansas City
- H. Would it be advisable for Federal reserve banks to make loans to member banks on their promissory note for a longer period than the fifteen days, which is now the law? (See paragraph 13, Minutes of May, 1924 Governors Conference). Kansas City

II. COLLECTIONS AND CLEARINGS

- A. Report of Standing Committee on Collections.
- B. Collection of non-cash items by Federal reserve banks.  
 Report of Committee on Voluntary Services to Federal Reserve Board in reply to Barton brief. Cleveland
- C. Revision of Time Schedule with a view to reduce float and avoid existing inequalities; particularly to either abolish five and six day points, or else make them universal.  
 Recommended:  
 That committee be appointed upon which the Federal Reserve Board will be represented. Philadelphia
- D. Procedure in handling exchange drafts. San Francisco
- E. Government checks.  
 Recommended:  
 That the Standing Committee on Collections be requested to study the question of having government checks printed and numbered in some such way as better to facilitate their handling by Federal reserve banks. New York
- F. Returned non-cash items.  
 Recommended:  
 That Federal reserve banks telegraph for instructions before returning non-cash items, or cash items forwarded as non-cash items, of \$500 or over which are not being handled for any reason. New York
- G. Direct sendings of non-cash items.  
 Discussion of the advisability of encouraging those member banks having a substantial number of out-of-district non-cash items to send such items direct to the Federal reserve bank or branch of the district where payable. New York
- H. Should Federal reserve banks request smaller member banks to sort cash items strictly in accordance with Time Schedule, or should Reserve banks average availability of unsorted cash letters? New York



III. COIN, CURRENCY AND CIRCULATION

- A. Currency program. Treasury
- B. Should not the Tréasury Department absorb the cost of transferring one dollar bills from one Federal reserve bank to another? Kansas City
- C. Gold holdings and payments. New York

IV. OPERATION AND ADMINISTRATION

- A. Cost of securing reports of examination of national banks. Unfinished business
- B. Effectiveness of budget control of the expense of operating a Federal reserve bank.  
At the present time the Federal Reserve Banks of New York, Philadelphia, Cleveland, Richmond, Chicago, Minneapolis and San Francisco are operating under budgets prepared along the lines suggested by the Board's Budget Committee (Messrs. Rounds, Fleming and Smead).  
It is expected that the discussion of this subject at the conference will be led by the Governors of those banks for the benefit of the Governors of the other banks which have not yet adopted a budget system. F. R. Board
- C. Elimination or consolidation of current reports by Federal reserve banks to the Federal Reserve Board.  
Suggested that each bank prepare an estimate of the cost involved in preparing reports now forwarded by them to the Federal Reserve Board, together with a separate list of any reports which the Reserve bank feels that the Federal Reserve Board may properly be requested to eliminate or modify. New York
- D. Proper Federal reserve bank protection.  
The Board feels that each Governor should come to the conference prepared to discuss the organization and scope of the work of the protective staff at his bank and that the conference should take steps to formulate some general plan by which each bank can be guided in the matter. F. R. Board
- E. Eligibility of an officer of an insurance company for election as Class "B" director of a Federal reserve bank.  
The Board desires a critical discussion of its ruling on this subject contained in its letter of July 2, 1925, X-4373. F. R. Board

- F. Uniformity in the operation of the cafeterias of the Federal reserve banks. (See Board's letter of September 9, 1925, X-4418).

F. R. Board

- G. Permanent employment by the Board at a fixed retainer of special counsel of outstanding ability to assist in litigation, such as the so-called Pascagoula and Brookings par clearance cases, and to act as a clearing house for the legal departments of all Federal reserve banks.

This topic has as its basis a suggestion of the Governor of the Federal Reserve Bank of Dallas and the question was considered at the conference of counsel of the Federal reserve banks held in Washington last July. That conference passed a resolution to the effect that the employment of such special counsel is not essential to the proper administration of the Federal reserve banks and recommended that the banks continue, as heretofore, to employ special counsel to assist in litigation of System-wide interest, when in the judgment of counsel for any reserve bank concerned, the occasion requires such employment and the other banks are agreeable.

F. R. Board

- H. Limited health insurance for employees.

San Francisco

- I. Commissions charged on bills and certificates bought for foreign banks.

New York

- J. Criticisms of Federal Reserve System - past and prospective.

It is suggested that there be an exchange of views as to what steps are taken at each Reserve Bank to make sure that the Bank and the System are not properly subject to criticism because of any practices of the bank or its personnel.

New York

- K. Report on Foreign Accounts

New York

- L. Report of sub-committee of General Committee on Bankers Acceptances.

- M. Report of Chairman of Committee on Legislative Matters.

- N. Report of Committee on Standardization and Purchase of Supplies.

