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A CONFERENCE OF GOVERNORS OF THE FEDERAL RESERVE BANKS

Washington, D. C.

November 2, 3, 1927.

Walter S. Cox,
Washington, D. C.

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A CONFERENCE OF GOVERNORS OF THE FEDERAL RESERVE BANKS.

Washington, D. C.,

Wednesday, November 2, 1927.

The Conference of Governors of the Federal Reserve Banks convened in the Hearing Room of the Federal Reserve Board, Treasury Building, Washington, D. C., on Wednesday, November 2, 1927, at 10 o'clock a.m.

APPEARANCES:

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

Benjamin Strong (Chairman), Governor of the Federal Reserve Bank of New York;

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

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

Geo. J. Seay, Governor of the Federal Reserve Bank of Richmond;

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

James B. McDougal, Governor of the Federal Reserve Bank of Chicago;

David C. Biggs, Governor of the Federal Reserve Bank of St. Louis;

W. B. Geery, Governor of the Federal Reserve Bank of Minneapolis;

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

Lynn P. Talley, Governor of the Federal Reserve Bank of Dallas;

Wm. A. Day, Senior Deputy Governor of the Federal Reserve Bank of San Francisco;

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

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

The Chairman. The meeting will come to order, please. I will ask Mr. Harrison, as the first order of business, not on the program, to read a letter which I have just received from San Francisco.

Mr. Harrison, (reading):

"My dear Governor Strong:

"I very greatly regret that I am incapacitated and shall not be in condition to attend the conference, November 2d.

"The bank will, therefore, be represented by Mr. Wm. A. Day, Senior Deputy Governor, and I trust that you will treat him with a greater degree of tenderness than I can expect for myself, as well as extend to him any usual courtesies of the conference.

"Please present my greetings to all those attending, and express my regret that I shall not be able to see them on this occasion.

"Yours very truly,

"Jno. U. Calkins,

"Governor."

The Chairman yesterday, after receiving this letter, dispatched the following telegram:

"Many thanks for your letter just received. We promise to treat Day tenderly out of consideration for your tender feet and all heartily join in regrets at your absence and wishes for a speedy and

complete recovery."

The Chairman. If there is no objection, the action of the Chairman is approved.

Governor Bailey. I so move.

The Chairman. You see what is ahead of you, Mr. Day.

The Open Market Committee yesterday had a meeting which took the entire day and considered certain memoranda that were submitted as a preliminary statement upon which the committee based a report and recommendation as to policy and program for the next few months, and I am going to ask the secretary to distribute the memoranda and urge that the members of the Conference who have not had opportunity to read it study it if it is possible just as soon as possible.

(The Secretary distributed the memoranda referred to.)

The Chairman (continuing). I would also like to announce that the Federal Reserve Board has arranged a meeting of the Open Market Committee in this room I believe, at 11 o'clock, and that meeting will likely last an hour or an hour and a half, and then our Conference can reconvene. Topics No. I A, B and C on the program, which are the usual ones that appear at the top of each program, all more or less relate to the discussion that

will ensue upon the report of the Open Market Committee. I suggest that we defer consideration of those three topics until after the meeting of the Open Market Committee with the Federal Reserve Board. Is there any objection? There being no objection, we will proceed to Topic I-D:

I. D. Advisability of requiring member bank offering for rediscount paper of corporations having subsidiaries to have in its files recent copies of separate financial statements of the subsidiary corporations, when there have been filed with Federal Reserve Banks copies of the corporation's consolidated financial statement and the individual financial statements of all subsidiary corporations.

The Chairman (continuing). This topic was suggested by the Federal Reserve Board, but I think arose in connection with an inquiry made by a Federal Reserve Bank. Will the guilty party disclose who made that inquiry?

Governor Geery. I am guilty.

The Chairman. Mr. Gerry of Minneapolis. Will you state the question that the Conference is to consider?

Governor Geery. The question came up originally on the paper of the Washburn-Crosby Company of Minneapolis. They furnish a consolidated statement and have eight subsidiary corporations, none of which ask

any credit whatever from the public aside from what little they may need in the way of rental, lease and stationery purchases and that sort of thing, and they furnish us and all the other Federal Reserve Banks with individual statements of all these companies, the individual statement of the Washburn-Crosby Company and the consolidated statement, but they object to furnishing all of these statements to every Tom, Dick and Harry that may buy their paper. In fact, they did not give it to their brokers, and we have always taken the paper, and I find that Chicago did and Cleveland did, under those circumstances. Those were the only two banks I asked, and the only one that I found out that did not was New York.

The Chairman. Then we are the other guilty party. Our position is, briefly, this, that we believe that if the regulation as it now stands is enforced, that the concerns which have subsidiaries and wish to go into the market with their paper, will in fact furnish the statements to their banks, that is, to the member banks with which they keep their accounts, and if they are furnished to those banks and those banks furnish them to us, that would satisfy the situation as to the paper they sell

on the market. On the other hand, they are unwilling to furnish statements, but wish to make paper, whether it is commercial paper that sells in the open market or a paper that goes directly to the banks, we feel that we are to some extent passing on the credit of that concern for the benefit of the member bank or the broker, or the bank ^{that} buys the paper from the broker, and we are sharing in a less degree, but nevertheless that is the position we would be in of passing on the credit of a statement from makers of paper generally in order to make them eligible, even though their banks do not receive that statement. We have a case of that sort that has been up repeatedly in New York, and that is McFadden in Philadelphia. I think Governor Norris knows that story very fully. They sought to file a copy of their statement with the Federal Reserve Bank of New York in order that we might take their paper, even though that statement was not on file with the member bank.

Governor Norris. May I interrupt you there to say that they do not sell or indorse any commercial paper.

The Chairman. No, but I am using that as an extreme illustration of a case where they could say to their bank "To be sure, we did not furnish a statement of our affairs,

but it is on file in the Federal Reserve Bank, and the Federal Reserve Bank will take this paper from you," and then the member bank will say, "Of course, if the Federal Reserve Bank will take it, that is all right."

To a less degree that is true of such a case as the Washburn-Crosby Company; at least, we feel so in New York. We have drawn off a list of the concerns of like character to the Washburn-Crosby Company which, because of the regulation, have filed the subsidiary statement with their banks or with the brokers. In every instance the statement has come to us from a bank which presumably has the account of the maker of the paper. They do it when we sit tight on the regulation. The question is whether it is well to begin to make exceptions and whether we can do it and nevertheless make it effective.

Governor Fancher. Do I understand, Mr. Chairman, in your preliminary statement that paper of a concern that was sold in the market, if this statement was furnished to the banks with whom they carried their depository account, that that might suffice, or do you go so far as to make it a requirement or think it should be a requirement in the regulation that the bank buying the note of such a concern for \$5,000 or \$10,000 should in turn have

all those statements?

The Chairman. If any bank offering paper of the Washburn-Crosby Company should come to us with a statement in the form the regulation requires, that would answer the purpose for the bank, whether it came from the bank in which they kept their account or a bank that bought it from brokers, and all they have to do is for the Washburn-Crosby Company to file a complete statement in accordance with the regulation.

Governor Fancher. A complete statement of the parent company and the subsidiaries?

The Chairman. Yes, and that clears them.

Governor Fancher. So that each bank buying that note from a broker, it would be incumbent on that bank to say that it had the statements before the paper was accepted, or it would not be in a position to discount the paper?

Governor Bailey. Suppose a country bank sends in a \$5,000 note of the Washington-Crosby Company that they have bought from a broker, to our bank, and we have the Washburn-Crosby reports, both the subsidiaries and the original, and this is a solvent bank that sends it to us, have they got to send in this report?

The Chairman. Our procedure in New York would be

this, and Mr. Harrison will correct me if I am not right, that the Washburn-Crosby Company probably have an account in New York?

Governor Geery. With the Chase National Bank.

The Chairman. If the regulation was complied with it would be met by the Chase or the New York Trust Company filing a statement, and when that paper came in from any bank it would go before the committee and they would pass on it. We do not require the statement with every piece of paper that comes in.

Governor Bailey. That is what I mean.

Governor Fancher. You ask that the paper from the offering bank if they have a statement on file?

The Chairman. Yes.

Governor Fancher. Do you pursue that to the point where that is simply the consolidated statement, or statements of all of the subsidiaries?

The Chairman. We always do.

Governor Fancher. In other words, you ascertain what sort of a statement they have got?

The Chairman. Yes. They merely certify--

Governor Fancher (interposing). That they have a statement?

The Chairman. That they have a statement.

Governor Fancher. Do you pursue that to a point where they have simply got the consolidated statement or the consolidated statement and the statements of the subsidiaries?

The Chairman. No. Then it is a question of whether we have got it from some other bank.

Governor Fancher. And the offering bank certifies that they have the statement, and you accept that on the assumption that they have got the statement that you have got?

The Chairman. We are not passing on the credit for them.

Governor Bailey. But you originally have the Washburn-Crosby statement in the New York Bank?

The Chairman. Yes. There is some of this paper that comes in every day almost.

Governor Bailey. I am thinking about our situation, where the Washburn-Crosby Company has not got any account in Kansas City, and a member bank buys a piece of paper from a broker and sends it in for rediscount. We think it is good, and have we got to call on the member bank that sends in that \$5,000 note to furnish us its statement

in every case?

The Chairman. I do not know how it is done now, but the way we used to do it, the Reserve banks exchanged information about paper in their respective districts, and there is a resolution on file of the Governors' Conference, where paper which originates in another district, and is distinctively paper of that district and is offered in our district, we telegraph the other Reserve bank and get the statement from them. That used to be done.

Governor McDougal. Does the Washburn-Crosby Company file their complete statement with their depository banks?

Governor Geery. They have not this year.

Governor McDougal. That is the only weakness in that case?

Governor Geery. Just look at this and see how big a job it is.

Governor McDougal. I know what it is, and it would be useless in the hands of most banks, anyhow. You know that.

Governor Geery. Yes, sir.

Governor McDougal. Mr. Chairman, I would like to make a suggestion, if I may. I think this whole matter can be

dealt with satisfactorily along the lines you have recommended, and here is a memorandum that we prepared relating to the subject, that the matter can be satisfactorily dealt with through the adoption of the recommendation made by the Advisory Council in September, with a slight modification, the Council's recommendation being that such companies should be required to file with their banks of deposit a consolidated statement and a detailed statement of all subsidiaries. I would suggest for the consideration of the Conference that we adopt that as our procedure with one slight modification, and that is, instead of saying "banks of deposit," say "principal banks of deposit," and I think that would take care of brokers' paper along the lines which you stated would be satisfactory, and it would place in the hands of the principal depository banks what they do not get now from some corporations.

Governor Fancher. Do you think that would take care of the broker situation?

Governor McDougal. I think that would take care of the broker situation. It is quite in accord with Governor Strong's own recommendation.

The Chairman. Mr. Harrison has the record of that meeting and the action taken in the Advisory Council.

Would you report that, please, Mr. Harrison?

Governor Seay. The danger which you have in mind is not an imaginary one. It is a real one. The Federal reserve banks should not consent to be placed in the position where they would be construed by their member banks that they passed upon the credit of these people.

The Chairman. That is the thought.

Mr. Harrison. Last September at the meeting of the Advisory Council, the question had been raised whether something ought not to be done to alleviate this condition, especially as the Advisory Council said that this requirement of the Board was resulting in a decreasing supply of eligible commercial paper. After consideration by the meeting, this action was taken:

"Attention has also been called to the Federal Advisory Council that the various Federal reserve banks have different practices and requirements as to the form and character of the statement to be filed by the companies. The Federal Advisory Council believes that the requirements as to statements should be standardized, and that companies having

one or more subsidiaries should be required to file with the banks of deposit a consolidated statement and a detailed statement of all their subsidiaries."

That action of the Federal Advisory Council was discussed in the record over a period of some ten pages, and at the conclusion, while no definite action was taken by the Council, Governor Seay, I think it was, summarized the discussion by saying:

"The general opinion is that the regulation of the Board should be complied with."

That was apparently the consensus of view of the Council at that time. When I reported the discussion to the Federal Reserve Board, I did not indicate that any action had been taken, because as a matter of fact none had expressly been taken and there was no vote. Evidently, in view of the fact that the Conference did not formally vote on compliance with the Board's regulation, the matter has been referred back to us; but there is no doubt, in reading these ten pages of the stenographic record, that this case was precisely the same as the one now under discussion, and so considered by the Conference, and the feeling was that the regulations of the Board should be

complied with and that in all cases--not just in New York, as has been the practice, but in all cases--the statements of the borrowers and individual statements of the subsidiaries should be on file with the member bank and not merely with the Federal Reserve Bank.

Governor McDougal. If you take that literally, that ~~would~~ / require that every bank offering a paper purchased from a broker would have to have the statement.

Mr. Harrison. I think that is a perfectly accurate construction of the present regulation of the Board.

The Chairman. I do not think that is what we do. I think we accept that letter S in the application form as indicating that a statement is on file with the offering member bank, which is satisfactory to that bank, and then we turn to it in our credit files to see whether the statement on file with us is satisfactory to us.

Governor Fancher. And which has come to you from a member bank?

The Chairman. Yes; but I do not think we checked that back.

Mr. Harrison. I think it is perfectly true that we do not check back the meaning or the significance of the letter S in the application, but in every case where we

have specifically asked the question, where we have any information contrary, we expect them to have a consolidated statement and also separate statements of the subsidiaries.

Governor Bailey. That would revolutionize the buying of commercial paper by country banks.

Governor Fancher. Is it necessary for the concern making the paper to furnish a statement of the parent company and the subsidiaries, and in addition to that furnish it to the purchasing bank if the bank expects to rediscount that with the Federal Reserve Bank?

The Chairman. The actual practice, I think, is this, that when the member bank sends in the application form with the letter S on it, it is assumed that the statement held by that member bank is in conformity with the Board's regulation, whether it is or not, and the responsibility rests upon the member banks to have the statement in the form required by the regulations. We cannot check up every transaction to see that they have.

Governor Fancher. We do not attempt to.

The Chairman. Our responsibility is to see that a member bank has given us a statement which complies with the regulation,

Governor Fancher. That is the point.

The Chairman. But we do not require statements from the member bank.

Governor Geery. My recollection is that the regulation of the Board requires that bankers' acceptances, to be eligible for purchase, the Federal Reserve Bank purchasing must have a statement of the acceptor showing a satisfactory condition, and yet we buy paper on the strength of J. P. Morgan & Company having furnished you with a statement.

The Chairman. Of course, they are not member banks.

Governor Geery. No, but if the First National Bank of Minneapolis has some J. P. Morgan acceptances which they wish to indorse--

The Chairman (interposing). Well, there is a long history behind that. In the early days these big bankers never made a statement to anybody in the world, not even to their own banks. They never borrowed on their paper without collateral, and we had a special rule of the Board which permitted the Federal Reserve Bank of New York to purchase acceptances of private bankers upon the faith of an oral statement made to the Chairman

and Governor, and that was the practice for some years. Now, by a gradual process of inching on them, we have finally got written statements, and no bill is purchased by the Federal Reserve Bank in New York that is not based upon consideration of a written statement, which is in a special box accessible to only two or three officers of the bank, and that written statement, as a rule, when it is filed with us, is handed to the Governor or Chairman, or both, by a partner in the firm, and then we ask several questions about the statement, and anything material is dealt with in a little separate memorandum that the officer makes, and except we could handle the matter in that way we would get the statements.

Governor Fancher. Isn't it a fact that, with the exception of J. P. Morgan & Company, all of the private banking concerns whose paper is accepted, have statements on file with the other banks?

The Chairman. That may be.

Governor Fancher. It is an outstanding exception.

The Chairman. I do not know what to do about that.

Gentlemen, the Board is waiting for me.

(Whereupon, at 11 o'clock a.m., a recess was taken

until 1.49 p.m., when the following occurred):

The Chairman. Gentlemen, suppose we adjourn for lunch now and return at 2 o'clock sharp. Is that satisfactory? There being no objection, we will adjourn until 2 o'clock.

(Whereupon, at 12.50 p.m., a recess was taken until 2 o'clock p.m.)

AFTER RECESS.

The Conference was resumed at 2 o'clock p.m., at the expiration of the recess.

The Chairman. We were discussing the question of the statements of subsidiaries, before the interruption of the other meeting, and I think Mr. Geery was finishing his statement.

Governor Geery. No. It was suggested that to furnish those statements to the member banks and they furnish them in turn to the Federal reserve bank, that would cover the whole situation. He does not want to have to furnish them to every Tom, Dick and Harry.

Governor Bailey. How would a broker handle that?

Would he have a lot of them made and furnish one every time he sent a note to the Federal Reserve Bank for discount?

Governor Gerry. No. I do not think that would be required, provided the depositary banks did and the Federal Reserve Bank had it from them.

The Chairman. Of course, there is that point that if we check up every bank that offers papers to us to see that the regulations are literally complied with in every particular, you will find some banks that have not statements of the subsidiaries. I do not think we do it to that extent in New York.

Governor Bailey. If we had the reports of the subsidiaries, couldn't we copy the reports and furnish them?

Governor McDougal. You would have a hard job in copying it.

The Chairman. Governor Harding, how does it strike you, this question? You have that question up in New England, with the mills subsidiaries.

Governor Harding. My idea is that it is a good deal more important to get paper that is going to be paid,

but I can see from the standpoint of these concerns that have subsidiaries that they might have very good grounds for objecting to having these statements scattered around in the hands of a miscellaneous lot of bankers and brokers. It might put them in bad from a competitive standpoint. I also appreciate the point that the Federal Reserve Bank does not want to put itself in the position of passing on the credit of a member bank. But it seems to me that all of the requirements of the situation would be met if the corporation deposited with its principal depositors a consolidated statement, then when any broker's paper came in and they wanted to check that paper up, they would do as they do now and write to their correspondents: "What do you know about this paper?" Then let the corporation deposit with the Federal reserve bank of its district, with the understanding that copies will be sent to all other Federal reserve banks, the consolidated statement and the statement of the subsidiary. Ninety nine times out of a hundred a bank extending credit to a corporation gets all the information it wants from the consolidated statement, in my judgment, and I think that would meet all of the requirements. Let the Federal Reserve Bank have the consolidated statement

and the statements of the subsidiaries, and let the principal depository banks of the corporation have the consolidated statement.

Governor Geery. But not the subsidiaries?

Governor Harding. No, sir.

Governor Fancher. That seems to be a point which the depository banks are raising, that the corporations furnish their statements to the Federal Reserve banks and furnish the statements of the subsidiary corporations, and simply the consolidated statement in some cases, and the bank would like to have the subsidiaries' statements and sometimes they get it and sometimes they do not get it, and I think the depository bank would like to have all that is furnished to the Federal Reserve bank. I think that is a point that these big corporations make, that they furnished the consolidated statement to the Federal Reserve bank and the statement of the subsidiaries, and have only given the depository bank the consolidated statement.

Governor Harding. If you require the corporations to give a detailed statement to two or three of the larger depository banks, the other banks have the same right to ask for it, but you come right back to the same propo-

sition, that they have to give their whole business to the public.

Governor Geery. Governor Harding's statement is just what the Washburn-Crosby Company has been doing. They furnish the depositary bank with the consolidated statement and the Federal reserve bank with both.

Governor Fancher. And you find in some cases that the depositary bank would like to have the subsidiary statements?

Governor Harding. The depositary bank can get what they want by asking some polite questions. They can say, "We have got your consolidated statement and we would like to know something in addition."