- O. Report of Leased Wire Committee
- P. Report of Insurance Committee
- Q. Report of Pension Committee

V. RELATIONS WITH MEMBER BANKS AND THE PUBLIC

- A. Advisability of discontinuing the practice of displaying so-called Federal reserve exhibits at the annual conventions of the American Bankers Association.

F. R. Board

GOVERNORS CONFERENCE

November 2 - 4, 1925

Washington, D. C.

First Day's Session, Monday, November 2

Morning

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

Present:

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

Topic I. C. Credit functions at the Federal reserve banks.  
The Governors' discussion of this topic to  
be based on the report of the sub-committee  
of deputy governors designated to make a  
study of the bank examination and credit  
functions at the Federal reserve banks.

(1)

Upon discussion of the report of the sub-committee concerning credit functions of the Federal reserve banks, it appeared to be the consensus of the conference that all Federal reserve banks were in agreement with the report except that part which recommended that Reserve banks no longer furnish gratuitously blank forms of credit statements. It was felt that the very slight expense incident to providing such blank statements was more than offset by the resulting advantage and convenience to the Reserve banks. Whereupon, upon motion of Governor Young, it was

VOTED to approve the report of the sub-committee with the exception of the recommendation of the committee that Reserve banks no longer furnish blank forms of credit statements free of charge.

(See pages 3 - 13 stenographic record)

Examination of Member Banks by Federal Reserve Banks.

(2)

After a long discussion of the subject of examinations by Federal reserve banks and the responsibilities of the Federal Reserve System for

the supervision of member banks, upon motion of Governor Young, it was

VOTED that examinations by Federal reserve banks be confined to credit investigations, except where the circumstances might make a complete examination necessary or advisable.

(See pages 6 - 15 stenographic record)

Topic I. D. Report of the Agents' Committee on Member Bank Reserves. (3)

Governor Seay reported the action taken by the Advisory Committee of Governors on Legislative Matters concerning the several recommendations in the report of the Agents' Committee on Member Bank Reserves and pointed out that the Advisory Committee feels that it is inadvisable to propose any change in member bank reserves at this time if an amendment to the law is required to accomplish it. After the report of Governor Seay, the conference discussed at some length the whole question of member bank reserves as presented by the report of the Agents' Committee, and upon motion of Governor Harding, it was

VOTED to concur with the reported action of the Agents' Conference that no changes in member bank reserves which require an amendment to the law should be made at this time.

(See pages 15 - 32 stenographic record)

The conference was later advised (see pages 54 - 56 stenographic record) that the Agents' Conference opposed asking for legislation only conditionally, so that the following recommendations of the Federal Reserve Agents' Committee were then reconsidered by the Governors on their merits:

(See pages 1 and 2 of Agents' report dated May 12, 1925)

1. Deduction of Checks in Process of Collection. (4)

Permit the deduction from demand deposits of (a) exchanges for clearing house, (b) checks on other banks in the same place and (c) checks in process of collection (whether with Federal Reserve Banks or correspondent banks) according to Federal Reserve schedule of time required for collection of checks.

Upon motion of Governor Norris, it was

VOTED that, in the opinion of the conference, the recommendation of the committee is inconsistent with the fundamental principle that a check in the process of collection is not a balance due from a bank, and that therefore the recommendation should not be approved.

(See pages 59 and 60 stenographic record)

2. Net Difference of Amounts Due To and From other Banks. (5)

Retain the present provision of the law that "the net difference of amounts due to and from other banks" shall be taken as the basis of ascertaining the net amount of balances due to banks.

Upon consideration of the recommendation of the Agents' Committee, and on motion of Governor Fancher, it was

VOTED to concur with the recommendation of the committee.

(See page 60 stenographic record)

3. Increase in Reserves Against Bank Balances. (6)

Provide that the reserve required to be held against net balances due to banks be 10 per cent for all member banks except those in New York City and Chicago. This involves an increase from the present requirement of 7 per cent for country banks.

Upon motion of Governor Seay, it was

VOTED that the conference agree with the principle recited in this recommendation, but that since it would require legislation, it is inadvisable at this time.

(See pages 60 and 61 stenographic record)

4. Reserves Against Government Deposits. (7)

Provide that reserve shall be carried against government deposits at the same rate as against demand deposits.

Upon motion of Governor Norris, it was

VOTED to approve the recommendation that reserves should be carried against government deposits with the understanding that the Federal

Reserve Board or other appropriate authorities should determine whether any effort should be made to secure the necessary amendment to the law.

(See pages 61 - 63 stenographic record)

Other topics in the Federal Reserve Agents' Committee's Report on Member Bank Reserves were considered in turn.