Governor Seay. It seems to me, Mr. Chairman, that the regulation as it stands is a good one on the side of safety and for the protection of the Federal reserve bank. It also seems to me that if these corporations desire to float their paper in the country generally, that at least their depositary banks ought to have the full statement, the consolidated statement and the statement of the subsidiaries of the corporation; but it does not seem to me to be so necessary for these small interior

banks to have this information, provided they have the consolidated statement. But, with respect to the depositary bank, I believe that uncontestably they ought to have those statements.

The Chairman. They generally have a line of credit there.

Governor Seay. And while it would not be well, as I believe, to make any exception in the matter, we all know that practices grew up in handling these things which are summed up in the regulation. I do not believe it to be any infringement upon the principle to take paper from these small interior banks, which have not got these statements of the subsidiary companies and which would not know exactly how to protect the credit if they had them--I think we might ignore it provided they have the consolidated statement; but I believe it would be going in the wrong direction to undertake to alter the regulation.

Governor Bailey. Supposing a bank offers you a \$5,000 note, a country bank who has bought this through a broker, and the broker says "This is checked by two or three banks, which are depositary banks." We write them and they give us the proper credit information; they

discount this note, after having carried it for sixty days, for another thirty days. What would you ask them about that? Would you ask them if they have all of these statements?

Governor Seay. My own opinion is that they should have the consolidated statement.

Governor Bailey. Then the brokers would have to have it?

Governor Seay. Yes, I think so, and they ought to be encouraged to have it, too. If they invest their money they ought to invest their money intelligently and with information at hand and ought not to depend upon the Federal reserve system when they send it direct. If they sell that paper to their banking correspondents, all well and good; but if they take it to the Federal reserve bank for a rediscount, then I think they ought to be in a position of not having the Federal reserve bank to pass upon it, but pass upon it themselves by reason of holding the statement.

Governor Fancher. Without any discount and purchase of the paper from the small interior bank, if in offering that they do not say that they have a statement,

and we have a statement which comes from other sources, we advise the bank that it is incumbent on them in buying paper to have a statement, that the broker should furnish a statement. I am quite in accord with the view expressed here by the Federal Advisory Council that the depository bank should be furnished with not only the consolidated statement, but a statement from the subsidiaries, and we might go further, and say that brokers in all cases furnish a consolidated statement to the bank that purchases the note.

The Chairman. We cannot discount the paper unless the member bank which has purchased the paper and submits it shows in the application that they have a statement.

Governor Fancher. A statement.

The Chairman. We do not mean to examine them, but we take their word for it.

Governor Fancher. Sure.

The Chairman. I understand a motion has been made that the policy should be to require these corporations to file a consolidated statement and statements of their subsidiaries with their depository bank, which shall be furnished to the Federal Reserve Board by the depository bank.

Governor McDougal. My suggestion was the word "principal" be inserted before the words "depository bank."

The Chairman. Yes.

Governor Seay. I hope that Governor McDougal will withdraw that, because how can you make the exception consistently and logically?

Governor McDougal. I can answer that, Mr. Chairman, by stating that some of these corporations open perhaps innumerable accounts for collection purposes, with the understanding that they will be remitted for twice a week or something like that, and that they are purely collection accounts, and I do not think that these banks should be considered in the light of depository banks.

Governor Seay. Governor McDougal, as Governor Strong has stated the matter, we could not handle the paper of these corporations from any one of their depository banks unless the depository bank had statements. So, if perchance they should file those statements only with the principal bank and yet some other of their depository banks should buy the paper, they could not redeposit it with the Federal reserve bank unless they had the statement.

Governor McDougal. They would have a statement of the borrower. It might be the corporation operating subsidiaries, or it might be one of the subsidiaries which was owned by that corporation. They would have a statement of that sort, but they could not be expected to have this vast amount of data and other information that accompanies these consolidated statements, which requires careful examination by your own expert credit men in order to analyze and understand the situation.

Governor Fancher. Why cannot the situation be covered by "depository banks which grant lines of credit?"

The Chairman. That would do it.

Governor Seay. That is the point I had in mind, because any other bank would have to get the statement.

The Chairman. With depository banks which grant a line of credit?

Governor Fancher. That covers it, and I second that motion.

(The motion was put and carried.)

The Chairman. I will ask Mr. Harrison to distribute the report which has just been made to the Federal Reserve Board by the Open Market Committee. That is Topic

1-A on the program.

1. Credit Transactions and Policies.
 - A. Open Market Operations.
 1. Report of Open Market Investment Committee.
 2. Policy.

(The Secretary distributed the report referred to.)

The Chairman (continuing). That should have been marked "Confidential," of course, as the other papers were. I would like to explain that it was expected that the meeting of the Open Market Committee would be held two weeks or more earlier than it was held, but the reports that were distributed yesterday or this morning were prepared some time ago, and they have brought down to date such report, and we anticipated, as the day of the meeting had been deferred, that we would meet with the Federal Reserve Board yesterday afternoon and that the whole procedure would be in the usual course of the meeting of the Open Market Committee with the Board in between the dates of the Governors' meeting, but the Secretary was detained at the Capitol yesterday, and we could not meet in the afternoon, so we had to have the meeting this morning, and it would have taken so long probably to have considered the report at

this meeting that we had to go right ahead with the meeting and leave the Governors' Conference, and these recommendations which are now before you were discussed a couple of hours this morning, and after we left the Board met and I now have this communication from Governor Young:

Mr. Harrison (reading):

"My dear Governor Strong:

"At the meeting of the Federal Reserve Board held today following the conference with the members of your committee, during which the report of the committee, dated November 1, 1927, was submitted to the Board and discussed in detail, it was voted by the Board that approval be given to the policy governing open market operations as recommended by your committee in its report referred to.

Very truly yours,

(Sgd) R. A. Young.

Mr. Benjamin Strong,

Chairman Open Market Investment Committee."

The Chairman. You may or may not have had opportunity to read the memoranda submitted this morning. This report is the report based upon those memoranda which has now been approved by the Federal Reserve Board, and it will go forward in the regular course to the Federal reserve banks with the usual letter from the Chairman of the Open Market Committee for consideration by the respective boards of directors of the Federal reserve bank, and this is the opportunity to discuss it, if there are questions which are obscure, and all the committee are here to answer questions.

Governor Talley. Mr. Chairman, I want to say the tentative date of March 1st would be the latest date that we would like to approve of.

The Chairman. There was a reason for putting that date in, because this report has a good deal of flexibility, as you can see from its terms, and by tentatively, subject to review if occasion requires, spanning the period to March 1st, it takes care of all of the unusual operations that arise around the end of the year and the beginning of the next year, and we should hope that after March 1st we would sail off into smooth waters

without much to do. At any rate, just prior to March 1st, if we have another committee meeting, which we likely would possibly do before that, we will know a good deal more about developments than we now know. February 1st would have been a little too soon, and after consideration it seemed as though March 1st was a conservative date.

Governor Talley. March 1st is quite an agreeable date for us.

The Chairman. It also fixes up the program so that before the March 15 Treasury financing we can have another meeting and consider everything again.

Governor Seay. I notice in the opening paragraph you say "Main/^{tain}stable rates for money at about present levels." You mean, I suppose, by the word "about,"--

The Chairman.(interposing). Oh, yes. You know the money market is more or less up and down. I should hope that there would not be any material change in the rates for commercial paper, bankers' acceptances and the ordinary line of time and commercial loans. I do not care so much about the call rate on the stock exchange; that goes up and down, but it takes a little period of higher

or lower money on the call loan market for the other rates to respond to it, and I do not think the fluctuations within moderation in the call loan rate would be important in the policy expressed there, so long as it did not last too long.

Governor Seay. The point that I have particularly in mind refers to the reserve rate itself. I presume you meant at or about the present levels.

The Chairman. Yes. This does not refer to reserve bank discount rates. This refers to market rates.

Governor Seay. Yes, but that is affected, we think, to some extent by the Federal reserve bank discount rates.

The Chairman. All right. If any occasion came to change our discount rate in New York, we would not do it without having a meeting with the committee or consulting with the committee.

Governor Seay. The present discount rate, of course, is below what you would call the general credit market.

The Chairman. No more than usual.

Governor Seay. The discount rate is not?

The Chairman. Not in New York.

Governor Seay. It is below the commercial rate, of course?

The Chairman. It always is.

Governor Seay. It is a little bit lower in proportion than customary?

The Chairman. No. The commercial paper rate is 4 or a shade over. It is about the same.

Governor McDougal. A shade under too.

The Chairman. Yes. Some of the best commercial papers shade a little less than 4 per cent.

Governor Geery. In our district it is 4-3/4.

The Chairman. I think the differential between our rate and the going rate for commercial loans is just about the same as it was shortly before we reduced our rate.

Governor Seay. In other words, you mean that the commercial rate has been lower just about in proportion with the Federal reserve bank discount rate in your market?

The Chairman. Yes.

Governor Fancher. And the rate is about 3 per cent for short-time bills?

The Chairman. The relationship of the rates has been maintained by the reduction in market rate by the going paper which has a market rate, just about the same relationship to our lower rate as it had to the 4 per cent rate. When we had a 4 per cent discount rate the very best commercial paper was selling about $4\frac{1}{2}$ or a little above. Of course, I am speaking of New York especially. Now, it is selling at 4 and sometimes the very best paper a little above.

Governor Wellborn. What is the thought about the agricultural banks, or banks located in agricultural sections, increasing their rate before the borrowings begin next spring or early in the year?

The Chairman. We have not discussed that at all, Governor Wellborn.

Governor Wellborn. We have not noticed it yet because the time has not arrived and the market has not been affected at the present time. But I have heard several bankers say "I can go out and buy some bonds at 4 per cent and rediscount them at $3\frac{1}{2}$." So they have been thinking along those lines of making some profit out of this very low rate.

Governor Fancher. Do you think they are doing that?

Governor Wellborn. No, not to any appreciable extent. Our loans are down. We have had so many banks to liquidate their indebtedness in full this year that our loans are down.

Governor Seay. They are investing a considerable portion of their funds in readily marketable bonds in our district, and I think they have their eye on the Federal reserve rediscount rate. Their object is to create a secondary reserve.

The Chairman. But they are not doing that on the money they borrow from you?

Governor Seay. No.

Governor Wellborn. They are doing that from their deposits when the proceeds of the crops have been sold, but as soon as those deposits begin to melt away and go out into agriculture again, they will want to borrow money or sell the bonds.

The Chairman. Haven't they always done that more or less?

Governor Wellborn. The tendency seems to be growing

in that respect, about buying bonds.

Governor Fancher. Isn't that due to the lack of desirable bills sold by brokers at the present time?

Governor Wellborn. I think it is due to several causes. It is easier to handle bonds than to handle loans, or to go out and seek loans; or to take loans that may not be considered so good. It is along the line of least resistance, you might say.

Governor Seay. There is this eventuality, that having these excess funds in bonds returning 4 per cent, the probability is that when the occasion comes for them to borrow, if they can borrow from us at $3\frac{1}{2}$ per cent, they will borrow $3\frac{1}{2}$ on the bonds.

Governor McDougal. Mr. Chairman, I have not understood and do not understand that the adoption of this plan would necessarily bind all of the banks or commit them to a $3\frac{1}{2}$ per cent discount rate for the next four months, and I do not think that was the intention.

The Chairman. No. It is not mentioned in the report.

Governor McDougal. But that question was raised by Mr. Seay, and that was my understanding.

Governor Seay. I do not think it was implied in

there that any Federal reserve bank would take the position of saying that it would vote for preserving its own $3\frac{1}{2}$ per cent rediscount rate, because we would not be willing to take that position.

The Chairman. We would not, either.

Governor Fancher. The rate for money means the commercial rate and has no bearing on the Federal reserve bank rate.

The Chairman. There is a saving clause in the report right at the beginning that conditions may change which will necessitate a review of the matter. The committee had no thought, by direct commitment or implication, to bind itself or any bank to retain the present rediscount rate. You could not do it, any way, if you wanted to. Are there any other questions?

Governor Seay. I have no further questions, with the understanding, Mr. Chairman, as I understand you to set forth, that the fixing of the first day of March is simply an arbitrary fixing, and that the whole policy of the investment^{committee} is subject to change on account of changing conditions.

The Chairman. Yes.

Governor Seay. Which I of course would take for granted.

The Chairman. We had a period of three and one half months before, I think it was, on the last approval, until August 1st. We met on May 9th, and that is about three months, and this makes it four months.

Governor Seay. Personally I think that part of the interior with which we are concerned is not benefitted by the $3\frac{1}{2}$ per cent rate. I think it is too low a rate, and I thought so from the beginning, but that has no bearing upon the general policy of the Investment Committee from the point of view that is presented there. I think it is rather harmful than otherwise.

The Chairman. You think it is rather harmful?

Governor Seay. Yes, sir. The interior which is accustomed to lend its money at rates which are much higher than those prevailing in the money centers, is getting a false perspective.

Governor Bailey. Do you mean to say that the country banker finds fault because this rate is lower; that his customer asks him to lower his rate to him on that ac-

count? Is that it?

Governor Seay. No. I think it is giving him a false perspective of the condition of money in his own locality and in the district which the Federal reserve bank serves. No matter what his customer may desire or ask him, he is going to lend his money to him at the best rate he can get, and is usually in a position to enforce any rate he asks.

Governor Talley. Do you find that the best borrowers in your district have access to the competitive rate for money?

Governor Seay. Always and at all times.

Governor Talley. I think that money is worth about the same the world over, as a rental charge.

Governor Seay. The benefit of the lower rate reaches the best borrowers, who have access to competitive markets.

The Chairman. That has some favorable effect at times to have that condition arise, does it not?

Governor Seay. Yes. It is hard to define in percentages, but it has some kind of effect. Whether the result of that effect is beneficial or otherwise usually

has to be proved by the future.

The Chairman. I mean your canners down there who buy the food and vegetable crop, some of them have accounts in New York, Philadelphia, or other cities, and when the discount rate goes down they borrow their money a little cheaper. Directly and in a remote way that benefits the fruit and vegetable growers?

Governor Seay. It may or may not; that is the point.

The Chairman. It does not hurt them any, does it?

Governor Seay. Except in the vague way in which I have endeavored to give expression. I think it somewhat deadens them to a truse sense of the present degree of expansion, which is rather large, say what you will.

Governor Talley. That is what is happening in our district right at the present time. The exports of cotton are lower than they were last year.

The Chairman. In the number of bales?

Governor Talley. Yes, in the number of bales, and the cotton is being purchased and is going into merchants' stock, and in the last two weeks our loans have increased about \$9,000,000 from the low point, and the applications come from banks who are carrying large stocks of cotton

for cotton merchants, and they are buying it because they can go into stocks on a lower rate.

The Chairman. That may be a good thing for your cotton growers down there.

Governor Wellborn. It does not help the cotton growers very much. It helps the dealers.

Governor Talley. It simply avoids the depreciation basis. It holds the basis up.

Governor Seay. He is able to market his cotton at good prices, if he has any idea whatever, as most of them have, that prices may increase; and the carrying charges are lower.

Governor Talley. You can take the late ginnings which come on the market, and that does not affect the basis more than fifteen or twenty points, and when that ginning report came out you had a little upturn in the prices right away.

Governor Seay. That shifts the risk from the buyers or holders of cotton.

Governor Talley. Oh, yes. How much better that is from an economic standpoint for the stocks to go into the hands of the merchants who are willing to absorb

them, and the producer is willing to sell at prevailing prices. It takes the speculative element out of it.

The Chairman. You think it is a benefit in your district?

Governor Talley. I think that at this time it is a benefit, but I do not think we can say arbitrarily that every fall we should lower the rediscount rate at the Federal reserve bank because that depends on the circumstances. Certainly these same circumstances that we have prevailing in our district this year did not prevail last year, because every factor that pointed to a liquidation of the indebtedness was obscure. This year it is entirely patent, and while the factors are operating.

Governor Wellborn. Speaking of this year as compared with last year, this low rate would have been more beneficial last year than this year. The holding of movement then was in its inception.

Governor Seay. You see, there are two opposing views from different districts, the Texas and the Atlanta view.

Governor Talley. I do not agree to that.

Governor Seay. That would have been the time for us to have lowered it, because we had a tremendous crop on hand and were not disposed to sell it, and this year they were satisfied with the price and sold it very readily.

The Chairman. We grew 15,000,000 bales of cotton last year and exported a little over 11,000,000. Now the crop this year is about 13,000,000, with not quite double the price, and the question is, with 60 per cent of our cotton last year or more than 60 per cent ordinarily going abroad, are we going to be able to export the proportion of this year's crop that we should. If there is any delay in buying it abroad for any reason obtaining over there--because they stocked up on cheap cotton last year or because money is dear there, or for any other reason,--then it is just as well to have some cheap money to carry that cotton at the present time.

Governor Wellborn. At the present time.

The Chairman. Yes.

Governor Wellborn. I do not know that half a per cent cuts any figure. The thing that affects people is that when you raise it a little. Lowering it does not seem

to affect them much, but when you raise your rate it startles people. We are bound to raise our rates later. When this rate was reduced we had no idea of wanting any reduced rate at all. We have been compelled to do it because Kansas City and St. Louis and Dallas had put theirs in effect, and they are next door to us.

The Chairman. Governor Bailey, how do you feel about this rate change?

Governor Bailey. I would like to see the rate go back to 4 per cent some time this winter. The thing that has held it up is this wonderful crop movement.

The Chairman. Except maybe the cotton may be late. It is late to some extent now. The movement of cotton that has moved so far this year represents more money than the corresponding date last year, on account of the price.

Governor Talley. And it puts the banks in an easier position.

The Chairman. Yes. The cotton crop this year was a problem because of the possible hang-over from last year's very large crop in bulk.

Governor Talley. The movement of sterling also has a close relation to the cotton movement.

The Chairman. You think that has helped the sale of cotton?

Governor Talley. Oh, yes.

The Chairman. I have heard some doubt expressed about that. Will you elaborate that a little bit?

Governor Talley. I have a brother in law who has charge of a certain firms business west of the Mississippi River, and I visited with him last Sunday in Houston, and he said this price of sterling had not been a matter of consideration at all; he would simply go ahead and sell his sterling at a profitable price.

The Chairman. It did not worry him?

Governor Talley. It did not worry him a bit. I said, "That is something the Federal Reserve System is doing for you that you do not know about," and that of course has been the case all over the district. In other words, the cotton merchant, the cotton exporter, has been able to operate this fall with more assurance than he has within the last five years. That is the way he gets his reimbursement out of a large part of his exports. The

higher price he gets for his sterling the more points he has got in his transaction.

Governor Seay. That is true on a rising sterling market.

The Chairman. It does help the export of cotton, doesn't it?

Governor Talley. Yes.

The Chairman. Governor Bailey, how do you feel about the effect of the rate reduction out in your district?

Governor Bailey. Our people have accepted it all right, and took it in the spirit that it was broadcasted, and the cattle men are getting their money from a half to one per cent cheaper this year than last year. One of the big banks sent out a letter saying that in view of the fact that the Federal reserve bank had reduced its rediscount rate, it made that bank's rate cheaper. I will say, in view of that, that their rates have been too high always.

Governor Seay. What are they, for instance--8 per cent?

Governor Bailey. Not now.

Governor Seay. They have been?

Governor Bailey. It was 8 per cent right during the hard times after the war.

Governor Seay. And what is it now? $7\frac{1}{2}$?

Governor Bailey. No. It is from 6 to 7. It is the first time I ever saw a letter go out saying, "In view of the fact that the Federal reserve bank has reduced its rate we will have an enlargement of the heart and follow suite."

The Chairman. Are there any more questions about the report of the Open Market Committee? This having been a meeting theoretically in between the Conference of the Governors, it would not ordinarily be approved by the meeting but would be submitted in detail to each reserve bank, but if you wish to act on the report in any way a motion would be in order.

Governor Biggs. I move the report be accepted and filed.

Governor Talley. I second it.

The Chairman. Is there any debate on the motion? Are you ready for the question?

(The motion was put and unanimously carried.)

The Chairman.(continuing). This will really cover

Topics 1 and 2 under A. No. 3 is--

Discussion of method of apportioning bills and Government securities bought by Open Market Investment Committee.

I have asked Mr. Case to prepare a little memorandum, as he does most of this work in the bank, and I do not know but what it would be illuminating for Mr. Harrison to read it, if he will.

Mr. Harrison. All right:

"The method of apportioning purchases made by the Open Market Investment Committee of bills and Government securities during the past two years has remained practically unchanged. During the first half of each calendar year all purchases made are distributed prorata (i. e., in the proportion that the total of each bank's expenses, dividends and chargeoffs bears to the system total of the same items) based on the actual figures for the preceding year.

"Beginning in July it is the practice to obtain from each bank an estimate of its probable income for the balance of the year classified according to sources, also an estimate of its expenses, divi-

dends and probable chargeoffs. The figures thus obtained are combined with the actual results shown for the year to date, the total representing the estimated results for the year.

"The estimated surplus earnings of the system, if any, are then distributed prorata and added to the estimated expenses, dividends and chargeoffs of each bank, the total representing the gross earnings to which it is considered each bank is entitled. From this total there is deducted the estimated earnings to be received from Government securities and from bills discounted and miscellaneous, the balance thus representing the amount to be earned from bills purchased. The ratio of each bank's balance to the system total is then used as the basis for distributing current purchases of bills.

"During the second half of the calendar year similar figures are prepared promptly after the close of each month, and such changes are made in the ratio for distribution of purchases as the figures justify. On this basis all banks are reasonably

assured of having all charges provided for and also of receiving a fair share of the excess earnings of the system above charges, if any. There is attached a statement showing the estimated results for the current year (as of October 1, 1927).

"In making the distribution of earning assets no consideration has been given to the condition of the surplus accounts of the several banks, as to do so would conceivably affect the amount of franchise tax to be paid by the individual banks. There is attached a statement showing the subscribed capital and the surplus of each bank as of December 31 for the last five years, and also the ratio of subscribed capital to surplus as of December 31, 1926. It will be noted that there are four banks which have a surplus equal to 100 per cent of subscribed capital. Five banks have surpluses ranging from 93 to 96 per cent of subscribed capital, while three banks have surpluses ranging from 84 to 86 per cent of subscribed capital. With the exception of Dallas every bank has at some time had a surplus in excess of 100 per cent of subscribed capital.

A study of this statement will show that the present unequal condition of surplus accounts in comparison with subscribed capital results more largely from changes in the subscribed capital account than from inequalities in earnings, those banks whose subscribed capital has shown the largest increase during the past five years now having the smallest ratio of surplus to capital.

"On the whole it is believed the method which has been followed in distributing earning assets has been fair and equitable to all banks."

The Chairman. There are a few points in connection with this that I would like to refer to, if I may. One is the ratio in New York of surplus to capital is very low compared to most of the other reserve banks, entirely due to the fact that we have had a large addition to our capital through increase in capital of member and banks/in the organization of new banks in New York. On the other hand, Minneapolis presents the anomalous situation of having an excess of surplus because of the mortality of member banks and withdrawal of their subscriptions to capital. I do not see how the appor-

tioning of these earning assets, which roughly form one half of the earning assets of the System, can be so affected as to correct those inequalities. It would be a very difficult thing to do and probably would result in injustice in other directions on the basis of earnings, and Mr. Rounds, who has prepared these figures, has talked to me about it a number of times, and he assures me that he can devise no plan of calculation that is any fairer than this one, but that if there are objections to it that we are not aware of, we would like very much to hear them.

Governor Harding. If any bank has a reserve percentage down to 50 per cent, is it a fair assumption to make that that bank is paying its way and earning its dividends and expenses?

The Chairman. Yes, I think so.

Governor Harding. That being the case, if a bank has a reserve up to 50 per cent, what is the use of giving it any bills or Government acceptances? If it is paying its own way, why not eliminate from this distribution and let it catch up on its reserves?

The Chairman. That is the case with you, isn't it?

Governor Harding. Yes.

The Chairman. The earnings are higher and he is getting no part of the purchases.

Governor Wellborn. He has been eliminated from any participation, because we get the benefit of the other part of the year.

Governor Seay. So there is no particular in which that would not be true, but there is one particular I think that memorandum is not correct in. As I recall, it has been the practice for the past two years to make the apportionment on the status of earnings for the first three months, and they propose to wait until the half year to make the apportionment. If you look back I think you will find that the apportionment has been made on the first quarter.

The Chairman. I think this year and last it has been six months, and prior to that it was three.

Governor Seay. The distribution was small in our case, and it did not provide for the requirements, so that in the last half it had to be raised very considerably. Our reserve was reasonably high in the first apportionment, but our proportion was very large in the

second half, and it sent our reserves low, and we had to turn around and dispose of a considerable proportion of our securities which we had been allotted. I believe it would be better to base it on the first quarter. As to the manner of disposition, I have no criticism.

The Chairman. We can do that, but I must tell you that one reason for changing to the six months arrangement was because of the immense amount of work involved in this thing. You do not realize how much work it takes with these shifting percentages, and if your situation is such that because of the peculiar situation in your district, if you will write us a letter explaining that we can work this out and not have these changes etc. for nine months right through the year, which is a very fine job.

Governor Seay. We will do that, of course, and we would not have any idea of asking that the method be changed to fit the circumstances of any particular bank. As to the amount of work involved I was not as well aware of that as you, of course, but the distribution, to be made equitably during the year, should be begun on the second quarter; but I am disposed to withhold that

view.

The Chairman. It is not so much trouble with Governments, but when it comes to these bills with all the different denominations, with all kinds of names-- and some of the banks will take some names and some wont-- it is a Chinese puzzle, and those fellows have a tremendous amount of work to do, and the changing of percentages adds to the amount of work. This has been a very flexible thing. For instance, Governor Young telegraphs he is in a certain position and requires a change. We fix it up. Then Governor Talley will telegraph and maybe Kansas City, and I think the committee feels that we are expected in New York to adjust particular cases, and we have always done it and advised everybody, and there has never been any objection. We have got a case right now from Governor Bailey where we have got to make a special adjustment, take his Governments and give him some bills to fix up his portfolio.

Governor Seay. Unless it is the general feeling that that adjustment should be made on a quarterly basis, I will withdraw any suggestion of that kind. I merely put that forward for consideration on the supposition

that it might be somewhat the general experience.

The Chairman. If you will write us about this we will fix it up.

Governor Seay. Prior to this year it has been of no consequence to us whether we received any allotment in the distribution or not, because usually our bank has operated well within the resources of its own district, but owing to the conditions which prevailed last year and the involved conditions which we have been working out in the borrowing class, our loans went down to a very low figure, making the earning assets for the first quarter very low, and we were glad to see them low.

The Chairman. Just write us and we will take it up with the committee and fix you up. There are times when our proportion of earning assets is larger, and while we have only a very small proportion of the small bills which cannot be apportioned very well, we will fix up an arrangement by which you will get a special allotment of bills.

Governor Seay. This occasion may not arise again, and probably will not.

Governor Talley. You did that for us last spring.

The Chairman. Yes.

Governor Talley. We took about six million Governments and replaced it with small bills.

The Chairman. Yes. We have had every variety of transaction with you. Governor Geery has been in and out with us in that way, too, haven't you, on your portfolio? Have you swapped Governments for bills?

Governor Geery. We did once a couple of years ago.

The Chairman. Are there any other comments on the apportionment plan here and the figures submitted in connection with it?

Governor Talley. I have none except to follow in a general way with Governor Seay. We had exactly the same experience last year. I do not know whether you remember it or not. We had to crowd our allotment pretty heavily in the last six months of last year, and at one time I think we had to ask to be relieved of about \$5,000,000.

The Chairman. You would like to start earlier?

Governor Talley. We would like to start earlier and spread it out over the year, if we could.

The Chairman. If there are no comments on the method of apportionment, we will pass that, and there is no occasion to take any action on it and no motion before the meeting, and the question is whether we have discussed under A everything that should be discussed under B, "Discount rates and policies." Do you wish any further discussion on that subject? There being no call for discussion, we will consider that covered.

I. Credit Transactions and Policies.

C. Relations with Foreign Banks.

1. Report.
2. Status of agreement with Bank of Poland.
3. Status of agreement with National Bank of Belgium.
4. Purchase by Federal reserve banks of bills payable in foreign currencies.

The Chairman. Under Topic C, "Relations with Foreign Banks," I will ask Mr. Harrison to report on that.

(The discussion on this matter was, by direction of the Chairman, not reported except as follows):

The Chairman. Two boards were good enough to write us about proposals for purchasing bills, and I took the liberty of putting these two topics on the program because it struck me possibly that we might have an illuminating discussion on the matter. One case was

at Cleveland. Governor Fancher, have you any discussion of the question of ear-marked bills?

Governor Fancher. One of our member banks made inquiry of us as to what would be our attitude if these bills were offered, and I thought, before giving him an answer, I would get an expression from your bank. However, there was nothing done.

The Chairman. That ends it?

Governor Fancher. Yes.

The Chairman. The other was by Governor Wellborn about buying documentary cotton bills.

Governor Wellborn. That is the letter from the New Orleans man that you refer to?

The Chairman. Yes.

Governor Wellborn. I do not know enough about that to discuss it. He has not sent it to me. He is going to send the man in charge of the foreign exchange in to our bank to discuss it, and I have never seen Mr. Pool, the man who wrote the letter, to discuss it with him; therefore, I do not know exactly what he wants to do. I am inclined to think that the proper procedure, from what I can remember of it, we can make him ad-

vances if he wants them. You wrote me that you did not have any collecting facilities, and I think that it might be satisfactory to him if we just made advances to him.

The Chairman. There are two types of transactions either of which he may have had in mind. One is the type that Governor Talley knows all about, because he has millions of them. He buys a dollar draft on New England or New York on a member bank, and attached to that is the sterling draft, not yet presented for acceptance, representing in his case a foreign shipment of cotton, and all the papers respecting the cotton. All that he does is to make an advance on the collection item in dollars, and it is really collecting a documentary draft in dollars and nothing more, and it comes up to the New York or New England bank on which it is drawn and that ends it.

The other case may be where somebody down in your district wants you to buy unaccepted drafts representing the value of cotton sold abroad, where the draft is payable abroad in foreign currency. If we once start going into that, we have got to open our doors to going into

the commercial foreign exchange business. I do not know how much you want me to elaborate on that, but I remember in the Bankers Trust Company in the ordinary season we bought as much as \$200,000,000 of those. No bank runs an open account in any foreign currency for any such volume as that. He is selling against it all of the time. You buy your sterling drafts and sell your demand sterling and the drafts go forward by the same steamer which takes the bills against which you are drawing, and if we once get to competing with our member banks doing commercial foreign business, we would be in hot water all the time. Besides that, we have no facilities for handling those drafts abroad. The banks that we correspond with over there would never handle these bills in the world.

Governor Wellborn. You mean the collection of them?

The Chairman. Yes. They are owned bills as soon as they are presented and accepted, and then we have to carry them or discount them, and then we are always in the market selling foreign exchange. Furthermore, all of the value in those drafts expressed in dollars is calculated against the rate of discount in London.

Of course, a Federal reserve bank might be willing to do business on a 3 per cent basis and carry those bills to maturity, whereas every member bank has got to figure on the London discount rate, and we have knocked the stuffing out of all our member banks. They could not compete with us. So it would be a very dangerous type of business for us to undertake on that account.

The second thing is that the handling of these cotton drafts involve just as complete a knowledge of the credit of a cotton shipper as any credit transaction you ever had. I well remember cutting off absolutely and declining to purchase any of Mike Yancey's paper about a year before they busted, and they had ten or twelve million dollars out that went bad completely.

Governor Wellborn. Could you gather from his letter what he wanted to do, what he wanted to obviate or rather change from his present procedure? Could you gather from his letter what he really desired?

The Chairman. I could not for the life of me tell what he was driving at.

Governor Talley. Very likely it was the application of the London discount rate.

The Chairman. I do not know.

Governor Wellborn. He did not write to me. He wrote to the Board and it was referred to me and I wrote to you, and then I wrote to him and sent a copy of your letter, and he said he would have his foreign exchange man at our next meeting, and we will probably meet in New Orleans the next time and then we can get into the real merits of the case.

The Chairman. I will tell you what might be in his mind. He is a local dealer in cotton bills. Of course, when he sells those bills to your correspondent, there is a shave on them naturally. He may think that the Federal Reserve Bank of Atlanta has facilities abroad by which he can get a little better rate for his bills.

Governor Wellborn. That is the question I want to ask you. Suppose he was to ask me couldn't we open up an account there with foreign banks, with the Midland in London or with the National City branch in Paris, or banks of that kind? I want you to understand I am not crazy about getting into anything like that.

Governor Talley. I will tell you what is evidently the same sort of an inspiration, and how we worked it

out in principle, although I do not know whether there is any business being done along that line or not. We worked it out with one of our large local banks. They purchased the unaccepted sterling drafts with the documents, and then they would issue their own bill against that, and then they sent the unaccepted sterling draft across to their London correspondent and had it accepted, and then they sold demand sterling, and then they sold their own bill in the market.

The Chairman. That is where the exchange transaction is hedged.

Governor Talley. That simplifies the whole proposition.

The Chairman. The real question to be considered in connection with handling cotton drafts in foreign currencies is whether we are going right out in competition with our own members.

Governor Talley. That method which I have described takes it clear away from us. We do not have anything to do with it until that bill bobs up in the market and maybe comes back to us, and when it comes back to us indorsed, then we are a party to the transaction; other-

wise we are not. He gets the money from the market on his bill with which to purchase his sterling. The question that was asked of us, of course, was whether that bill was eligible for acceptance.

The Chairman. As discount?

Governor Talley. No; as to whether it was eligible for acceptance. So I took it up with the Board here and there was no specific ruling on it either way, but in principle it is exactly the same as an acceptance is secured by a trade acceptance payable in foreign currency.

The Chairman. We have concluded Topic D and now pass to Topic E.

I. Credit Transactions and Policies.

E. Advisability of standardizing requirements of Federal reserve banks as to forms and character of credit statements.

The Chairman. That has been up here before, but I think Mr. Harrison can report what the previous action was.

Mr. Harrison. As a matter of fact, I think there was some confusion in the records in the Board's letter with regard to the action of the Governors' Conference.

The only reference that we had to the matter before and the one which is now on the program relates to the action which was discussed this morning as to the statements with member banks. So that this specific question of standardized forms and character of credit statement has not been before the Conference in very recent years. I do not know how long ago it might have been up here.

Governor McDougal. I think, Mr. Harrison, that was intended specifically to treat with the same subject that we have been treating in the former subject I-D.

Mr. Harrison. The reading of the Board's letter X-4958 would seem to justify the statement that they are referring to the same thing that we were discussing this morning.

Governor McDougal. For the reason that they refer to the Advisory Council's treatment of the subject, which was confined entirely to that form of statement.

Mr. Harrison. Yes.

The Chairman. Our position in New York in the early days was that we should not attempt to enforce a uniform statement upon borrowers in our district to the member bank; that we should not take the responsibility of

doing so. However, we endeavored to help the member banks to secure uniform statements from their borrowers by furnishing them with typical forms which they could use if they were suitable to the borrower, and we have as a matter of fact got a set of forms and where the member banks want to use those they are at liberty to do it. If they want to use some other forms for their customers, they may do so. I think most of the reserve banks do the same thing.

Governor Bailey. We have some.

The Chairman. Then the American Bankers' Association is getting up forms.

Governor Fancher. In Cleveland the clearing house association worked out a form which was in use by the larger member banks, and also such forms were worked out as would fit in the case of the small borrowers, and when a bank would write in inquiring about forms, we have usually referred those communications to the clearing house and have supplied themselves with those forms if they wanted to adopt it, and in that way those forms are now used throughout our district.

The Chairman. Of course we could not pretend to

furnish a pro forma statement to a concern with a lot of subsidiaries. It would be out of the question.

Governor Seay. The forms which have been adopted in the Cleveland district vary from those adopted in the Richmond district. There have been two efforts made to arrive at some fairly uniform standard. The Federal Reserve Board made some effort here, and they asked the credit men of some of the banks to come up here and aid them, and they were here for several weeks. But I think the general opinion is that it is an impracticable thing.

The Chairman. Would you be satisfied at this meeting to pass a resolution that it is the sense of the meeting that it should be the policy of the reserve banks to aid the member banks in obtaining suitable forms of credit statements from their customers, if necessary by furnishing forms, but that we should not attempt to force uniformity in credit statements, and our attitude should be to render assistance in getting uniform statements, but it should not be our policy to require it, and it will be impractical to do it.

Governor Seay. That would be my view of it.

Governor Bailey. I would like to second that motion.

Governor Fancher. I second it.

(The motion was put and unanimously carried.)

The Chairman. A memorandum I have before me on this same subject refers to a suggestion which was raised I think with the Federal Reserve Board counsel as to whether the Federal Reserve System should attempt to require audited statements. Now, of course the credit system of this country is developed wholly different from that which prevails abroad. More companies and corporations especially are having public auditors audit their books and certify to them, but it seems to me that to require that would be just a perfectly impossible thing. The amount of auditing required would probably tax the auditing facilities of the country beyond what they are capable of meeting.

Governor Fancher. Does not that really get back to the policy of the bank in extending credit affecting paper? If it feels it should have an audited statement it should be initiated by the bank. Of course, the facts are that more audited statements are being required.

Governor Talley. Wouldn't you say that more audited

statements are being made?

Governor Fancher. Yes, made, and I think required. I think the banks in some states do require them.

Governor Seay. The practice is undoubtedly growing, but if you make it a requirement the banks would rebel.

Governor Norris. The recommendation of the Advisory Council was against it.

Governor Seay. I do not recall.

Governor Norris. Yes, unqualifiedly against it, that it is impractical.

The Chairman. Does someone want to offer a motion?

Governor Wellborn. I think we all agree that that is the best thing to do. There is no doubt about it, audited statements we find have been very unreliable, and when a bank fails and the real assets of the debtor are inquired into, they do not exist.

Governor Seay. Well, what you refer to is a collateral question, Mr. Chairman, which is not embraced--

The Chairman (interposing). It is not on the program.

Governor Seay. Then I would not think that any vote was needed on the subject.

Governor Talley. It was in the program of the Advisory Council.

The Chairman. Yes, and that is the way it came up. We can pass it without any action, because it is not on our program.

I. Credit Transactions and Policies.

F. Classification of deposits in member banks by building and loan associations, mutual savings banks, cooperative banks, credit unions and Morris Plan banks.

Governor Norris. I would suggest that we hear from the bank that sent that inquiry to the Board, as to the purpose of it.

The Chairman. Which bank made inquiry of the Board which gave rise to the Board's suggesting this topic on the program?

Governor Norris. The Board's letter say "The Board has received from one of the Federal reserve banks an inquiry as to whether deposits of such and such a kind should be carried as demand or time deposits," and so forth.

Governor Geary. That is, demand or time?

Governor Norris. Yes, and I said "and so forth."

Governor McDougal. "Against which the amount due

from banks cannot be applied in arriving at their reserve requirements."

Governor Harding. Boston pleads not guilty.