Adjusted credit and debits to member banks for  
currency shipments. (8)

Inasmuch as the Conference of Governors had previously voted on the question of considering currency in transit in determining the amount of penalties for deficiencies in reserves, no resolution was offered. The previous conference had voted six in favor and five opposed and one Governor recorded as not voting. (See paragraphs 20 and 21 Secretary's Minutes of November, 1924 Conference.)

(See pages 33 and 34 stenographic record)

Currency Depots. (9)

Upon motion of Governor Seay, it was

VOTED to be the sense of the conference that the establishment of currency depots by Federal reserve banks in cities outside of Federal Reserve Bank or Branch cities is at least of doubtful expediency.

(See pages 35 - 44 stenographic record)

Classification of outlying districts of reserve  
or central reserve cities. (10)

Upon motion of Governor Seay, it was

VOTED that the conference should concur in the expressions of the Federal Reserve Agents' Committee that the presumption should be against granting reductions of reserves of outlying sections within municipal limits of central reserve or reserve cities.

(See pages 44 and 45 stenographic record)

Segregation of savings deposits.

(11)

In view of the fact that the proposal covered by this topic would require legislation, it was considered to be covered by the previous vote of the conference and no action was taken.

(See page 45 stenographic record)

Reserve against time and savings deposits.

(12)

The conference then considered the letter of Governor Crissinger addressed to Mr. Jay under date of October 15, 1925 (Printed on pages 46 and 47 stenographic record) concerning the desirability of amending the reserve to be carried against time and savings deposits of member banks. While agreeing to the desirability of affording adequate protection to savings depositors in commercial banks, nevertheless upon motion of Governor Seay, it was

VOTED to be the sense of the conference that it would be inadvisable at the present time to take any action which would lower required reserves as would be the case if the plan proposed were adopted.

Governors Harding and Calkins asked to be recorded as not voting.

(See pages 45 - 54 stenographic record)

Enabling Acts in States.

(13)

Upon motion of Governor Young, it was

VOTED to approve the recommendation of the Federal Reserve Agents' Committee on Reserves.

(See pages 57 and 58 stenographic record)

Restrictions concerning loans and dividends when reserve is deficient.

(14)

In view of the fact that the Advisory Committee on Legislative Matters had unanimously voted to leave the statute unchanged regarding this matter, upon motion of Governor Norris, it was



VOTED that the conference should concur in the action taken by the Advisory Committee on Legislative Matters on the ground that the present law operates as a wholesome restriction against unauthorized loans.

(See pages 58 and 59 stenographic record)

Topic I. E. Advisability of an arrangement whereby the reserve banks would report chronic cases of reserve deficiencies to the superintendents of banks in the various states and to the Comptroller of the Currency, after an understanding has been reached with these officials that they will promptly communicate with the directors of the banks concerned, acquainting them with the financial loss which the bank is suffering through its failure to maintain required reserves and calling their attention to the fact that they are continually violating the law.

(15)

(See also paragraph 59)

After discussion of the topic proposed by the Federal Reserve Board, upon motion of Governor Norris, it was

VOTED to be the sense of the conference that the arrangement proposed by the Federal Reserve Board is now being followed by most Federal reserve banks, that it is most desirable and that the Board should be requested to confer with the Comptroller of the Currency with a view to having the national bank examiners advised of the nature of the arrangement and the relative responsibility of the several parties.

(See pages 63 - 67 stenographic record)

Topic I. F. Ratio of Bank Capital to Deposits.

(16)

Reference was made to the fact that the ratio of capital to deposits of banks has been declining in recent years, and upon motion of Governor Strong, it was

VOTED that it should be the policy of the Federal reserve banks whenever opportunity arises in their dealings with member banks to urge

them to increase their capital and surplus, gradually if necessary, to at least 10 per cent of their deposit liability.

(See pages 67 - 70 stenographic record)

Topic I. G. In the extension of credit or handling transit items is it the duty of Federal reserve banks to assume the responsibility of determining the solvency or insolvency of member banks? Is not this entirely within the province and a duty of the Comptroller of the Currency? (17)

After a general discussion of this topic in which it was brought out that the Federal reserve banks are necessarily liable for their own negligence in the handling of collections and that that is a liability which they must necessarily assume, the topic was passed without further action.

(See pages 71 - 73 stenographic record)

Topic I. H. Would it be advisable for Federal reserve banks to make loans to member banks on their promissory note for a longer period than the fifteen days, which is now the law? (18)

Governor Bailey referred to the report of the Trust Company committee of the American Bankers Association, which indicated that many member banks are now objecting to Federal reserve banks not making advances on member bank notes in excess of fifteen days. It was the opinion of those Governors who discussed the subject that it would be entirely proper and appropriate to extend the maturity of the fifteen-day note to not exceeding thirty, sixty, or perhaps even ninety days. It was pointed out, however, that in no event should the longer maturity apply to notes collateralized by government securities. After further discussion, and upon motion of Governor Bailey, it was

VOTED to be the sense of the conference that the conference would look with favor upon the extension of the fifteen-day advances to

not exceeding sixty days when secured by eligible commercial paper.