Governor Norris. Apparently no bank made the inquiry.

Governor Geery. I cannot see, from my point of view, what difference it makes. I do not know of any bank which takes country bank business that has not got a great deal more country bank balances than the farm bank amounts to.

Governor Norris. Country banks, yes.

Governor Geery. Suppose you add to this, you do not change the reserve ratio at all, because you can only deduct the amount you have due from banks, and the rest of it would be demand deposits. It does not change the reserve proportions at all. The only place I can see where it would have any effect would be in a case in New England. You might have a national bank in Springfield that had an account with a mutual savings bank in Springfield that had no other bank accounts at all, and they would be allowed to deduct "due from banks."

Governor Harding. We did not raise this inquiry.

Governor Seay. Mr. Chairman, the Board has ruled that building and loan associations and mutual savings banks and private banks do not come within the meaning of the word "bank" as used in the Federal Reserve Act. That being the case, I do not see how balances due to those banks could be deducted.

Governor Norris. Counsel for the Board has given an opinion that mutual savings banks are banks within the meaning of the Federal Reserve Act.

The Chairman. The Board has made the ruling that Governor Seay mentions, and consequently cannot make the deductions suggested by this inquiry, whoever made them, and it involves a change in the rulings of the Board. The question now is whether it would be wise for this Conference to recommend any such change as this. This matter was considered at the bank, and one of our men expressed his views, which I think are sound, and I wonder if Mr. Harrison will not read this.

Mr. Harrison (reading):

"On the basis of existing rulings, therefore, it seems clear that deposits of the character under

discussion cannot be considered as balances 'due to banks.'

"It is presumed that the Board wishes to have the matter considered, however, on its merits and quite regardless of previous rulings.

"It is understood that the paragraph quoted above from the Act is the result of an attempt to make legal a practice which had existed with the approval of the Comptroller of the Currency prior to the establishment of the Federal Reserve System under which banks had been permitted to offset balances 'due to banks' with balances 'due from banks' in computing reserve requirements. This practice probably was based on the theory that balances due from banks represented in considerable part items in process of collection, that is uncollected funds, and also to the extent that it did not represent uncollected items, that the funds were available for the liquidation of deposits. It may have been argued that such balances 'due from banks,' while entitled to consideration in the matter of reserve requirements, ought not to be permitted as a deduct-

ion from gross deposits, but only from balances due to banks on the theory that in times of stress there would to a considerable extent be an offsetting of bank balances.

"In the light of present-day banking methods the whole procedure is unsound and antiquated. There is no basis in fact warranting the deduction of balances 'due from banks' from anything. Deductions, if made at all, should represent only items in process of collection on the theory that no reserve should be required on deposits until the deposit represents collected funds, and such deductions, if permitted, should be from gross deposits rather than balances 'due to banks.' It is recognized, however, that such a procedure would require a change in the Act which cannot be at once accomplished. Therefore, dealing with the question in the light of the Act as it now stands, -

"It is recommended that it would be inadvisable to make any more liberal interpretation of the intention of the Act than is necessary and inasmuch as the present ruling of the Board does not permit

the classification of deposits of the character under discussion as balances due to banks, it would be better to let matters stand as they are rather than to further liberalize it.

"As to whether such deposits should be classified as demand or time deposits, that obviously would have to depend upon the conditions under which the deposit is taken. If the bank holding such deposits has the legal right to require thirty days' notice of withdrawal or if in other respects the deposits meet the test of time deposits, then they should be so considered, otherwise they should be considered demand deposits."

Governor McDougal. That is a very sensible statement with regard to the whole matter. I do not believe the Board's rulings, though, covered Morris Plan banks.

Governor Norris. Morris Plan banks are not banks at all.

Governor McDougal. In considering the application of the provisions of the Clayton Act, I understand that Morris Plan banks are considered as banks.

Governor Norris. It is hard to know when a bank is

or is not a bank now,

Governor Wellborn. They are not banks of deposit.

Governor Fancher. Our counsel says:

"The Supreme Court of the United States had held that banks in a commercial sense are of three kinds: (a) of deposit; (b) of discount; (c) of circulation. They further held that a bank which exercises but one of these functions is a bank in the strictest commercial sense. While this court decision is obviously an old one it is quoted by the Attorney General in opinion published in the Federal Reserve Bulletin No. 27, page 268. Since all of these organizations exercise one or more of the three above-mentioned functions, it clearly follows that in a technical sense they are banks, and if an institution where such balances are carried chooses to qualify them as 'due to', I can see no way in which it can be avoided.

"I have discussed this matter with Mr. Newell"--
Mr. Newell is our attorney.
"--who has confirmed this opinion."

Governor Seay. That is not the opinion of our counsel, Mr. Chairman, and he gives an opinion very analagous to that read by Mr. Harrison. Summed up in one sentence, it is to the effect that mutual savings banks, cooperative banks, credit unions and Morris Plan banks do not undertake the collection of checks on a large scale, and it seems a deposit balance due by a commercial bank to such an institution cannot be distinguished from a deposit balance due to any other customer.

The Chairman. None of them undertake the collection of checks as collecting agencies.

Governor Fancher. And they do not as a rule carry checking accounts.

The Chairman. Mutual savings banks in our district are not really permitted.

Governor Talley. With reference to the building and loan association, they carry no reserve themselves and are not required in our state. The form of investments are specified. In view of the fact that they carry no reserves and their balances with other banks are merely investments with the banks, the banks should carry full

reserves against those balances.

The Chairman. We are not lawyers and don't you think we are justified in passing a resolution that the Board make no change in the existing regulation?

Governor Talley. I make that motion.

Governor Geery. I second it.

(The motion was put and unanimously carried.)

I. Credit Transactions and Policies.

G. Development of investment companies for purchase of bank stocks.

The Chairman. This matter has had a very active development in our district.

Governor Talley. Do you include investment trusts in that?

The Chairman. Yes. We have a list of all of them. Their business is analyzed. We even have a list of the investors in quite a number of them.

Governor Seay. How many of them are there, Mr. Chairman, without counting--a hundred?

The Chairman. There are sixteen.

Governor Harding. That is just the New York district?

The Chairman. Just New York. I do not know what to

do about this report, it is so long. Probably the best thing to do, Mr. Harrison, will be to ask for an exchange of views on this subject. I think you have got to watch it.

Governor Fancher. I think that report would be very interesting to all of the Governors here. Couldn't we have copies made?

The Chairman. It is thirteen pages.

Governor McDougal. Do these sixteen companies you refer to mean companies specializing in bank stocks?

The Chairman. Not altogether in bank stocks, no. I can give you a lot of them.

(The Chairman here read the list of companies from the report.)

The Chairman (continuing). This winds up with a recommendation which I will have Mr. Harrison read to you, and then, if you would like a report on this, we will be glad to have that struck off and send it around.

Mr. Harrison. After reciting these various companies to which Mr. Strong has just referred, the memorandum concludes with this recommendation:

"That at an early date there be held confer-

ences of the officers of the Federal reserve banks with the Comptroller of the Currency, the Chief National Bank Examiners and the Superintendents of Banks for the purpose of considering this general problem and working out plans for dealing with it in each Federal Reserve District.

Among the measures which seem desirable are the following:

"1. Examinations or investigations of companies engaged in purchase of bank stocks should be made by the appropriate State authorities and efforts should be made to have such companies publish from time to time statements of their financial condition and lists of the securities held by them.

"2. Frequent and searching examinations of banks included in chains controlled by these companies should be made.

"3. That in the examinations of all banks, loans to companies of this kind or loans based upon their stock should be set out in the examination report.

"4. That in case where circumstances warrant,

the attention of Attorney General of the state be called to the operations of any particular company which is engaging in illegal practices."

Governor Seay. That is treating the matter quite seriously.

Mr. Harrison. We think it is serious.

Governor Seay. Governor McDougal, there was some report in at least one of the papers of parties in your city, I think, who signified their purpose to organize a national bank in every Federal reserve and branch city in the country.

Governor McDougal. If that is this fellow Parker, I think his name is, he has no standing and he is not looked upon with any fear or apprehension at all.

Governor Fancher. Hasn't he transferred his activities from Chicago to New York?

Governor McDougal. That I do not know.

Governor Seay. He is reported to have taken the view that the National Bank Act required the Comptroller to authorize the organization of a national bank when the required number of persons applied to him for that purpose, and that he had no discretion; but, as we

know, the Comptroller is beginning to exercise a very much closer surveillance over the organization of new national banks.

Governor McDougal. That is the attitude that he displays with regard to this. I have heard the matter discussed a good deal out there, because of the newspaper publicity they have given it, but it seems to me more talk than anything else.

Governor Fancher. I do know that the Better Business Bureau in New York camped on brother Parker's trail, and they have got his number. He will have a hard time to get very far.

Governor Norris. I think this is an interesting and important development in American finance. The question that arises in my mind, however, is whether any steps that ought to be taken in reference to it should be initiated by us or by state or national banking authorities or blue-sky commissions, or whatever they are called, or by some organization of bankers. I suppose it is agreed that this is not particularly a Federal reserve province, and is it such an important development that, in the absence of action by anybody else,

there is a moral obligation on us to start some action?

Governor Talley. I would say that, inasmuch as it affects the stockholders' liability in certain banks, it is a Federal reserve matter.

Governor Norris. I do not think it does. If any one of these companies was organized for the purpose of acquiring the stock of one bank or one chain of banks, then would affect the stockholders' liability and all their eggs would be in one basket, and in case the bank or chain of banks went wrong there would be no other assets there that you could collect from. But most if not all of them scatter their investments and hold stocks in various different banks, and most of them not only in banks but in insurance companies and other concerns. So that that being the case, I do not see that the stockholders' liability is affected.

Governor Talley. Of course, we are pretty far from the scene of action of such enterprises, but we feel a great deal of concern about it as affecting the general banking situation, and I have prepared a short memorandum here which I would like to read:

"Assuming that Topic G, - Development of

investment companies for purchase of bank stocks--
is closely related to the topic which is generally
current and referred to as investment trusts, there
are three points which might be briefly made.

"First, if investment companies which are organized for the purchase of bank stocks are operated along the lines of the so-called investment trust, as such organizations have been recently established, then the practice would be a matter of some concern and some sound regulation that would not be irksome to a sound enterprise, but would prevent unsound practices, should be established.

"Second, if the question is clearly established that stockholders' liability would be eliminated the object of that provision of law would be defeated; then certainly investment companies organized for the purpose of owning bank stocks are unsound in principle, if not illegal.

"Third, the organization of holding companies for the purpose of owning the stocks of small individual institutions and at the same time owning the control of a larger institution in order that

such small individual institutions might be operated for all practical purposes as branches of the large institution, would defeat the objectives and purposes of the Act of February 25, 1927, known as the McFadden Act, and would be in effect detrimentally competitive to those larger individual institutions which are located in states which do not permit branch banking.

"The point which is made in the second subdivision above would be one of consideration in connection with this principle. Moreover, the opportunity for indulging in the unsound practices that frequently appear in what is known as chain banking would not necessarily be eliminated by reason of this practice. What I see in the tendency of the so-called investment trust is that they are fair weather enterprises and as long as stocks are moving upward, everything is lovely."

Governor Biggs. Mr. Chairman, I would like to raise the point here as to whether this condition prevails in any other district. These investment companies have been buying our best bank stock for sixty days.

They have raised the price of four different bank stocks from \$35 to \$60 a share. One concern very frankly stated that they have so many shares of the First National Bank, and they could not get them anywhere near the market and they went out and paid an advance of \$30 a share for as much as was advertised for sale. Since then the stock has gone up \$30 or \$40 a share on that situation, and all four are four of the largest banks there, and on inquiry I find that it is due to these investment companies. There is nothing that would justify that stock going any higher, because they are not making as much money or no more money than they were making a year ago, and it is getting beyond a dividend-paying basis, and I was just wondering if that same thing was happening in other districts.

Governor McDougal. Is this a St. Louis enterprise that is doing the buying?

Governor Biggs. No. It is called the New England Company. They have salesmen going around and soliciting people to take what they call a participation, stating they have got so many industrials and then so much of the good bank stock, and they say, "Here is what you

are participating in; you know all of these institutions and you can look them up and make inquiry," and they are selling real stock there on that business to a lot of people.

The Chairman. You speak of that development in St. Louis in terms that indicate that you feel some concern.

Governor Biggs. I certainly do.

The Chairman. If you came to New York and learned the history of some of those that were developed in New York, you would go to a hospital with concern. What I mean to say is that one investment company bought investments in bank stocks, has securities outstanding today in New York that have a market value of over \$125,000,000.

Governor Biggs. In that connection, in making this inquiry and talking to the officers of the bank, I found that this fellow out in California had been buying bank stock in five of the biggest banks of St. Louis for a year, just as fast as he could get it.

The Chairman. There seems to be no doubt that there are elements of danger in it. One of them is the one

Governor Talley referred to, that these stocks have no double liability. Most of them are incorporated in our state under statutes or the statutes of other states without any double liability provision, and consequently the creditors of the bank whose stock is held by this investment corporation do not get the benefit of the double liability in the same complete sense that they do in other cases. To be sure, where the company is large and they hold a variety of securities, they would get protection, but where they confine their purchases to one or two banks that might go down in a crash, the protection of double liability is lost. That is one danger undoubtedly, possibly a less one than some of the others.

The second danger is that there is speculation in this stuff, in the investment of stock of the investment companies. As they go up in value they can market more stocks and buy more bank stocks at higher prices, and people are led to borrow in order to speculate in these investment company stocks, and something might come along and prick the bubble and then the sharp decline in the stock of the investment companies

is very liable to affect the credit of some bank with which it is associated.

Governor Seay. If it controlled the holdings of that bank stock in the market.

The Chairman. Yes. But I mean most of these concerns in New York have been organized by individuals who are associated with some particular bank. I won't mention any names, but you probably know some of them. Almost every one has been organized as an attachment to a commercial bank or a trust company, and the development of the speculation of this stock and the possible collapse in its value might be construed by the public to indicate that there is something wrong with the bank, and they might start a run on the bank itself.

We have taken it up with some of these fellows and at least made it perfectly clear to them that we did not like the way things were going. The question arises as to whether it is any of our business at all. I have a feeling that where a concern of this sort is organized in close affiliation with a member bank and that member bank makes loan on the stock of that concern, and they have a sort of interlocking arrangement for

transactions of one kind and another in securities, that it may be very much our business, but we have not any formula devised for dealing with it, but I am beginning to have a feeling that if this thing is going on much further with the state banks at least, where we have some control of the membership, we may be obliged to say to them, "If you want to continue members of the Federal Reserve System, we are going to have the right to examine that investment company." It is rather puzzling, because the superintendent of banks has no right to examine them, apparently.

Governor Fancher. They are organized under the general incorporation laws?

The Chairman. Yes, sir.

Mr. Fancher. With no stockholders' liability?

The Chairman. No. Some of them are incorporated under the laws of other states.

Governor Seay. If a bank should make loans on the stock of an investment company which held stock in the bank, it would be equivalent to lending on its own stock?

The Chairman. There was a concern organized in New

Jersey that bought the majority of the stock of a bank, about 80 or 90 per cent, I think, the investment company did. The very first crack out of the box they went to the president of that bank and they said he had to take ten thousand shares of that stock. He said, "I wont do it." They said, "I guess we know who owns this bank," and he went to the court and said "How about that?" He said, "They went." And they did not. That is not the present situation.

There was a big insurance company and a trust company in New Jersey where one bought the stock of the other, and vice versa, and the courts tore that apart and made them separate.

I do not like this development. I do not like speculation in bank stock. The fact is that bank stocks in New York have gone up 50 per cent in value, but a part of the advance has undoubtedly been due to the unlicensed purchase of stock by these investment companies, and when you look over the lists of the securities which we have of some of them, they have millions and millions of dollars of bank stock at constantly rising prices.

Governor Talley. You mean they have gone up in price and not in value?

The Chairman. Yes, sir.

Governor Talley. I would like to ask Mr. Day about the operations of this man out in California.

Governor Day. The Bank of Italy Corporation was organized in June, 1919, with a million dollars of capital, and they have gone from 1919 to October, 1927, to a fully paid up capital of \$130,000,000, with total surplus of \$235,000,000. The last statement we have is October 30th, 1926, when they designated they had \$40,917,000 worth of domestic bank stock in their investment trust and \$10,751,000 worth of foreign bank stock. They own stocks in every important bank in every important city in the world.

Governor McDougal. Where does this enormous capital and accumulated surplus come from?

Governor Day. Mostly from the public, I should say.

Governor McDougal. Does it come at all from washing out the book value?

Governor Day. I imagine it does, but I have no information as to that. But they are continuously giving

the public opportunity to participate at prices slightly below the market and later on declaring stock dividends.

The Chairman. And then they issue two classes of stock, or more, and give the dear public a limited participation in the appreciation and keep the unlimited participation themselves?

Governor Bank. Not in the Bank of Italy, no.

Governor McDougal. It would be interesting to see to what extent some of the organizations are operating in other cities. We do not know of any corporation of that sort in Chicago or in our district.

The Chairman. Well, you know that this California one may operate there.

Governor McDougal. We may assume, from what we have been told by New York, that the operations of these sixteen companies have a good deal to do with what has happened to our bank stocks too.

Governor Fancher. I think it is very significant about the attitude of the public when you see the Bank of Italy Corporation trading on the New York curb to the extent of 37,000 shares in one day and selling

115, 116 or 117. Somebody owns the stock.

The Chairman. Why, Governor Fancher, these banks uptown--there is a lot of speculation uptown among the small people. Some of the smaller uptown banks in New York City informed Mr. Case that the reason why they come to us for credit more than they usually are expected is that their customers have drawn their money out in order to buy these investment company stocks and bank stocks, and their balances therefore are reduced to a point where they have to borrow more than usual. We asked them all if they are lending very largely, and some of them are lending too much. We do not run every one of the banks in our district; we cannot do more than remonstrate up to a certain point, but we are making it a little uncomfortable to some of them.

Governor Biggs. How do you make it discouraging for them? What do you do?

The Chairman. Well, we intimate to them that we do not like very much, and we are watching how much they borrow from us when the seasonal demand comes along. That is a pretty strong intimation to the uptown banks, because they are absolutely dependent except during the

season when they are manufacturing in the spring. Now they pay off, but it is in the spring that they borrow it.

Governor Seay. They cannot object to the withdrawal of the money of their depositors.

The Chairman. No, but if we find they are lending we have a little talk with them. My recommendation to the meeting for action is that we have a little inquiry made in each locality and get our reports and exchange them between each bank; let each bank make up a dozen reports and send them to each of the others.

Governor Norris. Wouldn't it be better to get up a questionnaire that we could answer, because we do not know what points you have covered in your report?

The Chairman. What do you say, Governor McDougal?

Governor McDougal. I suggest that perhaps those who are here are in a position to report now as to whether these companies are operating in their districts.

The Chairman. I would like to see a written report that we could assemble. Possibly the best way to get at that would be for us to make our report and send it around and that would be a guide. New York is where

most of this has developed lately in numbers, and we could have this report elaborated quite a bit in particulars. This report is rather a casual, off-hand statement, but we will put some of our fellows on the job very thoroughly and get a real report and send it around, and if you gentlemen can do the same thing that will be very helpful.

Governor Talley. It is a thing that can invade any district. It may have invaded ours, I do not know yet, and it would take an inquiry to develop that.

Governor Seay. If it can go into St. Louis it can go into our district and do the same thing, and then you would not have to make an inquiry to find out about it.

Governor Wellborn. I do not think they would have the temerity to come into the Sixth District since the failure of the Atlanta banks and others in Georgia and Florida.