Governor McDougal voted no.

(See pages 74 - 86 stenographic record)

At the Joint Conference on November 5 with the Federal Reserve Board and Federal Reserve Agents, it was reported that the Agents' Conference had voted in favor of extending the maturity of member bank advances from fifteen to ninety days when secured by eligible commercial paper.

After further discussion, upon motion of Governor Talley, it was

VOTED to be the sense of the Joint Conference that if an amendment is asked it should be for the ninety-day limit, instead of sixty days, when secured by eligible commercial paper.

Five members of the conference voted no, being in favor of the sixty-day limit.

At 1:15 o'clock p. m. the conference adjourned to reconvene again at 3:00 o'clock p. m.

First Day's Session, Monday, November 2, 1925

Afternoon

The meeting was called to order at 3:00 o'clock p. m.

Topic I. A. Report of Open Market Investment Committee. (19)  
(See also paragraph 57)

Governor Strong reported that the Open Market Investment Committee had approved of the report of the Chairman previously submitted to the Governors, but consideration of the report by the conference was postponed until a later session.

(See page 86 stenographic record)

Topic IV. A. Cost of securing reports of examination of national banks. (20)

The secretary read the proposed draft of the letter from Governor

Strong to the Comptroller of the Currency concerning charges for reports of examination of national banks. The conference agreed to the form of letter and authorized the chairman to refer it to the Comptroller of the Currency in order to ascertain whether the principles enunciated therein were agreeable to him. The secretary, upon request of the chairman, conferred with the Comptroller of the Currency who later reported to the conference that he was in agreement with the terms of the letter provided one clause unqualifiedly fixing \$5.00 as an ultimate maximum limit should be eliminated. The conference agreed to this amendment and the letter was subsequently dispatched as authorized.

(See pages 87 - 90; 291; 328 and 329 stenographic record)

Topic IV. B. Effectiveness of budget control of the expense of operating a Federal reserve bank. (21)

The operation of the budget plan in the various Federal reserve banks was reviewed by the Governors, it appearing that nine of the Federal reserve banks already have a budget plan in operation and the other three having controls which were somewhat similar to a budget. It was the consensus of opinion of those Governors of the nine banks operating under a budget that the plan is a most effective and satisfactory check on the expenses of their respective banks.

(See pages 90 - 103 stenographic record)

Topic IV. C. Elimination or consolidation of current reports by Federal reserve banks to the Federal Reserve Board. (22)

The reports and statements now submitted to the Federal Reserve Board by the Federal reserve banks and the expense of preparing those reports and statements was discussed at some length. Upon motion of Governor Calkins, it was

VOTED that the conference renew to the Federal Reserve Board

its earlier recommendation that the whole question of the number and form of reports to the Federal Reserve Board be studied in view of the fact that the total direct expense to the Federal reserve banks in furnishing these reports and statements to the Board is somewhat in excess of \$100,000 per year.

(See pages 103 - 113 stenographic record)

Topic IV. D. Proper Federal reserve bank protection. (23)

After a thorough discussion of the steps taken by the Federal reserve banks safely to protect their operations and their resources, it was

VOTED that the chairman should report to the Federal Reserve Board that the conference had considered the topic they proposed, that there was a general exchange of information, that in the opinion of each Governor the protection now afforded is adequate although there may at times be need to increase the force of guards at some of the banks, that detailed reports of protective measures are not filed because of the need to keep them confidential, that the United States Secret Service are kept fully informed from time to time as to protective measures in force, that the responsibility for the management of the Federal reserve banks is vested by law in the respective boards of directors, that the directors are fully alive to that responsibility, and that in view of the different conditions affecting the different banks it would seem impossible to formulate any uniform plan of protection.

(See pages 113 - 115 stenographic record)

Topic IV. E. Eligibility of an officer of an insurance company for election as Class "B" director of a Federal reserve bank. (24)

Upon request of the chairman, the secretary read to the conference an opinion prepared by the counsel of the Federal Reserve Bank of New York

expressing a view contrary to that outlined in the Federal Reserve Board's ruling of July 2, 1925, the ruling submitted by the Board to the conference for consideration. Upon motion of Governor Calkins, it was

VOTED that the question involved is solely one of law and that while all of the Governors have read the opinion of the Federal Reserve Board's counsel, nevertheless the conference respectfully submits the opinion of the counsel of the Federal Reserve Bank of New York as a contrary view for the Board's consideration.