The Chairman. If you will permit me, we will have the report started at New York and send it around, and if we follow that general line maybe that will be enough. There is quite a little inquiry about this in New York.

The Attorney General of the state is making an investigation.

Governor Seay. There is also an inquiry into these investment trusts. Haven't questionnaires of different character been sent out by your state banking department?

The Chairman. Yes. That was described as investment trusts, but it includes all of these. If that stands as the action of the meeting, we will pass to the next topic, H, proposed by Dallas.

I. Credit Transactions and Policies.

H. What effect will ruling of Supreme Court of Texas that trade acceptances are non-negotiable which bear the legend - "The obligation of the acceptor hereof arises out of the purchase of goods from the drawer, maturity being in conformity with the original terms of purchase"--have upon the negotiability of bankers acceptances containing similar language, e. g. "This acceptance arises from the domestic storage of cotton and was secured at time of acceptance by documents securing and conveying title to ---- bales and will remain so secured throughout the life of this acceptance."

Governor Talley. I would like to say in the beginning that, in view of the fact that we have had this supreme court ruling down in Texas, it is of more concern to us than the interest we have been able to

arouse in the other districts, but the indications are that it is a matter of concern to the other districts. The topic that I have put on the program of course mentions the supreme court ruling with reference to the opinion of non-negotiability of trade acceptances, but that is more or less incidental. Our counsel has given me an opinion that he has a right serious doubt as to the negotiability of bankers acceptances of this character, covering the domestic storage of cotton and other commodities and secured at the time of acceptance by documents giving title to the commodity and will remain so secured throughout the life of the acceptance.

I have sent a copy of his opinion to the other banks and I think I have two opinions from two of the banks which, with all due respect to their counsel, seem

to try to evade the question rather than to solve it. Briefly, I have a suggestion here, irrespective of the opinion of counsel, that might bring a solution to it, pretty much as we changed the wording of the trade acceptance.

~~The Chairman~~ Governor Talley, isn't this really a legal question which has got to be referred to counsel?

Governor Talley. I would be glad to refer it to the Committee on Acceptances, or something of that kind.

Governor Bailey. Is there a movement on foot to have a meeting of all of the banks' counsel?

The Chairman. It was understood at one time that that meeting would occur about once a year. Mr. Wyatt spoke to me about it day before yesterday and asked if there was any desire for such a meeting, because he thought it would be very helpful. If such a meeting would be held, two or three questions on this program and some other matters which are pending before the System could well be referred to that meeting.

Governor Bailey. This is one of them.

The Chairman. This is one of them.

Governor Talley. I think from time to time we have

accumulated some legal questions that it might not be amiss that they have a conference to arrive at some uniformity as to some of these questions.

The Chairman. Well, there are three or four cases now that I know of. There is this one which you raise about the negotiability of the acceptance. There is the question of the decision of the supreme court of Kansas in Colorado & Southern Railroad Company versus the receiver of the American State Bank, which came up. There is still the open, unsettled case of the state bank of Hugo. There is the case that is now about to come up in Atlanta of the practice now adopted of putting on checks "Payable in New York exchange," and having the customers of banks draw them on themselves payable at banks where they carry their account.

Governor Wellborn. That is a new departure, that last mentioned draft.

The Chairman. Yes. There are a number of questions of that sort where I would like very well to see a meeting of the counsel held.

Governor Bailey How will we do that, that this

Conference recommends that the Board call a meeting? When it is time to do that, I would like to make this motion.

The Chairman. I do not feel competent to discuss these questions, which are strictly questions of law, and which will affect all the Federal reserve banks. I would really feel more comfortable if we could have another meeting with the counsel of the reserve banks.

Governor Harding. I have a letter from our counsel, Mr. Wade, on the subject of this Texas decision, and I would like to hand it in to the Secretary.

The Chairman. What is your pleasure, gentlemen?

Governor Norris. I second Governor Bailey's motion.

The Chairman. Is there any discussion? Are you ready for the question?

Governor Talley. I would like to add to it, for a meeting at an early date.

The Chairman. The amendment is accepted by the proposer.

Governor Norris. And then I think the request should contain a statement of some of the questions.

Perhaps there are some additional ones to these that have already been mentioned this afternoon.

Governor Bailey. We might say, in view of the fact that there are certain legal questions pending that are of interest to the entire System, we believe it would be well to call the counsel in each bank together, and see if they cannot iron them out.

The Chairman. Then I would propose that the resolution be as offered by Governor Bailey and amended by Governor Talley, that the Conference recommend to the Federal Reserve Board that arrangements should be made at a reasonably early date for a meeting of the counsel and of the Federal reserve banks/of the System, Mr. Baker as special counsel, and that the Secretary be instructed to submit to the Board a list of those legal questions now pending, and in the notice to the reserve banks of the action taken that each reserve bank be asked to take up with their respective counsel any questions which they think should be submitted to that meeting.

Governor Bailey. For him to bring on to this meeting?

The Chairman. For him to bring on to this conference.

Governor Talley. Of course, that will include the

counsel of the Board, too?

The Chairman. Mr. Baker and Mr. Wyatt.

Governor Talley. Mr. Chairman, I would like to call attention to one point in connection with this question I raised which rather emphasizes its severity, and that is I would like to recall that the regulations of the Board do not specify the character of certificate of eligibility, but it has left it to a form of certificate that would be satisfactory to a Federal reserve bank, and the Federal reserve banks, as a matter of uniformity, have adopted the certificate now in use.

The Chairman. Not the one in Texas. Not the one complained of in this case.

Governor Talley. The one of the bankers acceptance, yes.

The Chairman. Well, the form of acceptance which was the subject of the litigation in Texas is not the form which was adopted by the Conference.

Governor Talley. No. I did not mean to say that. I am referring now to the fact that the eligibility which appears on a bankers acceptance regarding the storage transaction, there is nothing said in the regulations

about the form.

The Chairman. No.

Governor Talley. The regulations state the eligibility as follows:

"Evidence of eligibility and requirement of statements.--A federal reserve bank shall take such steps as it deems necessary to satisfy itself as to the eligibility of the draft, bill, or trade acceptance offered for discount and may require a recent financial statement of one or more parties to the instrument. The draft, bill, or trade acceptance offered for discount and may require a recent financial statement of one or more parties to the instrument. The draft, bill, or trade acceptance should be drawn so as to evidence the character of the underlying transaction, but if it is not so drawn evidence of eligibility may consist of a stamp or certificate affixed by the acceptor or drawer in a form satisfactory to the Federal reserve bank."

From the above it will be observed that the Federal Reserve Board does not define by regulation the form or character of a stamp or certificate affixed by the acceptor

or drawer from which eligibility may be readily determined but leaves such form of stamp or certificate to be so affixed to one that will be satisfactory to a Federal reserve bank. The present form of certificate or stamp in use on bankers acceptances covering the storage of readily marketable staples and covering import and export transactions, is one of uniform adoption by the twelve Federal reserve banks as being heretofore satisfactory to each. It now appears if this Conference is impressed in any way with the weight of any adverse opinion of any Federal Reserve Bank's Counsel, or is impressed with the doubt or certainty from a consideration of a summary of all the opinions, then the Conference clearly has the right to adopt a definite form of certificate or to omit the certificate altogether upon its own motion without controverting or violating any provision of the Board's regulation.

For our own part, we favor the elimination from the certificate of the following language: "* **and will remain so secured throughout the life of this acceptance."

The Chairman. Well, Governor Talley, in the case of an acceptance where the form of acceptance is the legend which makes the acceptance non-negotiable, no legend added by the bank to assure you of eligibility would cure that bill of its non-negotiable character.

Governor Talley. That is just the point I am making.

The Chairman. Therefore, in this particular case in Texas, what is needed is a legend which will pass the test of the courts as to negotiability. Isn't that it?

Governor Talley. That is it.

The Chairman. Then you have a bill on which the member bank will affix the other legend, which will satisfy you that it is a bill which is drawn in good faith, and so on.

Governor Talley. And our position is that in view of that ruling and of the likelihood that the same court will hold the bankers acceptance with this legend on it non-negotiable, we are having transactions all the time in bankers acceptances that float across state lines. Some of them originate in my district and some in other districts.

The Chairman. That has got to go before counsel,

and your counsel is acquainted with this. Give him all the data and it will result in some discussion and advice, I hope.

Are you ready for the question on the motion?

(The motion was put and unanimously carried.)

The Chairman. This will also cover Topic I.

Governor Talley. The point involved there seems to be a question of the creation of a trust relationship.

Governor Bailey. Yes, and we have cut it out from our letters that we send out. We just say "For collection and remittance." We do not say "In Kansas City exchange."

Governor Talley. We cover that right specifically in our collection circular.

Governor Bailey. I do not know how you can make the collection circular override a decision of the court. We are not taking any chance on it, and that is the reason I would like to get this Conference to pass upon it, because this is very important to us out there, and we have got them broken in so that they do remit in Kansas City exchange anyhow. There was a case out there which got through the courts without us knowing anything

about it, our attorney never knew of it, and all of these forms were not brought in at all, and it was decided that way.

The Chairman. Can you take an appeal from that?

Governor Bailey. It is too late.

Governor Norris. It is through the supreme court.

Governor Bailey. Yes. That is the supreme court. I do not know whether we could ask for a new hearing or not.

Governor Talley. I think we ought to refer to this conference of counsel all of these reports we are getting from Mr. Baker on the matter of procedure, and it can advise us if what we are doing on our collections is all right.

The Chairman. That is just the object of the proposal for a report. You know when Mr. Baker was present the question was raised whether inadvertently we were not traveling close to some other pitfalls, and it was understood that we were to prepare a report on all the details of our practices in handling collection matters, and then we started to prepare such a report and I think it has been sent to the other reserve

banks, so that by following one or the other form we can get uniformity.

Governor Talley. I think the Committee on Collections has made the San Francisco report the model.

Governor Norris. Yes.

The Chairman. We sent it to the Committee on Collections because it was really their job.

Governor Fancher. The chairman of the committee submitted your report and one from the San Francisco bank, and he rather thought that the San Francisco report was the one which might be followed by the other banks.

Governor Norris. Now, we come to the Strong Stabilization Bill.

The Chairman. Gentlemen, I will suggest that we make this the last topic and excuse the stenographers for the afternoon and have this in executive session.

(Whereupon, at 5.10 p.m., the Conference went into executive session, after which an adjournment was taken until tomorrow, Thursday, November 3, 1927, at 10 o'clock a.m.)

CX

SECOND DAY.

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A CONFERENCE OF GOVERNORS OF THE FEDERAL RESERVE BANKS.

Treasury Building,

Washington, D. C.,

Thursday, November 3, 1927.

The Conference of Governors of the Federal Reserve Banks convened in the Hearing Room of the Federal Reserve Board, Treasury Building, Washington, D. C., at 10 o'clock a.m., Thursday, November 3, 1927, pursuant to adjournment of yesterday.

APPEARANCES:

As indicated in the first day's proceedings.

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

The Chairman. Gentlemen, the meeting will kindly come to order. I have here a set of the reports of the subcommittee of the General Acceptance Committee of the Federal Reserve Board, made following the meeting held in New York and a conference with the officers, vice-presi-

dents, of all the banks that accept there, which report contains the substance of recommendations which have been proposed a number of times to liberalize one or two of the rulings of the Federal Reserve Board as to acceptance credits. Governor Young has just handed this to me, with the suggestion that this can be considered and then commented upon, and that the Board will thereafter take action right away.

I also have a rough draft of regulation K, series of 1927, relating to the collection of maturing notes and bills. This brings up that old bird "non-cash collections." This is to be distributed also, Mr. Harrison. After that has been read, possibly at a later session, maybe I can suggest a method of dealing with it. I will try to, anyway.

The last regulation now under consideration is regulation D. I have also been handed tentative draft, which was approved by the Federal Reserve Board June 21, 1927. Accompanying that is a suggested alternative substitute of Section 2-D, prepared by the Board's counsel, and the final draft now before the Federal Reserve Board of regulation D is the last draft submitted by their

counsel. It takes one of each of these to make a set, so that we can consider the proposed revision of the regulation as now before the Reserve Board.

This is the important regulation having to do with the reserve and deals with the question of window dressing, that is, the weekly and bi-weekly reports of reserves in the cities where there are branches, and the Board would like to have the Conference give expression of views on that, all of which I think we should take up tomorrow, after we have had a chance to read these matters.

In the absence of the chairman of the Advisory Committee of the Conference on Legislative matters, suppose we turn to the second group of topics, A, Report of the Standing Committee on Collections. Is Mr. Strater available?

Governor Fancher. Mr. Strater is here, Mr. Chairman.

The Chairman. Before taking that up, you will be interested to know that Mr. Newton D. Baker is in New York. I had him on the telephone this morning and he will likely be here this afternoon, not with the idea of attending to any business, but I told him that we were all here and I thought that everybody would be glad to see

him if he was in the building. He said he would probably be in the building some time this afternoon.

Governor McDougal. I understood that Mr. Baker was to discuss this topic 2-B with the Conference.

The Chairman. I did not know about that.

Governor Fancher. He did not so understand it. Coming down on the train Monday I asked him if he expected to attend the Conference and have a discussion of any topic with us, and he said that he did not so understand it.

The Chairman (after discussion). Without dissent, it is agreed that Topic II-B, Nos. 1, 2 and 3, will be referred to the meeting of counsel of the Federal reserve banks. I have mentioned that matter to Governor Young and, expressing his personal view, he said he thought it would be a good plan to have such a meeting.

We will now take up Topic 2B-C.

II. Collections and Clearings.

- C. Duties and liabilities of Federal reserve banks with regard to shipments of cancelled Government warrants and checks.

Governor Talley. Members of this Conference are of course familiar with the procedure of paying Government

checks, arranged in schedule form, according to the requirements of the Treasury, and sending them to Washington for credit. If any of those checks were lost, it would create a good deal of inconvenience, if not some embarrassment. They run into very large amounts and vary in character. It seems to us that some sort of accommodation ought to be reached with the Treasury as to just what our duty is and what our liability might be. We have made an arrangement--I do not know whether it has been extended to the other banks or not--but would be on request, no doubt--with an insurance company to insure these warrants, I think for 10 per cent of the face amount, to cover any expense in connection with loss of interest, or obtaining of duplicates, and so forth. I have a memorandum from my counsel which I would like to read.

"The warrants being cancelled and of no value other than from an accounting standpoint, the question arose as to whether or not any sum would be recoverable from the insurance company without the policy expressly so providing. With this point in view Mr. Swan suggested that the policy have attached

to it a rider reading substantially as follows:

"It is agreed that securities, bank checks or commercial paper that is not negotiable in form may be insured for not less than ten per cent of their face amount. In case of loss of any such shipment the assured shall be indemnified for the total cost of procuring the reissue of the property insured, including the legal and advertising expenses, loss of interest and all charges directly resulting from the loss or from the delay in replacement, such total cost not to exceed the amount of insurance."

"We think the rider suggested is sufficiently broad to cover the purposes desired. However, it occurs to us that a much broader question than that of insurance has been raised and we are writing you with reference to the matter in order to get your views.

"We have consistently taken the position that, in the payment of Government warrants and checks under the instructions of the Treasury Department, we are acting merely as an agent in the performance of ministerial duties. With this point in mind

the Treasury Department was induced, some time ago, to reverse the position that it had formerly taken with reference to its right to arbitrarily charge back Government warrants which upon investigation proved to be forgeries.

"While the Treasury's instructions at this time permit the various Federal Reserve Banks to charge the amount of Government warrants paid under such instructions to the account of the Secretary of the Treasury, this charge is not fully acquiesced in by the Treasury Department until the instruments so paid have reached Washington and have been inspected. As far as we know there has never been a loss in transit of such shipments, but the question occurs to us that in the event there should be a loss of a substantial amount of these instruments between Dallas and Washington, what would be the status of the charge, under the present practices, which the Federal Reserve Bank of Dallas has made because of the payment of these warrants. In other words, would the Treasury Department permit the charge to stand should the Federal reserve bank be unable

to procure duplicate instruments and endorsements? In the event of a large shipment it is entirely possible that the payee and endorser of many of these instruments could never be located and the question would arise as to what would be the status of the charge representing these amounts.

"We are of the opinion that, in view of the fact that Federal reserve banks are acting as fiscal agents in the payment of these obligations, the Treasury Department should give explicit instructions as to how they wanted shipments made and that when a Federal reserve bank had followed these instructions its duties would have been discharged and in the event of loss the charge would be final as between the Federal reserve bank and the Treasury Department. Of course, there is no objection in so far as the Federal Reserve Bank of Dallas is concerned to defraying the cost of insurance if the Treasury Department cares to have the same taken out in reasonable amounts nor is there any objection to lending every effort in the case of loss to secure the execution of duplicates, but we think that the

Treasury Department should require nothing further of the Federal reserve banks."

Governor McDougal. From what I have heard, I think the Dallas bank looked at this from a different angle than the angle from which we look at it. We do not consider that we pay the checks at all. We consider that we cash them and they are not paid until they get to Washington. We never cancel them.

The Chairman. It is not a question of our power to construe the proposition. The law of the United States, passed in the days of Alexander Hamilton, provides that no payment should be made out of the general fund of the United States except in Washington. I do not state it exactly, but that is the substance of it.

What we do in New York is to prepare the account in exact form as prescribed by the Treasury, giving all the particulars of the check, including the symbols. We retain copies of the account in New York, and a copy accompanies the shipment, or may go separately, I forget which. I think in one instance we had something like a million dollars of transit stuff taken out of a mail sack. They thought they were getting good securities,

and they were just getting vouchers. We had no trouble with the Treasury. It was attended to, but I do not remember just how. I think if this matter is taken up with the Treasury Department by any bank that has any feeling of uncertainty about the right to maintain the charge against the Treasury account, that the Treasury will give them assurance, all the assurance they need.

Governor Fancher. The thing that has been in my mind, Mr. Chairman, going back to the experience our bank had some years ago, was the question of the mail burning up. That is the thing that gives me concern, if we should have a large batch of these Government warrants burned, the time required in getting duplicates and things of that sort, would cover a long period, would entail a lot of correspondence, and so forth, about the charge.

The Chairman. I cannot tell you any of the detail of what happens, but I think with duplicates of the accounts in New York, I would not anticipate any difficulty about the charge. That is my understanding. The report I have here on it does not go into that feature of it, but merely describes the method.

Governor Harding. Have any of you looked into this

arrangement for making films of the Government warrants so that you can have photostatic copies of them made?

The Chairman. Photostatic copies?

Governor Harding. Yes. There was a man in our office not long ago who had a very attractive little device. It did not take as long as keeping the record of the endorser, the drawer, and all that sort of thing. It is just a little bit of a thing; they take them and run them right through the machine, and they get this film as they go in the machine. You file the films away by date. If you have a loss and want a photostatic copy of any of those things, you take the films out and send them to this man and he will enlarge them for you.

The Chairman. We sometimes pay forty or fifty thousand Government checks in a day in New York.

Governor Harding. This man says he is prepared to handle any amount of them.

The Chairman. Sometimes, on big days, we pay as many as a million and a half to two million in a day of coupons.

Governor Harding. This man has offered to give us

a demonstration and I am going to look into it when I go back.

Governor Talley. Do you recall what happened in your case in reference to reimbursement?

The Chairman. No, I do not remember. I am very vague. I know that a mail sack was slit open and a million dollars of cancelled and mutilated stuff was taken out.

Governor Norris. If you had lost a million dollars you would have remembered it, Mr. Chairman.