(See pages 115 - 120 stenographic record)

Topic IV. F. Uniformity in the operation of the cafeterias (25)  
of the Federal reserve banks.

Each of the Governors present reported the procedure followed in the respective Federal reserve banks concerning the method of operating the cafeterias and the basis on which charges are fixed for meals. It was the opinion of the Governors, reflecting the experience of the several Federal reserve banks, that all Reserve banks should absorb at least enough of the expenses of operating the cafeterias so as to furnish the employees a lunch at not to exceed two-thirds of the out-of-pocket expense (i. e. cost of food and service) of providing those meals, with the understanding, of course, that in the discretion of the directors this basis of charge might properly be modified so as to meet special circumstances.

(See pages 120 - 140 stenographic record)

At 5:00 o'clock p. m. the conference adjourned to reconvene again at 12:30 o'clock on Tuesday, November 3, 1925.

Second Day's Session, Tuesday, November 3, 1925

Morning

The meeting was called to order at 12:30 o'clock.

Topic IV. G. Permanent employment by the Board at a fixed retainer of special counsel of outstanding ability to assist in litigation, such as the so-called Pascagoula and Brookings par clearance cases, and to act as a clearing house for the legal departments of all Federal reserve banks. (26)

Upon motion of Governor Seay, it was

VOTED that the conference concur in the opinion of the counsel of the Federal reserve banks voted at the joint meeting of those counsel on July 13, 1925 to the effect that it is not essential to the proper administration of the Federal reserve banks to employ advisory counsel for general supervision of legal matters affecting the System, and that the banks continue as heretofore to employ special counsel to assist in litigation of system-wide interest when in the judgment of counsel concerned the occasion requires it and the banks are agreeable.

Governor Talley asked to be recorded as voting no.

(See pages 140 - 142 stenographic record)

Topic V. A. Advisability of discontinuing the practice of displaying so-called Federal reserve exhibits at the annual conventions of the American Bankers Association. (27)

All of those Governors present who had been present at the convention of the American Bankers Association at Atlantic City expressed their views about the merits of the Federal Reserve exhibit at that convention. Most of those present experienced a favorable reaction. Upon motion of Governor Seay, it was

VOTED to be the sense of the conference that the Governors generally were in favor of the continuation of these exhibits.

(See pages 145 - 151 stenographic record)

At 1:15 o'clock p. m. the conference adjourned to reconvene again at 2:30 o'clock p. m.

Second Day's Session, Tuesday, November 3, 1925

Afternoon

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

Topic II. A. Report of Standing Committee on Collections. (28)

(See pages 152 - 176 stenographic record)

Mr. Strater, Chairman of the Standing Committee on Collections read a digest of that report previously submitted to the Conference of Governors under date of November 2. The conference then considered in order each of the recommendations contained in the report of the committee. The substance of these recommendations and the actions taken by the conference is reported as follows:

Direct Sendings. ✓ (29)

While the committee appreciates that certain risks and dangers are incident to the practice of sending cash items direct, nevertheless it is the committee's opinion that the principle is important in the development of collections under the Federal Reserve System, that its advantages greatly outweigh the dangers, and that it should be encouraged, especially among larger and well managed member banks. With reference to the question of placing a limit on the minimum dollar amount of cash items that a member bank may send direct, the committee expresses the opinion that there should be no such limit, but that where it appears that a direct sending member bank sends more numerous letters each day than should be necessary, or as a regular practice sends daily letters of trifling amounts, the Federal reserve bank of the district in which such member bank is located should take up the matter with the bank in question in an endeavor to correct the practice.

Upon motion of Governor McDougal, the conference



VOTED to approve of this section of the Committee's report. ✓

Governor Young asked to be recorded as voting no.

(See pages 177 - 180 stenographic record)

Instructions in cash letters of member banks sending items direct. ✓ (30)

The committee recommended that a uniform section covering the question of instructions should be incorporated in identical language in the check collection circular of each Federal reserve bank under the heading "Uniform Instructions." The section is quoted on pages 7 and 8 of the committee's report and on pages 182 and 183 of the stenographic record.

Upon motion of Governor Calkins, it was

VOTED to approve of this section of the committee's report. ✓

Governor Young voted no.

(See pages 180 - 186 stenographic record)

Instructions for handling bill of lading drafts. ✓ (31)

The committee discussed the question of having Federal reserve banks deviate from instructions of member banks when sight drafts with bills of lading attached are not paid upon first presentation, and expressed the opinion that while it might be technically improper to set a precedent of not following instructions literally, nevertheless the collection system should not be operated contrary to the practices of commercial banks and that Federal reserve banks should, therefore, hold such items after giving prompt notice of dishonor to the sending member bank and asking for further instructions.