The Chairman. I think I would have remembered that. But I think this can be worked out with the Treasury, if there is any doubt in anybody's mind about it.

Governor Bailey. We carry out their explicit instructions telling us how to do it, in order to relieve our mind of it. But if there was any way to make an agreement, why not have the counsel for the Board or our counsel make an agreement with the Treasury that would cover all of the banks?

Governor Norris. Oh, I do not think it is a legal matter.

Governor Talley. My idea in bringing it up was that

it touches every bank; every bank has the same problem.

The Chairman. Certainly. Do you have a bond covering it?

Governor Talley. We put this rider on our policy for insuring them/10 per cent of the face amount.

The Chairman. But your loss is liable to be 100 per cent or none.

Governor Talley. That is true.

The Chairman. And 10 per cent would not help very much.

Governor Fancher. You are proceeding on the theory of taking care of interest from interest charge, expense of getting duplicates, and all that sort of thing.

Governor Talley. Yes.

Governor McDougal. Most of the banks are sending their checks back by mail. We think there is a greater element of securing in using express company, and it is very much more economical to send them by express.

Mr. Harrison. We do, too.

Governor Norris. We also use the express companies.

The Chairman. Ours are sent by express.

Governor Fancher. We use the mail, do we not, Mr.

Strater?

Mr. Strater. We send ours by registered mail. That comes about largely because the Treasury insists on getting our warrants the following day and we could not get them here by express.

The Chairman. What would you like to have done about this, Governor Talley?

Governor Talley. I would like to get some suggestions and advice about it.

The Chairman. While you are here, why don't you take that up with the men in the Treasury that have the handling of these things, and report back to us what you learn from them?

Governor Talley. I will make an effort to do that.

The Chairman. Mr. Mills will undoubtedly give you a line on that. It has just occurred to me that we have always invited Mr. Mills to come into the meeting at his convenience, to discuss any Treasury matters that we would like to discuss with him, and I will appoint Mr. Talley a committee of one to convey that information to the Under Secretary, and to do it now. If that will be satisfactory, Governor Talley is now appointed a committee

of one by unanimous acclaim.

The Chairman. Governor Seay, have all the members of the Advisory Committee on Legislative Matters examined and approved the Chairman's report?

Governor Seay. Mr. Chairman, the report is the expression of the views which come from the different members of the Advisory Committee, with the exception of yourself.

The Chairman. I am for the report.

Governor Seay. Is the Conference ready for me to present my report?

The Chairman. Yes.

Report of the Advisory Committee on
Legislative Matters.

Governor Seay. The report is as follows:

"Desirability of amending that part of Section 13 relating to discount of demand and sight drafts secured by shipping documents covering domestic shipment of agricultural products so it will include all staple non-perishable commodities, such for example as flour, bran, cottonseed meal, etc., as well as reimbursement drafts for the proceeds of

other bills carrying shipping documents.'

"(See paragraph 19, page 11 of the Secretary's Minutes.)

Subsequently in the Conference (see paragraph 24, page 14), upon motion of Governor Harding, it was :

"Voted that the Federal Reserve Board be asked to reconsider its previous ruling to the effect that bran, flour, cottenseed meal, etc., are non-perishable products within the meaning of Section 13, it being pointed out that the particular paragraph in question does not contain the limitation 'in the raw state' as in the previous paragraph of the law. It was understood that this action does not revoke the action taken Tuesday, May 10, under Topic I.G.'

"The action of the Conference referred to, taken Tuesday, May 10, was a reference of the topic to the Advisory Committee on Legislative Matters.

"The Board has previously ruled upon the construction of the term 'nonperishable, readily marketable agricultural products' on page 276 of the April, 1924, Bulletin, and page 354 of the December,

1926, Bulletin. In the light of the ruling of the Board in April, 1924, above referred to, wherein the Board stated:

"The Board is of the opinion, therefore, that Federal reserve banks should not refuse to discount sight or demand bill of lading drafts merely because the agricultural products covered thereby are no longer in a technically raw state, but have passed through the initial stages of refinement or processing subsequent to their actual harvest";

"and in view of the wording of the present law, it is believed that the Board has the power to make a ruling sufficiently broad to meet the legitimate demand for the discount of sight and demand drafts secured by shipping documents covering agricultural products, as described in the topic referred to the Advisory Committee for consideration. It is not believed to be necessary or advisable at this time to seek an amendment to Section 13 of the Act relating to this subject."

Now, the Board, in the opinion rendered in 1924, stated that a Federal reserve bank should not refuse to

discount sight or demand bill of lading drafts, but they have somewhat modified their position, and in the opinion of members of the committee, as I gathered it by correspondence, there is nothing in the present law which would prohibit the Board from making the ruling sufficiently broad to cover the necessities of the trade in the matter.

The Chairman. There is a little difficulty there. Apparently that ruling of the Board made in December, 1926, is based, or was based, on the decision of the Supreme Court of the United States in the case of Getty against C. R. Barnes Milling Company, in which it was held that flour was not an agricultural product. I nevertheless approve of this report of Governor Seay's, because the entire method of dealing with that involves an act of Congress, and none of us want to go before Congress for any amendment just now.

Governor Seay. The ruling of the Board in 1926 was something of a reversal of a previous ruling of the Board, but the opinion is that there is no reason in the law why the Board might not revert to its former decision.

The Chairman. That is a recommendation of the report,

is it not?

Governor Seay. That is the recommendation of the report.

The Chairman. Is there any further discussion of this report?

Governor Bailey. I would like to ask^a question of Governor Seay. Do you know why this is: that under the McFadden Act a man can loan 25 per cent of his profit and surplus on paper properly secured, but they can only re-discount 10 per cent. That is the law with us.

Governor Seay. It always has been.

Governor Bailey. But if they are permitted to loan 25 per cent, why should not the law be corrected? I think the McFadden Act did not go far enough and did not meet that special point. Why should they not be permitted to rediscount with us 25 per cent on a properly secured note?

Governor Seay. It could be, but for myself I hope it never will be.

Governor Bailey. Why?

Governor Seay. Well, for one thing, we do not want to take, and we do not take, as a matter of practice,

the entire line discounted by any member bank for any particular customer, and we do not want to do that. We take a reasonable amount of it.

Governor Bailey. But if the note is absolutely secured for 10 per cent and is a good note, then it is good for 25 per cent, and it works a hardship on those fellows out there.

The Chairman. But when the note is good and you only take 10 per cent of it, of course you don't lose so much.

Governor Bailey. I have yet to see the first cattle feeder loan which is not good.

Governor Seay. Since you ask me the question, Governor Bailey, it is a question of a fundamental policy of the System. I dare say it can be done, but personally I would not like to see it done.

The Chairman. Well, this is a digression from the report of Governor Seay. There seems to be no further discussion of it. What is the pleasure of the Conference about this report? The report contains a recommendation and the adoption of the report will include endorsement of the recommendation.

Governor Fancher. I move that the report be adopted.

Governor Wellborn. Seconded.

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

The Chairman. Now, Mr. Strater, we will have the report of the Standing Committee on Collections.

II. Collections and Clearings.

A. Report of Standing Committee on Collections.

Mr. Strater. Mr. Chairman and gentlemen, the Standing Committee on Collections begs to submit herewith its report on the following topics:

"Revision of time schedules with a view to reducing float and avoiding existing inequalities.

"At the Conference of Governors held in November, 1925, it was voted to request the Standing Committee on Collections to make a study of the present time schedules and prepare a scientific revision of them if that should be necessary. It was understood that the Committee should consult or advise with any of the Federal reserve banks, whenever it might be helpful for the Committee to do

so, and that tentative schedules be submitted to each bank for review before any final schedules were submitted to the Conference.

"In this Committee's report to the November, 1926, Conference of Governors, it expressed its opinion as to how a scientific and accurate time schedule should be constructed in order to extend the benefits of the check collection system equitably and impartially to all member banks and at the same time reduce float to the lowest possible point consistent with expediency of operation, which opinion it deems advisable to repeat. The logical and scientific basis for an accurate intra-district time schedule must be the average time required by each Federal reserve bank to collect checks payable in each state or part of state within its own district, and the logical and scientific basis for an accurate inter-district time schedule must be the time required to reach the Federal reserve bank or branch of the district in which the checks are payable plus the deferred time given by such Federal reserve bank or branch after the checks

reach it.

"In order to obtain accurate figures showing the average time required by each Federal reserve bank and branch to collect checks payable in each state or part of state in its territory, the Committee obtained from each Federal reserve bank and branch an analysis covering a period of one week, and, using this as a basis, prepared a tentative inter-district time schedule for each Federal reserve bank and branch, copies of which in duplicate were forwarded to each of the Governors accompanied by an interim report explaining the manner in which these tentative schedules had been prepared, and requesting that they be reviewed and returned to the Committee, with such corrections as were necessary in order to make the time schedules acceptable. When the correct time schedules were returned to the Committee, it was found that many of the minor inequalities pointed out in the report to the Conference of Governors held in March, 1926, had been eliminated by the acceptance of the Committee's recommendations. The major irregularities still exist

in certain districts and the Committee finds itself unable to accomplish the object which it was directed by the Conference to attain.

"The Committee feels that in the case of seven of the Federal reserve banks, the time schedules finally approved are as accurate as they can be made, and to all intents and purposes the deferred time shown for checks payable in states or parts of states wholly outside of their respective districts, is the correct average time required to collect. Certain major inequalities which existed in the time schedules of several of the Federal reserve banks when the Committee first undertook to make an exhaustive study of time schedules still exist, and believing that the Governors will be interested in having them pointed out, they are shown below under a separate heading for each of the five Federal reserve banks, which, for reasons considered by them to be expedient, do not feel that they are in a position to accept the Committee's recommendations:

"Boston. Checks drawn on banks in the

states of Delaware, New Jersey, New York, and Pennsylvania are given a deferred availability of two days whereas it is physically impossible to collect any of these items through existing channels in less than three days and a substantial volume in less than four days. Checks drawn on country banks in all of the other states outside of the First Federal Reserve District are given deferred availability of either four or eight days and none of the resulting inconsistencies have been corrected.

"A few illustrations will suffice: Checks payable in the state of Arkansas are given a deferred availability of four days whereas six days are required. Checks payable in the state of Tennessee are given deferred availability of four days whereas five or six days are required to collect. Checks payable in the state of Oklahoma are given a deferred availability of eight days whereas they can readily be collected in five or six.

"New York. Checks payable in all six of the New England states and Delaware, District of Columbia, Maryland, that part of New Jersey in the Philadelphia

district, Pennsylvania, and Virginia are given a deferred availability of two days whereas they can in no case be collected in less than three through existing channels. All other minor inconsistencies which formerly existed, have been corrected. It should be noted that the time schedule of the Buffalo Branch does not contain the inconsistencies which are pointed out in the schedule of the parent bank, except that checks drawn on points in that part of the state of New Jersey which is in the Philadelphia district are given a deferred availability of two days whereas at least three days are required to collect.

"Philadelphia. Checks payable in all six of the New England states, and District of Columbia, Maryland, that part of New Jersey in the New York district, New York, that part of Pennsylvania in the Cleveland district, and Virginia are given a deferred availability of two days whereas in no case can they be collected in less than three. All other inconsistencies have been corrected.

"Chicago. Checks drawn on points in those

parts of the states of Illinois and Indiana which are in the St. Louis district and that part of the state of Wisconsin which is in the Minneapolis district, are given a deferred availability of two days whereas the actual time required for collection is not less than three days. In order that scientifically correct time schedules may be constructed, the Committee believes that it is necessary to consider parts of states lying outside of a Federal reserve district on the same basis as though they were separate states whenever the volume is of material size.

"Kansas City. Checks drawn on points in that part of the state of Missouri outside of the Tenth Federal Reserve district, are given deferred availability of two days whereas three days are required for collection.

"Tabulations, showing the time schedules which each bank will agree to adopt but which still contain in the case of five banks the inconsistencies and inequalities described above, are attached to and made a part of this report as follows:

"(1) Time schedules showing deferred availability given by each Federal reserve bank and branch for checks payable in other Federal reserve bank and branch cities; and

"(2) Time schedule showing deferred availability given by each Federal reserve bank and branch for checks payable in states or parts of states wholly outside of their respective districts.

"With respect to item (1) the Committee is of the opinion that the deferred availability given in each instance is accurate, and, if adopted by the Conference and each of the Federal reserve banks concerned, will result in an almost entire elimination of float on this class of items as between Federal reserve bank and branch cities. With respect to item (2) all that has been expressed in this report applies, and the Committee desires to again state that this particular schedule is not scientifically accurate and that the inaccuracies contained therein, will result in the creation of a considerable volume of float which must be carried by the Federal Reserve System.

"Having presented to the Conference the result of its investigations and efforts, and believing that the Committee can make no further progress in this connection, both schedules are submitted without any specific recommendation.

"A study of the whole question of the collection of cash items.

"The Conference of Governors of November, 1926, voted to request the Standing Committee on Collections to continue its study of the collection problem, having in mind particularly whether a Federal reserve bank may not shorten the actual transit time by sending direct to member banks located in other districts under arrangements with the Federal reserve banks of those districts, and to consider also what, if any, modifications or improvements might be made in order to effect a better and more scientific collection system.

"In the Committee's report to the Conference of Governors of May, 1927, a brief resume of the Committee's activities in this connection was presented. Since that Conference, each of the Federal

reserve banks has been requested to furnish the Committee with its ideas as to what change would best tend to improve the collection machinery. Most of the banks have replied to the Committee's request and the consensus of opinion appears to be that the direct routing of checks into other districts may tend to reduce the collection time but that such a practice is not altogether desirable in every instance.

"In the opinion of the Committee, inequalities and inconsistencies appearing in the existing time schedules of a number of the Federal reserve banks are very closely connected with the subject of direct routing by Federal reserve banks into other districts. It is quite obvious that such an arrangement can not be made without the consent of the paying bank inasmuch as under the Federal Reserve Act and Regulation J of the Federal Reserve Board, the normal channel of collection is through the Federal reserve bank of the district in which the checks are payable. If the time schedule of the bank so attempting to collect checks payable in other districts is based

upon the time required to collect through the Federal reserve bank of the district in which the paying bank is located, the paying bank may be induced to agree to such an arrangement provided its checks are given freer currency by reducing the deferred time on the time schedule of the Federal reserve bank attempting to make such an arrangement.

"If the deferred availability on checks payable in any considerable area immediately adjoining a given Federal reserve district is at present equivalent to the time required to collect by direct routing, the member or non-member bank with which a direct routing arrangement is sought may be induced to agree to such an arrangement if it is pointed out that unless a majority of the banks in such adjoining territory agree to a direct routing arrangement, it will be necessary to increase the period of deferred availability to correspond with the actual method of collection.

"The Committee is of the opinion that the practice of a Federal reserve bank sending direct to member banks, and possibly to non-member banks,

in another district under arrangements with the Federal reserve bank of that district and the paying bank, is worthy of a trial at least in those districts which feel that they can not correct their time schedules to harmonize with the actual time now required to collect. It is true that under existing Regulation J of the Federal Reserve Board this practice is not permitted, but inasmuch as it is now being done effectively to a very limited extent in several of the Federal reserve districts, it is believed that the practice could be extended within certain of the districts and at the option of the Federal reserve banks concerned with very good results; the Committee believes that a very material reduction in float carried by the System would be effected thereby.

"The Committee recommends that the Federal reserve banks be authorized at their discretion, to conduct an experiment along this line in an attempt to arrange for the collection in this manner of checks drawn on the principal or larger cities in states adjoining their districts. Such an experiment should

not be undertaken without first obtaining an opinion from Counsel for the Federal Reserve Board as to the legality of such an arrangement, and, if such opinion is favorable, it would first be necessary to modify Regulation J to permit such a procedure.

"The Committee regards as highly dangerous any attempt to inaugurate radical changes without a thorough and careful study of the possible result.

"Withdrawals from
the par list.

"In its report to the November, 1924 Conference of Governors, the Committee recommended that the following procedure be adopted by the Federal reserve banks and branches in order to protect the sending bank as well as the receiving Federal reserve bank or branch against the possibility of loss when checks are received drawn on banks which have been removed from the par list between issues of the Federal Reserve Board's semi-annual par list or the monthly supplements thereto:

"1. Any item under \$500.00 should be charged back and returned to the direct sending member bank.

with a memorandum or notation to the effect that the bank upon which the item is drawn has been removed from the par list and, therefore, the item is not collectible through the Federal Reserve System.

"2. Any item of \$500.00 or over should be held by the receiving Federal reserve bank or branch, and the direct sending member bank from which the item was received should be notified by wire, that the bank upon which the item is drawn has been removed from the par list and that the item is not collectible through the Federal Reserve System, and should be requested to forward instructions as to the disposition of the item.

"The Committee has been asked by one of the Federal reserve banks to interpret or amplify its recommendation. The request is the result of one Federal reserve bank having concluded to give the forwarding member bank the choice of two alternatives only when wiring for instructions as to the disposition of any item of \$500.00 and over; namely, that the item be returned to the sending member bank

or that it be turned over to one of the commercial banks

or that it be turned over to one of the commercial banks in the city in which the Federal reserve bank or branch is located, and declining to act on instructions to forward the item to the drawee bank to be accounted for direct to the endorsing bank from which the instructions were received.

"The Committee is of the opinion and therefore recommends that any instructions the forwarding member bank may give, should be complied with by the receiving Federal reserve bank or branch providing the instructions are not inconsistent with the law.

"Respectfully submitted,

"Standing Committee on Collections

"H. F. Strater, Chairman

"O. M. Attebery

"J. S. Walden, Jr.

"C. H. Coe

"James M. Toy."

Governor Norris. Now, Mr. Chairman, I suggest that if anyone has any question to ask that we take up page 1, and then go to page 2, and so on.