Upon motion duly seconded, it was

VOTED to approve of this section of the committee's report. ✓

Governor Seay voted no and filed for the record a memorandum

of his reasons.

(See pages 186 - 205 stenographic record)

Cost of telegraphic advice of non-payment of checks over \$500. ✓ (32)

The committee reported that approximately \$55,000 per annum might be saved by the System if Federal reserve banks do not absorb the cost of telegraphic advice of non-

payment of checks over \$500, and suggested that this might be a good opportunity to effect a considerable saving in the operation of the collection system.

Upon motion of Governor McDougal, it was

VOTED that the Federal reserve bank should not absorb the cost of these telegraphic advices and that the Standing Committee on Collections be requested to prepare a paragraph of advice to member banks which might be forwarded by each Federal reserve bank to their members.

(See pages 205 - 207 stenographic record)

Collection of actual charges incurred in handling of negotiable securities forwarded by insured registered mail or express.

(33)

The committee recommended that all of the Federal reserve banks obtain reimbursement for shipping charges of twenty-five cents or over on all security collections whether received from other Federal reserve banks, from direct sending members of other districts, or from their own members, with the understanding that charges amounting to less than twenty-five cents should be absorbed by the collecting Federal reserve bank.

Upon motion of Governor Young, it was

VOTED to approve of this section of the committee's report, and to urge all Federal reserve banks carefully to observe it.

(See pages 207 and 208 stenographic record)

Preparation of coupons forwarded for collection by Federal banks and their direct sending members to other Federal reserve banks.

(34)

The committee referred to the present practice of the Federal Reserve Bank of New York regarding the preparation and handling of coupons received for collection and stated that while it can see no objection to having the Federal Reserve Bank of New York continue its present practice, nevertheless to have all Federal reserve banks adopt the New York practice would place a heavy burden upon the other Federal reserve banks and all direct sending members without producing comparable results and without any material reduction in the cost per item of handling coupons.

Upon motion of Governor Strong, it was

VOTED to approve of this section of the committee's report. ✓

(See pages 209 and 210 stenographic record)

Upon motion of Governor Strong, it was

(35)

VOTED to extend to the Standing Committee on Collections the thanks of the conference for the careful study and work involved in the preparation of this report.

(See page 211 stenographic record)

Topic II. B. Collection of non-cash items by Federal reserve banks.

(36)

Governor Fancher referred to the resolution of the Federal Advisory Council which voted to approve of the reports of the Standing Committee on Collections and the Committee of Governors on Voluntary Services relating to the question of non-cash collections, and also called attention to the exchange of letters between Governor Fancher and Governor Crissinger under dates of October 15, 16 and 17 relating to the submission of these reports to Mr. Barton's committee. Governor Fancher then

MOVED that it is the sense of the conference that inasmuch as the report of the Committee on Voluntary Services was submitted to the Federal Reserve Board eighteen months ago and since a supplemental report on the so-called Barton brief has subsequently been filed with the Federal Reserve Board, and that inasmuch as it will be detrimental to the best interests of the System to have the matter remain unsettled any longer, the question should now be finally disposed of and the Board requested to approve of the report of the Committee on Voluntary Services, as recommended by the Federal Advisory Council.

Before action was taken on this motion, Governor Wellborn moved to lay the motion on the table.

Governors Bailey, Young and Wellborn voted in the affirmative. All the others voted in the negative.

The conference thereupon voted upon Governor Fancher's motion. Nine Governors voted yes, Governors Baily, Young and Wellborn voted no.

(See pages 211 - 220 stenographic record)

Topic II. C. Revision of Time Schedule with a view to reduce float and avoid existing inequalities; particularly to either abolish five and six daypoints, or else make them universal. (37)

Governor Norris discussed certain existing differentials in the inter-district Time Schedules which he believes warrant study by a committee with a view to reducing float and avoiding certain existing inequalities. Upon motion of Governor Norris, it was

VOTED that the Standing Committee on Collections make a study of the present Time Schedule and prepare a scientific revision of the schedule if that seems to be necessary. It was understood, however, that the committee should consult or advise with any Federal reserve banks concerned wherever that might be helpful to the committee and that a tentative schedule be submitted to each bank for review before it is submitted to the Federal Reserve Board as a recommendation.

(See pages 220 - 226 stenographic record)

Topic II. D. Procedure in handling exchange drafts. (38)

There was some discussion on the part of several Governors of the extent to which member banks are using the Federal exchange draft privilege. It appeared from the discussion that there has not been much demand for these drafts except on the part of member banks in the Cleveland and Richmond districts. Governor Calkins, who proposed this topic, asked for no action.

(See pages 226 - 230 stenographic record)

Topic II. E. Government checks.