**Time Schedule Showing Deferred Availability
Given by Federal Reserve Banks and Branches
for Checks Payable in States or Parts of States Wholly Outside of Their Respective Districts**

Drawn on points in	Boston	New York	Buffalo	Phila- delphia	Cleve- land	Cincin- nati	Pitts- burgh	Rich- mond	Balti- more	Altanta	New Orleans	Birm- ingham	Jack- sonville	Nash- ville	Chicago	Detroit	St. Louis	Louis- ville	Mem- phis	Little Rock	Minne- apolis	Helena	Kansas City	Omaha	Denver	Okla. City	Dallas	El Paso	Houston	San Antonio	San Francis.	Seattle	Spokane	Portland	Salt Lake	Los Angeles	
Alabama.....	4	5	5	5	5	4	5	4	4	..	..	..	..	..	4	4	4	5	4	5	6	4	5	5	5	4	6	4	5	7	8	8	8	6	7		
Arizona.....	8	7	7	7	7	7	7	7	7	8	7	8	8	8	6	7	7	8	7	7	7	6	7	7	6	6	5	7	7	6	8	7	7	7	6	5	
Arkansas.....	4	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	..	..	..	..	5	5	5	5	5	4	4	5	5	5	5	7	8	7	7	7	
California.....	8	7	6	7	6	6	6	6	6	6	6	6	6	6	5	6	6	6	6	7	6	5	5	5	5	6	6	5	6	6	7	6	6	6	6	6	
Colorado.....	8	5	6	5	6	6	6	6	6	6	6	6	6	6	5	6	5	6	6	6	5	5	5	5	5	5	5	5	5	6	6	6	6	6	6	6	
Connecticut.....	2	2	3	2	4	4	4	4	3	5	5	5	5	5	4	4	4	4	4	5	4	6	5	5	6	5	5	6	6	6	7	7	7	7	6	7	
Delaware.....	2	2	3	..	3	4	3	3	3	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	5	5	5	5	5	5	5	5	5	5	5	5	5
District of Columbia.....	4	2	4	2	4	4	3	..	..	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4
Florida.....	4	5	5	5	6	5	6	5	5	..	..	..	..	..	5	6	5	5	5	6	6	8	5	6	6	6	6	6	6	6	8	9	9	9	7	8	
Georgia.....	4	4	4	4	4	4	4	4	4	..	..	..	..	..	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4
Idaho.....	8	7	7	7	7	7	7	7	7	7	7	7	8	7	6	6	7	7	7	7	6	5	6	6	5	6	7	7	7	7	7	7	7	7	7	7	7
Illinois.....	4	4	4	4	3	3	3	4	4	4	4	4	4	4	2	3	3	4	3	4	3	5	3	3	4	4	4	4	4	4	4	4	4	4	4	4	4
Indiana.....	4	4	4	4	3	3	3	4	4	4	4	4	4	4	2	3	3	3	3	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4
Iowa.....	4	4	4	4	3	3	3	4	4	4	4	4	5	4	..	..	3	4	3	4	3	5	3	3	4	4	4	4	4	4	4	4	4	4	4	4	4
Kansas.....	4	4	4	4	4	4	4	4	4	4	4	4	4	4	3	4	3	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4
Kentucky.....	4	4	4	4	4	3	4	4	4	4	4	4	4	3	3	4	3	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4
Louisiana.....	8	7	6	7	5	5	6	5	5	5	4	4	5	5	5	5	5	4	4	4	5	5	5	5	5	4	4	4	4	4	4	4	4	4	4	4	4
Maine.....	..	2	3	2	4	4	4	4	3	5	5	5	5	5	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4
Maryland.....	4	2	3	2	3	4	3	..	..	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4
Massachusetts.....	..	2	3	2	4	4	4	4	3	5	5	5	5	5	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4
Michigan.....	4	4	4	4	3	3	3	4	4	4	4	4	5	4	2	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4
Minnesota.....	4	4	4	4	4	4	4	4	4	5	5	4	5	4	3	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4
Mississippi.....	4	5	5	5	5	4	5	4	4	4	3	3	4	3	4	4	4	4	3	4	5	7	4	5	5	4	4	4	4	4	4	4	4	4	4	4	4
Missouri.....	4	4	4	4	4	4	4	4	4	4	4	4	5	4	3	4	3	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4
Montana.....	8	7	6	7	6	6	6	6	6	7	7	6	7	6	5	6	6	7	6	6	..	..	6	6	5	6	6	6	6	6	6	6	6	6	6	6	6
Nebraska.....	8	5	5	5	5	5	5	5	5	6	5	5	6	5	4	5	4	5	5	5	4	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6
Nevada.....	8	7	7	7	7	7	7	7	7	8	7	8	8	8	6	7	7	8	7	8	4	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6
New Hampshire.....	..	2	3	2	4	4	4	4	3	5	5	5	5	5	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4
New Jersey.....	2	2	2	2	3	4	3	3	3	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4
New Mexico.....	8	7	7	7	7	7	7	7	7	7	7	7	7	7	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6
New York.....	2	..	..	2	3	4	3	3	3	4	5	4	4	4	4	3	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4
North Carolina.....	4	4	5	4	5	5	4	4	4	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5
North Dakota.....	8	7	6	7	6	6	6	6	6	7	7	6	7	6	5	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6
Ohio.....	4	3	3	3	..	..	..	4	4	4	4	4	4	4	3	3	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4
Oklahoma.....	8	5	5	5	5	5	5	5	5	5	5	5	5	5	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4
Oregon.....	8	7	6	7	6	6	6	7	6	7	6	7	8	7	5	6	6	8	7	7	6	4	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6
Pennsylvania.....	2	2	3	2	3	4	3	3	3	4	5	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4
Rhode Island.....	..	2	3	2	4	4	4	4	4	5	5	5	5	5	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4
South Carolina.....	4	4	5	4	5	5	4	..	..	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5
South Dakota.....	8	7	6	7	6	6	6	6	6	7	7	6	7	6	5	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6
Tennessee.....	4	5	5	5	5	5	5	5	5	4	3	4	4	3	5	5	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4
Texas.....	8	7	6	7	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6
Utah.....	8	7	6	7	6	6	6	7	6	7	7	7	7	7	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6
Vermont.....	..	2	3	2	4	4	4	4	3	5	5	5	5	5	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4
Virginia.....	4	2	4	2	4	4	3	..	..	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4
Washington.....	8	7	6	7	6	6	6	7	6	7	7	8	7	6	5	6	6	8	7	7	6	4	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6
West Virginia.....	4	4	4	4	5	5	4	3	3	5	4	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5
Wisconsin.....	4	4	4	4	4	4	4	4	4	4	4	4	4	4	2	3	4	4	4	4	3	5	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4
Wyoming.....	8	7	6	7	6	6	6	6	6	7	6	6	7	6	5	6	5	6	6	6	5	7	..	..	..	..	6	7	7	8	8	8	8	8	8	8	

**Time Schedule Showing Deferred Availability
Given by Each Federal Reserve Bank and Branch
for Checks Payable in Other Federal Reserve Bank and Branch Cities**

From	To	Boston	New York	Buffalo	Philadelphia	Cleveland	Cincinnati	Pittsburgh	Richmond	Baltimore	Atlanta	New Orleans	Birmingham	Jacksonville	Nashville	Chicago	Detroit	St. Louis	Louisville	Memphis	Little Rock	Minneapolis	Helena	Kansas City	Omaha	Denver	Okla. City	Dallas	El Paso	Houston	San Antonio	San Francis.	Seattle	Spokane	Portland	Salt Lake	Los Angeles	
Boston.....	..	1	2	1	2	2	2	2	2	2	3	3	3	3	3	2	2	3	2	3	3	3	4	3	3	4	3	3	4	4	4	5	5	5	5	5	4	5
New York.....	1	1	2	2	2	1	1	1	2	3	2	2	2	2	2	2	2	3	3	3	4	3	3	4	3	3	4	3	3	5	5	5	5	5	4	5
Buffalo.....	2	2	1	2	2	1	2	1	3	3	2	3	2	2	1	2	2	2	2	2	4	2	2	3	3	3	4	3	3	5	5	4	5	4	5	
Philadelphia.....	1	1	2	..	1	2	2	1	1	1	2	3	2	2	2	2	2	2	2	2	3	2	4	3	3	3	3	4	3	3	5	5	4	5	4	5		
Cleveland.....	2	2	1	1	..	..	..	2	2	2	2	3	2	3	2	1	1	2	2	2	2	4	2	2	3	3	2	3	3	3	5	4	4	4	3	4
Cincinnati.....	2	2	2	2	..	..	..	2	2	2	2	2	2	2	1	1	1	2	2	2	2	4	2	2	3	3	2	3	3	5	4	4	4	3	4	
Pittsburgh.....	2	1	1	1	..	..	..	2	1	2	2	3	2	3	2	2	1	2	2	2	2	4	2	2	3	3	3	3	4	3	5	5	4	5	3	5
Richmond.....	2	1	2	1	2	2	2	2	..	..	2	2	2	2	2	2	2	2	2	3	3	3	4	3	3	4	3	3	3	5	5	5	5	5	4	5
Baltimore.....	2	1	2	1	2	2	2	1	..	..	2	3	2	2	2	2	2	2	2	3	3	3	4	3	2	4	3	3	3	5	5	5	5	5	4	5
Atlanta.....	3	2	3	2	2	2	2	2	2	2	2	2	2	2	2	2	5	2	3	3	3	2	3	2	3	5	5	5	5	5	4	5	
New Orleans.....	3	3	3	3	3	2	3	3	3	3	..	..	..	..	..	2	3	2	2	2	2	5	2	3	3	3	2	3	1	2	5	6	5	6	4	4
Birmingham.....	3	2	2	2	2	2	2	2	2	2	..	..	..	..	..	2	2	2	2	1	2	3	3	3	3	3	2	2	2	2	5	5	5	5	5	5
Jacksonville.....	3	2	3	2	3	2	3	2	2	2	..	..	..	..	..	3	3	3	2	2	3	5	3	3	4	3	3	3	3	6	6	5	6	5	5	
Nashville.....	3	2	2	2	2	1	2	2	2	2	..	..	..	..	..	2	2	1	1	1	2	4	2	2	3	2	2	3	2	3	5	5	4	5	4	4
Chicago.....	2	2	1	2	1	1	2	2	2	2	2	2	3	2	..	..	1	1	2	2	2	3	1	1	2	2	2	3	2	3	4	4	3	4	3	4
Detroit.....	2	2	1	2	1	1	1	2	2	2	2	2	3	2	..	..	2	2	2	2	2	3	2	2	3	3	3	3	3	3	5	4	4	4	3	5
St. Louis.....	3	2	2	2	2	1	2	2	2	2	2	2	3	1	1	2	..	..	..	..	..	2	3	1	1	2	2	2	2	2	4	4	4	4	3	4
Louisville.....	2	2	2	2	2	1	2	2	2	2	2	2	2	1	1	2	..	..	..	..	..	4	2	2	3	2	2	3	2	3	5	5	4	5	3	4
Memphis.....	3	3	2	2	2	2	2	2	2	2	2	2	1	2	2	2	..	..	..	..	..	4	1	2	3	2	2	3	2	4	4	5	4	5	4	4
Little Rock.....	3	3	2	3	2	2	2	3	3	3	2	2	2	3	2	2	..	..	..	..	..	4	2	2	3	2	1	2	2	4	5	4	5	4	4	
Minneapolis.....	3	2	2	2	2	2	2	3	2	3	3	3	3	2	1	2	2	2	2	2	2	..	..	2	1	2	2	3	3	4	3	3	4	3	4	
Helena.....	5	4	4	4	4	4	4	5	4	5	5	5	5	4	3	3	4	4	4	4	4	..	..	3	3	2	4	4	5	4	4	2	2	2	2	4
Kansas City.....	3	3	2	3	2	2	2	3	2	3	3	2	3	2	1	2	1	2	2	2	2	3	..	..	..	..	2	2	2	4	4	4	3	4	3	3
Omaha.....	3	3	2	3	2	2	2	3	3	3	3	3	3	2	1	2	1	2	2	2	2	3	..	..	..	..	2	3	3	4	4	4	3	4	2	4
Denver.....	4	4	3	4	3	3	3	4	3	3	3	3	4	3	2	3	2	3	3	3	3	..	..	..	..	3	2	2	3	4	4	3	3	2	3	
Oklahoma City.....	3	3	3	3	3	3	3	3	3	3	3	3	2	3	2	2	2	2	2	2	2	..	..	..	..	..	1	2	2	4	4	5	4	4	3	3
Dallas.....	4	3	3	3	2	2	3	3	3	3	3	2	2	3	2	3	2	2	2	2	1	3	4	2	2	2	1	..	..	..	4	5	4	5	4	4
El Paso.....	4	4	4	4	3	3	4	4	4	4	4	3	4	4	3	3	3	4	4	3	3	4	2	3	2	2	..	..	..	3	5	4	5	3	2	
Houston.....	4	4	3	3	3	3	3	3	3	3	3	2	2	3	3	3	2	2	2	2	3	5	2	3	3	2	..	..	..	4	5	5	5	4	4	
San Antonio.....	4	3	3	3	3	3	3	3	3	3	3	2	2	3	2	2	2	2	2	2	3	4	2	2	3	2	..	..	..	3	5	5	5	4	3	
San Francisco.....	5	5	4	5	5	5	5	6	5	5	5	4	5	6	5	4	4	4	5	4	5	3	4	4	4	4	4	3	4	..	..	..	..	..	..
Seattle.....	5	5	4	4	5	5	5	5	5	5	5	5	6	5	4	4	4	4	5	5	5	3	4	4	4	4	5	5	6	..	..	..	..	..	..
Spokane.....	5	5	4	4	4	4	4	5	4	5	5	5	6	5	4	4	4	4	4	5	5	3	4	3	3	3	5	5	5	..	..	..	..	..	..
Portland.....	5	5	4	4	5	4	5	4	4	5	5	5	6	5	4	4	4	4	5	5	5	4	4	4	4	4	5	4	5	..	..	..	..	..	..
Salt Lake City.....	4	4	4	4	4	4	4	4	4	4	4	4	4	4	3	3	3	3	3	4	4	2	3	2	2	3	4	4	4	..	..	..	..	..	..
Los Angeles.....	5	5	4	5	5	5	5	6	5	5	5	4	5	6	5	4	4	4	5	4	4	4	4	4	4	4	4	2	3	..	..	..	..	..	..

The Chairman. Gentlemen, are there any questions as to page 1? If not, we will go to page 2.

Governor McDougal. Where it speaks of several banks whose time schedules are accurate, I think we might give consideration to the schedules of the other banks that are not accurate. You have enumerated them in the report, Mr. Strater?

Mr. Strater. Yes.

The Chairman. Now, with regard to page 3, which refers to Boston and New York, are there any comments?

Governor Harding. Mr. Chairman, the banks in the New England district will object very strenuously to any change in our time schedule. I have had a careful analysis made of that, going back over a period of years, and we find that our average float, that is, the difference between the transit items and the deferred credit items, amounts to about \$60,000,000 a day in deferred credit items; the average always is about \$60,000,000, but that that is offset on the other side with the exception of one million dollars, and one million dollars is our average float.

Mr. Strater. You are speaking of the aggregate de-

ferred items on both sides.

Governor Harding. Yes. In other words, the average float we absorb is a million dollars. It is not excessive and does not mean a burden to us. To change this will create a considerable amount of dissatisfaction, would involve extra expense. I have checked that up and it would cost us more than the interest on the million dollars.

Governor Fancher. You spoke about cutting your float down to say a million dollars a day on the average.

Governor Harding. Yes, it is about \$60,000,000.

Governor Fancher. On one hand you receive that for two days' deferred, where it takes three days to collect, and there is considerable float, and in the other schedule you defer for a longer period than it requires to collect the checks, so one offsets the other and reduces the total.

Governor Harding. Yes. A scientific adjustment of that thing I have estimated would cost us in the neighborhood of \$40,000. a year.

Governor Fancher. You mean it would cost your bank that?

Governor Harding. Yes. You gentlemen do not understand how hard it is to change things up in the New England states. They are set in their ways, and if you change anything it raises a racket.

Governor Fancher. Very naturally, where a bank can get credit in two days, when it takes three days to collect, they are going to object to any change.

Governor Harding. There is a great deal of offset to it. You must admit that on an average volume of \$60,000,000, you only have one million float, that it is not excessive.

Governor Fancher. There has always been one feature of this time schedule of the Federal reserve banks about which I have been a little fearful. I am afraid that it will be litigated some day and the time schedules will be brought in. The test of a time schedule is what actual time is required to collect items, and then when it is found that we declare an item on one point in two days and collect in three, or defer it six days and collect it in four, I am a little fearful that the schedule is not going to stand up, unless it pretty nearly measures up to the actual time required in collecting

the checks.

Governor Seay. Mr. Chairman, at this juncture, it will probably be of interest to the Conference to have me state that I have just had a conversation with Mr. James, who is a member of the Federal Reserve Board committee which has special supervision over our district. The occasion for my conference with him was the near by opening of the Charlotte branch and the necessity for establishing a time schedule. I thought probably the Board might desire to be consulted about the fixing of the time schedule, and I brought it up with Mr. James. He said that he has been making a study of time schedules for some months; that he has recently sent Mr. Snead around to all the Federal reserve banks, to make an analysis of their float. I think he has been to our bank. He said he did not speak for the Board, but he believes that the Board would, at an early date, take up the question of the float in the System as a System matter.

The Chairman. What is the total amount of it? Does anybody know?

Governor Seay. About \$70,000,000, he said. He suggested that as far as we were concerned he would not be

disposed to take up our case and made the suggestion that we analyze the float ourselves and that later, when the Board took up, as he believed it would, the question of the float in the System, that we would have a hearing before the Board.

The Chairman. Your problem is a very minor one, Governor.

Governor Seay. Very.

The Chairman. Because that new branch will handle very few checks compared to the number to be dealt with by all of the twelve Federal reserve banks.

Governor Seay. It is a very minor problem and I did not have any idea that it would affect the System generally. But the Board likes to be consulted with regard to the establishment of these things, and I therefore took the matter up, with the result I have stated.

The Chairman. They have to approve the time schedule.

Governor Seay. Yes. He intimated that he thought the Board would not interpose any objection, but he said he had that study before him and that the whole matter of the System float would come up. He believes, as Mr. Fancher has said, that we were acting contrary to the law

in carrying a good deal of float in the System, and intimated that it was the opinion, at least of many of the country banks, that we are carrying a very large proportion of that float for the benefit of the city banks.

The Chairman. I am afraid that is so in our district. Isn't that so, Mr. Harrison; that the city banks get the benefit of the float in our district?

Mr. Harrison. They all do, because the country banks that are sending to us get the benefit of one day's savings on all points in their two-day schedules.

Governor Talley. Mr. Chairman, Mr. Mills has said that he would like to come over within the next ten or fifteen minutes.

Governor Harding. I would like to remark that any extension of our time schedule on certain points in New York state, Pennsylvania and New Jersey, would result in a very material increase in the burden on New York, because a great many of our banks would send directly to New York.

The Chairman. Of course we would hope to change ours in some way. We have a float now of about \$20,000,000, of which, according to the calculations Mr. Harrison

just gave me, the float within the district or the intra-district float is six and a quarter million and the inter-district float is fourteen million. This arises from various reasons, which are described here at length. The intra-district float of \$12,800,000, in the week when the analysis was made, arose in items sent to four points.

Governor Harding. If this thing ever comes up before the Board and I am asked to discuss it with the Board, I am going to call their attention to the fact that there is a peculiar relationship between the New England territory and New York; that but for the desire of Congress back in 1913 to hold New York down to the lowest minimum possible as to size, there would not have been any Boston district. There wasn't a lot of enthusiasm in New England for a reserve bank there, and I think they would have been entirely satisfied to have been a part of the New York district, and then this question would never have arisen at all.

The Chairman. Geographically it is a sort of uneconomical thing.

Governor Harding. The banking interests of New

England have got to keep constantly in mind what they are doing in New York.

Mr. Harrison. Before the Federal Reserve Act was passed we collected the items on those points in two days through the country collection department of the clearing house. Physically, the Federal reserve banks of New York, of Philadelphia or of Boston could collect these same items in two days, were it not for this arbitrary district line which was drawn, not so much for collection purposes, but wholly regardless of collection purposes, and solely for credit purposes.

The Chairman. Or political purposes.

Mr. Harrison. Yes. While we subscribe wholly to the principle that we should ^{not} make payment for checks in a time shorter than it takes us on the average to collect them, nevertheless we do feel that before we change from the two-day point to the three-day point, the System should consider first whether it is possible to collect a good percentage of those items by direct sendings, or some other process, without an amendment to the law, and, second, if we cannot do it without amending the law, whether or not in the interest of expediting a perfect

collection system we should not seek some other, perhaps drastic amendment---not now, but later on--amendment to the law which will permit of a more scientific collection system. It is a question of practical convenience at the moment, whether we should give up the two-day points under all the circumstances and subject ourselves to very serious and bitter criticism of all these banks in this whole area, or whether we should continue to hope that we could eventually justify our two-day point by more speedy collections in some one of the ways that have been suggested and discussed.

Governor Fancher. Did your country clearing house in New York collect on all this area that you are collecting on now, on two days' basis before?

Mr. Harrison. On two-day basis.

Governor Seay. They get returns, but did they get immediately available funds?