(39)

Upon motion of Governor Fancher, it was

VOTED that the Standing Committee on Collections be requested to study the question of having government checks printed and numbered in some such way as better to facilitate their handling by Federal reserve banks.

(See pages 230 and 231 stenographic record)

Topic II. F. Returned non-cash items.

(40)

Upon motion of Governor Seay, it was

VOTED that Federal reserve banks telegraph for instructions before returning non-cash items, or cash items forwarded as non-cash items, of \$500 or over which are not being handled for any reason.

(See pages 231 and 232 stenographic record)

Topic II. G. Direct sendings of non-cash items.

(41)

Upon motion of Governor Strong, it was

VOTED that Federal reserve banks consider the advantages and economy resulting from further direct sending of non-cash items by those member banks which have large volumes of items payable in other districts.

(See pages 232 - 234 stenographic record)

Topic II. H. Should Federal reserve banks request smaller member banks to sort cash items strictly in accordance with Time Schedule, or should Reserve banks average availability of unsorted cash letters?

(42)

Upon motion of Governor Fancher, it was

VOTED to refer to the Standing Committee on Collections for consideration the question whether Federal reserve banks should request smaller member banks to sort all cash items strictly in accordance with the Time Schedule or whether Federal reserve banks might, in their discretion,

average the availability of unsorted cash letters, or accept them on some other basis.

(See pages 234 - 236 stenographic record)

Topic III. C. Gold holdings and payments.

(43)

The secretary reported upon the question of the increase in the holdings of gold coin and certificates by the Federal reserve banks during the past two years. The conference requested that he send to each Federal reserve bank a schedule of the amount of such holdings by each Federal reserve bank at the present time as compared with what it was when this matter was first taken up by the conference about two years ago.

(See pages 236 - 243 stenographic record)

Topic III. B. Should not the Treasury Department absorb the cost of transferring one dollar bills from one Federal reserve bank to another?

(44)

Upon motion of Governor Bailey, it was

VOTED that the conference should concur in the report of the Currency Committee of the Treasury Department to the effect that the Treasury would try to get an appropriation from Congress to cover the cost of transferring circulated one dollar bills from one Federal reserve bank to another. It was understood, however, that this action should not be retroactive.

(See page 243 stenographic record)

Topic III. A. Currency program.

(45)

This topic was passed because of the fact that it was transferred to the program for the Joint Conference before which Mr. Dewey planned to discuss the question.

Topic IV. I. Commissions charged on bills and certificates bought for foreign banks.

(46)

The secretary read a report from the Federal Reserve Bank of New York covering the commissions charged for the work rendered for various foreign correspondents. Governor Strong elaborated in some

detail the nature of the work which we now perform for foreign banks and our reasons for not wanting to insist on exclusive arrangements with those banks. Upon motion of Governor Young, it was

VOTED that the conference should approve of the new rates of commissions proposed in the report submitted by the Federal Reserve Bank of New York.

(See pages 243 - 252 stenographic record)

Following this action, the chairman discussed, off the record, (47) various matters relating to international conditions and stated that certain adjustments in some of our foreign accounts, to which he referred, would be dealt with by a letter to each Governor after further studies have been prepared.

At 6:00 o'clock p. m. the conference adjourned to reconvene again at 10:00 o'clock a. m. on Wednesday, November 4, 1925.

Third Day's Session, Wednesday, November 4, 1925

Morning

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

Topic IV. K. Report on Foreign Accounts. (48)

The report was received and ordered filed as part of the record of the conference.

(See pages 253 - 255 stenographic record)

Topic IV. L. Report of sub-committee of General Committee on Bankers Acceptances. (49)

Upon motion of Governor Fancher, it was

VOTED that the conference is prepared and would be glad to consider a statement of the principles to be used in connection with domestic acceptances as a guide to determining their eligibility such

as the report indicated the Acceptance Committee of the twelve Federal reserve banks might prepare.

( See pages 255 - 258 stenographic record)

Topic IV. M. Report of Chairman of Committee on  
Legislative Matters.

( 50)

This topic was passed in view of the fact that Governor Seay, Chairman of the Advisory Committee of Governors on Legislative Matters, was requested to make his report to the Joint Conference.

( See page 258 stenographic record)

Topic IV. O. Report of Leased Wire Committee.

( 51)

The two recommendations contained in the report of the Leased Wire Committee were considered separately:

(1) The committee recommended that the cost of telegrams sent over commercial wires representing transfers of funds when the leased wires are unavailable because of storms or other interruptions should be charged to the member bank from which the request was received.

After consideration of this recommendation, upon motion of Governor Young, it was

VOTED that Federal reserve banks be given the discretion to absorb the costs covered by the recommendation.

Governor Biggs, Calkins, Fancher and McDougal voted no.

( See pages 258 - 269 stenographic record)

(2) The second recommendation of the committee was that the Federal Reserve Bank of New York be reimbursed for the expense involved for telegrams sent over the leased wires at the request of and for the sole benefit of other Federal reserve banks. It was suggested by the committee that if this recommendation is approved by the conference that the Federal Reserve Bank of New York include in its monthly report to the Federal Reserve Board of the number of words sent over the leased wire system a supplementary report of the number of words included therein which was sent to other Federal reserve banks for their sole benefit,

( 52)



and that the Federal Reserve Board in apportioning the expenses of the leased wires should make appropriate allowance in favor of New York for such words.

Upon motion of Governor Young, it was

VOTED that the conference approve of this recommendation of the Leased Wire Committee.

(See pages 269 and 270 stenographic record)

Liability of Reserve bank for carrying out instructions in making transfers for account of corporations or individuals. (53)

Upon motion of Governor Talley, it was

VOTED that the appropriate officers in the Federal reserve banks be instructed not to make unreasonable requests to other Federal reserve banks to exercise discretion in making wire transfers for account of individuals or corporations other than banks.

(See pages 270 and 271 stenographic record)

Topic IV. P. Report of Insurance Committee. (54)  
(Printed on pages 271 - 281 stenographic record)

Upon motion of Governor Seay, it was

VOTED that no further action be taken at this time in the matter of the inter-bank self-insurance plan.

(See page 282 stenographic record)

While the recommendations contained in the latter part of the report of the Insurance Committee were held over until after the Joint Conference, it was subsequently (55)

VOTED, upon motion of Governor Seay, that the report of the committee relating to the Treasury's registered mail insurance contract, submitting proposed rates of adjustment among the various Federal reserve banks, be approved with the suggestion that the Treasury Department be requested to make appropriate arrangements with the underwriters for

billing to each Federal reserve bank the premium on its shipments of new Federal reserve notes from Washington at the rates indicated in the schedule attached to the report, and that at the end of stated periods the adjustment be made to take care of the difference that may exist between the total premiums charged on this basis and the total premium figured at the flat rate of 4 7/8 cents, as per the report.

Governors Strong, Bailey, Talley, Norris, McDougal, Fancher, Seay and Young were present and voted affirmatively on this recommendation. Governor Biggs voted yes by proxy. The other Governors were absent.

Topic IV. Q. Report of Pension Committee. (56)

After considerable discussion of the proposed pension plan by which it was pointed out by the Governors present that the Federal Reserve System would be materially benefitted and the welfare of the employees greatly promoted by the adoption of the pension plan, upon motion of Governor Norris, it was

VOTED that the chairman be asked to prepare a statement of the attitude of the conference in the matter to be submitted to the Federal Reserve Board in writing. It was understood that this letter when prepared should be considered as a part of the record of the conference.

(See pages 282 - 291 stenographic record)

Topic I. A. Report of Open Market Investment Committee. (57)  
(See also paragraph 19)

Upon motion of Governor Young, it was

VOTED that the report of the Chairman of the Open Market Investment Committee (printed on pages 293 - 306 of stenographic record) previously submitted to the conference be approved.

Topic IV. J. Criticisms of Federal Reserve System - past and prospective.

(58)

There was a discussion by each of the Governors present of the steps taken in each Federal reserve bank to make sure that the bank and the System are not properly subject to criticism because of any practices of the bank or its personnel.

(See pages 306 - 327 stenographic record)

Topic I. E. Advisability of an arrangement where the  
Cont'd Reserve banks would report chronic cases  
of reserve deficiencies to the superin-  
tendents of banks in the various states  
and to the Comptroller of the Currency,  
after an understanding has been reached  
with these officials that they will  
promptly communicate with the directors  
of the banks concerned, acquainting them  
with the financial loss which the bank  
is suffering through its failure to  
maintain required reserves and calling  
their attention to the fact that they  
are continually violating the law.  
 (See also paragraph 15)

(59)

This topic which had been previously acted upon by the conference was again discussed with the Comptroller of the Currency and it was explained that while the procedure suggested by the Federal Reserve Board is already being followed by most of the Federal reserve banks, nevertheless the conference was in favor of adopting the proposal formally so as to make it a matter of routine. The Comptroller expressed his desire to cooperate in any way possible.

(See pages 329 - 332 stenographic record) -

Topic I. B. Discount Rates.

(60)

There was an extended discussion of the question of discount rates.

At 1:00 o'clock p. m. the conference adjourned to reconvene at 3:10 o'clock p. m. in Joint Conference with the Federal Reserve Board and Federal Reserve Agents.

George L. Harrison,  
 Secretary.