Mr. Harrison. Yes. It happens that in New York they get returns on New York points where they had accounts in New York.

Governor Seay. Did they get them in time for the clearing house?

Mr. Harrison. As a rule, I understand they did.

The Chairman. I think the rules of the country collection division of the clearing house required New York funds in settlement of items sent through the country clearing house.

Governor Seay. Have you ever made any analysis to determine whether they merely received a return or whether they received return in funds available on the day of receipt?

The Chairman. They got clearing house funds. There wasn't any other kind then.

Governor Seay. As I say, did the returns come in in time to clear on the day of receipt?

Mr. Harrison. We have estimated, for instance, that if we could send directly to about twenty different
land
cities in New Eng/ we could collect between 65 and 70 per cent of the total dollar value of all items on these points on or in New England, in two days.

Governor Harding. Any lengthening of our time schedule would certainly increase the burden on New York.

Governor Fancher. Under that method of collection you have given the Boston banks an advantage they did

not have under the New England Clearing House Association, because that was confined simply to New England cities.

Governor Harding. We did not give them any advantages that they could not get independent of us.

Governor Fancher. But the old system of clearing on the two-day basis on New England through the clearing house association--

Governor Harding. I wasn't there then and I do not remember about that.

Governor Fancher. It did not go outside of New England, as I recall.

The Chairman. Mr. Harrison and I have discussed this at great length, and I think what we would like to do, agreeing, as we do, with the committee entirely in principle, we would like to try to work out a scheme to get most of that stuff through in two days. We might have to get a little cooperation from Governor Harding and Governor Norris. Just how it would be done I do not know.

Governor Harding. I think the situation of New York, Philadelphia and Boston should be considered separately

from the situation in the rest of the country. I want to say one thing further. We have air mail service from Boston to New York. It leaves Boston about half past 5 or 6 o'clock in the afternoon. Any bank in Boston could collect all items payable on New England just as quickly by bunching the whole thing on New York as they could by sending it to the Federal Reserve Bank of Boston.

The Chairman. And get New York funds in two days.

Governor Harding. Yes.

The Chairman. And that would suit them perfectly.

Governor Harding. Absolutely.

Mr. Harrison. In changing the schedule from two to three days it will simply be an admission by the Federal Reserve System that this improved collection system that we have given to the country cannot do for the banks in that area what they have always been able to do for themselves in the past, and what they would do for themselves in the future, should we institute the three-day point. On the other hand, I think there is no denial of the fact that our present schedule of two days is equivalent to giving a \$14,000,000 surplus reserve to

the member banks in those areas. It is merely a difference of degree of what we contended for in the Pascagoula case, what we contended should not be done under any circumstances, and that is give immediate credit for all items.

The Chairman. I am very anxious to get rid of the float. I think the difficulty in New England is more deeply rooted in a way than it is in New York. I do not believe that we would have the great difficulty that we would have had a few years ago in the New York Clearing House.

Governor Harding. You can see our difficulty.

The Chairman. I appreciate your difficulty perfectly, Governor.

Mr. Harrison. But incidentally it will not be a bed of roses for us.

The Chairman. No, it will not. I offer this suggestion as to the three districts, because they do interlock closer than any of the others. My suggestion is that Mr. Strater meet with the men in charge of our three banks and work out some scheme of cutting out this float together, as a local problem. We must be able to iron

out a great many of these difficulties, Mr. Strater.

Governor Harding. I think the three districts require special study.

Mr. Harrison. We might have one collection agency for those three districts, to which practically all the member banks could send their items, just as they do now under the present set up, and they could actually collect the items probably in two days.

Mr. Strater. With the exception of the banks of New York, Boston and Philadelphia.

Mr. Harrison. With the exception of their home city, yes.

Mr. Strater. I cannot quite see Governor Harding's point of the Boston banks using air mail and accomplishing the same thing as if they deposited their checks in the Boston reserve bank, because if that plane leaves at 6 o'clock at night it makes them unavailable for use until the following morning. That is really no quicker than train service to New York and therefore there is bound to be a loss of one day. If I understood Governor Harding correctly, he said the banks of his district could collect on New England cities as quickly by sending

them to New York.

Governor Harding. No, I said with the exception of New England cities. You did not criticise our time schedule in the New England states--

Mr. Strater. No, the committee has not criticised any as a matter of fact. It is just trying to discharge its duty by pointing out things as they are.

The Chairman. When does that aeroplane get back to Boston?

Governor Harding. I do not know, but a good many of the larger banks in Boston have been using it to a limited extent.

Governor Seay. Mr. James mentioned, in the course of his conversation, that one very small banker in Texas was complaining that the Texas reserve bank, or the reserve bank of Dallas, did not carry for its member banks the same volume of float that certain other reserve banks carried for their member banks.

Governor Talley. You cannot please everybody of course. I was just about to say that, so far as the Dallas bank is concerned, we would be willing to recognize this special condition which you have in those

three districts, and subscribe to any new arrangement, without any idea that we are sacrificing uniformity. The distances in our district are so great, and applying the rule that the more remote the point the less the volume, our analysis shows that it would be objectionable to us to undertake to route direct into other districts, because the matter is of such small consequence to us. For that reason we would be very glad for the three districts up there, or even including the Richmond district, or any other district, to work out a plan that would overcome the difficulty. I think Mr. Harrison said quite an important thing when he said that we could not support the principle of an improved collection system, making comparison with former conditions and get to the point where the present collection system is not as efficient as the other one, without these reserve banks carrying an enormous amount of float. I even go so far in the analysis to express the thought that those three districts could clear these items, check against each other in the three districts, and settle the balances, because they are all practically equi-distant from the same point.

Mr. Harrison. We would be satisfied to have an amendment of the law, or a ruling, or agreement, that would permit us to send directly to any point to which we have over-night train service. An arbitrary restriction through district lines prohibits us from doing that, and it defeats the entire possibility of a perfect or improved collection system. You people in the bigger districts out West have that solved merely because your geographical limits are so great. You can send direct to any point which is within over-night train service of you, but we cannot do it merely because of this arbitrary barrier.

Governor Talley. Not only that, but our improvement comes through constant improvement in the mail services, putting on new trains, shortening schedules, and all that sort of thing.

Governor Bailey. Speaking of available exchange, I used to ship a carload of corn down to Alabama and they would send me a cashier's check, and charge for it, and I would send it back and they would send me a draft on New Orleans and charge for it, and by the time I got my money finally it was ten days. There is more

difficulty in getting it just as quickly as we used to under the old clearing house system, but we get the exchange better.

Governor Talley. I think Mr. Strater will bear me out in the statement that we have shown a vast improvement in our time schedules in the last four or five years.

Mr. Strater. I think so, Governor Talley. I think it has been constantly improving.

Governor Talley. What is the difference in principle between the New York bank sending checks directly into the New England district--

(At this point Under Secretary Mills of the Treasury entered the Conference room and the following proceedings were had):

The Chairman. Mr. Mills, a question came up some few minutes ago which necessitated discussion with the Treasury Department and we thought we would take advantage of that and extend to you our customary invitation to address the meeting on any subject that you have in mind having to do with the Treasury Department or reserve banks.

The question that arose was this. Under the statute of the United States, which date back to the days of Alexander Hamilton, no final payment of an obligation of the United States is made anywhere but at the Treasury Department in Washington. That means that the coupons which we pay, and all the Treasury checks and warrants and so on, are charged to the Treasury's account. They are stamped, but not cancelled, and are sent to Washington for examination. Then the charge which is made to the Treasury's account becomes final. In the case of loss or destruction of a package of these vouchers, the question arose as to whether that charge against the Treasury's account would become final, or what process would be followed in recovering from the Treasury in the absence of the vouchers.

We have had the subject up in New York and worked out a plan. We send them out by express and insure them for a thousand dollars. There are copies made of the accounts kept in the bank, so that everything is identifiable by symbol, and so forth, and we have never had any trouble. There may be some question involved. I think a bond is taken to cover possible

loss, and we pay a very small premium. Some of the reserve banks are in doubt as to whether we are protected in the event of a train burning up and a complete destruction of all the evidence of payment. I suggested to Governor Talley, who raised the question, that he might take it up with the proper officers of the Treasury while he is here, ascertain their view about it, and make a report.

Undersecretary Mills. I think Mr. Hand is the best man. The question has never arisen so far as I know.

The Chairman. We had one case in New York where the cancelled papers or mutilated papers or whatever it was, amounting to the nominal value of a million dollars, in a mail bag, was stolen. The bag was slit open and dropped out of the mail car alongside the track. I do not know how it worked out, but I am certain that we did not lose any money in consequence of that.

Undersecretary Mills. The question has never come to my attention since I have been in the department, but I will reserve that to look it up and get Mr. Hand to talk it over with Governor Talley before he leaves, if that is satisfactory.

Governor Bailey. I would like to hear the report on that, because we are in the same fix in Kansas City.

Undersecretary Mills. All right, I will see that it goes to all of the Governors.

The Chairman. Mr. Mills, are there any matters with relation to the Treasury and the reserve banks that you would like to take up now?

Undersecretary Mills. I do not know of anything.

The Chairman. Anything in connection with the pending financing?

Undersecretary. No, I do not know of anything that I consider of sufficient importance to warrant me in taking up your time.

Governor Bailey. What about the new currency?

Undersecretary Mills. The new currency is coming along. They are meeting with any number of mechanical difficulties, but they are gradually overcoming them and we hope to begin issuing the new one dollar bills some-time during the course of the next fiscal year, I should say about January 1, 1929.

Governor Geery. Will it be possible or the desire of the Treasury to redeem fit-for-use bills of the old

make promptly, or will they be worn out first?

Undersecretary Mills. No, we will redeem them as fast as we can, once we have an adequate supply on hand of new ones.

The Chairman. In connection with the plan of reducing the size of the currency, I understood the American Bankers' Association passed a resolution based on the retirement of national bank notes. Is that a fact, Governor Talley?

Governor Talley. I did not know about it.

The Chairman. There was an account of it in one of the newspapers.

Undersecretary Mills. I think I saw that.

Governor Talley. I usually attend the A. B. A. sessions, like everyone else, in the hotel lobbies, and read the decisions afterwards.

The Chairman. I think the question may come up. I do not think it is the general understanding that we are to reduce the size of national bank notes.

Undersecretary Mills. That is a question, Governor Strong, I do not think we want to raise at this time, as to what we are ultimately going to do with the

national bank notes. It really will not be an issue until 1930. We are not in position really to retire them until 1930, and a premature discussion might very well put the whole question into politics. I assume a good many of the national banks will get very busy--they are getting busy now. We do not want to see a political issue made of the question. I think we can go along for a considerable time with the national bank notes of the present size, even if we have a smaller currency. I do not think it would tend to increase their popularity, but that is something for time to develop. So far as the Treasury is concerned I think we are prepared to go along and work out our small currency program and leave the national bank currency in a class by itself. In the meanwhile we can see whether there is a solution of the mechanical end of it, and we will have an opportunity to judge public sentiment on the question of retirement in the course of the next two and a half years.

Governor Harding. Do you think the time is approaching when it will be advisable to put Section 18 of the Act into operation, by offering these banks to take their bonds?

The Chairman. It is approaching. The twos have gone up.

Governor Harding. Of course that would only take care of 25 million.

The Chairman. And the threes have also gone up, I think.

Governor Harding. I think if money ever gets to the point where you can put that section back into operation that you will get a good many voluntary offers.

Undersecretary Mills. Yes, but it will be a very slow process to work it out at 25 million a year.

The Chairman. We are limited to twenty years, and that will retire 500 million.

Governor Harding. It would only retire about 150 million now.

The Chairman. That is all.

Governor Harding. But still it would be a step in the right direction.

Governor Norris. Mr. Secretary, are you personally familiar with this reserve stock of now one dollar silver certificates that are being established at the reserve banks?

Undersecretary Mills. Yes.

Governor Norris. I have had a good deal of complaint in our office about that. They understood that it was to be really a reserve stock, but as a matter of fact, in September there were twenty one withdrawals, and in the first twenty four days of October there were fifteen withdrawals, and, owing to the directions as to how it shall be handled when new notes are received, it is necessary to have an assistant Federal reserve agent, an assistant cashier, and an auditor, and three extra employees to open the pouches and witness the receipt of the money. In addition each package must be inspected in the case of withdrawal in the presence of the same number of persons mentioned. Withdrawals are generally made daily, and therefore on certain days that shipments are received, both in and out transactions are necessary.

Now, I want to ask the question whether it would not be possible to make that a real reserve stock from which withdrawals were only to be made in case of an emergency, instead of daily.

Undersecretary Mills. That was the original intention, and that is why I would like to look into it. Will

you let me have your memorandum, Governor Norris?

Governor Norris. I will be very glad to.

Governor Seay. In Richmond we have the same experience. It is practically a continuous performance.

Mr. Harrison. Isn't it due to the fact, or at least is not this one of the reasons for it, that the so-called reserve stock was really to build up the supply in the twelve reserve banks of unissued notes, which would be issued from the reserve banks and not become an outstanding liability of the Government until issued by the reserve banks, and thereby saving float, which would be quite considerable in amount between the banks and the Treasury?

Undersecretary Mills. That was one feature of it.

Mr. Harrison. I did not think you had got to the point where you had hoped to build up a reserve stock in reserve banks. I thought that was the prime feature of it at the time.

Undersecretary Mills. No, that was only one of the features, because it was also the question of space which was involved. We had not contemplated any such situation as Governor Norris has described.

Mr. Harrison. We have the same difficulty in New York. It requires the services of two of our officers on an average of four hours a day, each, to handle it, but that situation is no doubt due to the fact that the Treasury, in issuing currency, has got to issue the lowest number first, the lowest serial number, and the result is that if you do have a stock there of any kind there is bound to be a turnover in it owing to that difficulty in having to issue the lowest serial number first.

Undersecretary Mills. That may be the answer to it.

The Chairman. Is there any further discussion of this currency matter?

Governor Bailey. I would like to know what our obligation is to the Treasury when we have paid these vouchers, stamped them paid, and put them in the express office and sent them back. That is where our connection with the thing stops.

Undersecretary Mills. That was the question Governor Talley raised, was it not?

Governor Talley. Yes.

Governor Norris. You have not paid them; you have cashed them.

The Chairman. Gentlemen, if there is no further discussion of this matter, there is one topic on the program that I am going to ask Mr. Harrison to bring up while Mr. Mills is here. That is III, sub-topic B, Treasury practice in making purchases of gold at mints and assay offices. That is especially Mr. Harrison's topic.

III. Coin, Currency and Circulation.

B. Treasury practice in making purchases of gold at Mints and Assay Offices.

Mr. Harrison. For a period of two or three years, perhaps longer, we have been discussing informally with officials of the Treasury the practice of the Treasury Department in making purchases of gold in/ comparison with other gold centers, such as London, Berlin, Amsterdam, and so forth. As we all know, the Treasury has, in buying gold, paid mint parity for the gold and made an immediate advance of 98 per cent of that mint parity when the gold is deposited, paying the final 2 per cent when the final report of assay is received. The result of the difference in practice at these centers has been that the United States pays more for gold than any other gold market in the world. This practice was first started away back in

1878, when there was perhaps a real reason for the Treasury making the immediate advance, and that was to encourage deposits of gold at the Treasury and not to discourage it. The Secretary was given authority, under the law,--while not a mandatory one--he was given permissive authority under the law to make advances of 98 per cent for the full face value of the gold immediately upon receipt of the deposit.

Now, as you all know, we have in the United States over half of the world's monetary supply of gold. At the moment we are not desirous, certainly, of creating any artificial encouragement of the flow of gold in this way, and it has occurred to us, therefore, that there might be some advantage, nationally and internationally, if we could adapt our practice somewhat to the practice of other markets of the world, and not make immediate advances, but await final assay. so that the result would be equivalent to making a discount ^{from} the full face value of the gold purchased by the Treasury.

In London, as you perhaps all know, the discount that the Bank of England pays is equivalent to one eight

per cent of the mint parity. That discount, which they make in their buying price, was designed to cover the loss of interest that would be suffered by a depositor if he should take his gold to the Royal Mint, wait for the gold to be minted, and get his money back in gold. The same practice prevails in other markets, and I have the figures. In The Netherlands, the discount, instead of being .16, is .35 per cent; in Switzerland it is .43; in Berlin, it is .21, and in the United States the discount is .013, or approximately one tenth of what it is in London, which is the largest of our gold markets.

Now, under the law, we feel that it is competent for the Treasury to issue a regulation whereby they will defer their advances for a period of five to ten days, or perhaps make no advance at all on account of gold deposited, and make final payment when the final assay is received only. There are a number of disadvantages to that, political and otherwise, but that is the thought in the minds of all of us who have considered it. We have estimated that the domestic production of gold in this country is approximately \$50,000,000 annually.

All of these domestic producers of gold would raise a howl immediately if there was a regulation or law equivalent to a discount of .16 per cent, or any other discount on the gold that they produced. The question came up, then, whether it might not be possible to give up the practice of making immediate advances on only the coin or imported monetary gold, and whether if that were done there would be any legitimate complaint by anybody. The only ones that could properly complain would perhaps be the importers of gold to this country, but they are merely acting as agents to bring the gold in because of the fact that it is profitable to them to do so at a certain given point in the exchange rates. If we changed that practice the result might merely be that we would lower the gold export points for those various foreign markets. I do not believe myself, and I think the others of us feel the same way, that there would be any real complaint on the part of the foreigners generally, if we should change our practice, because such things as we hear now about our gold policy are that we are hoarding the gold of the world rather than the fact that we are repelling it, so that

a change of practice at this time might answer, rather than give fuel, to some of the discussions that we hear abroad about our gold practice.

Governor Seay. Is there a similar practice in Canada, Mr. Harrison?

Mr. Harrison. I do not know what the practice in Canada amounts to, Governor Seay. We might well look into that.

To put it a little differently, sterling exchange has got to go down only a point and a half before it reaches the gold export point from London.

The Chairman. Below mint-parity, you mean?

Mr. Harrison. Below mint-parity, yes. Before we lose gold to London sterling exchange has got to go up twice that amount, or pretty nearly three cents, and while some of that disparity is due to difference in freight rates between eastern and western shipments, most of it is due to the fact that we have this practice of making immediate advances on account of gold brought.

The Chairman. There is one point also, and that is that if the Treasury should decide to abandon the

practice of making cash advance of 98 per cent, guaranteed value of the gold, the Federal reserve banks would then be in a position to step in and to make a bank price for cash, pay cash for that gold, which would send all the gold to the reserve banks, because they would be the cash market. It happens in all the other markets that the gold goes to the cash customer, the bank of issue, and that is now the statutory practice in England.

Mr. Harrison. A survey of the different mints and assay offices shows that in New York the final assay is usually received about ten days after the deposit. That is a much longer period than is the case in any other mint or assay office, and the practical effect of this is that the discount which a depositor would have to suffer would be greater in New York than anywhere else. Conversely, the control which the reserve bank would have over the monetary price of gold would be greater in New York, because the discount is greater. We did not find that this difference in the practice at different mints would have any material effect upon what we are desiring to accomplish, because if the

practice is limited to the monetary gold it will be practically limited to New York, in any event, because such a big percentage of the imported gold comes into New York.

The Chairman. The Treasury, of course, would save some interest by this, but I do not know what it would amount to. If this practice had been established some years ago with the gold that was coming in, it would have saved a great deal of interest. There was a lot of money invested in gold that was not available to the general fund.

Mr. Harrison. In effect, in the past, all gold coming into the country has been put into the melting pot because there was no real market for it other than the assay offices and the mint. That was done no matter what kind of gold it was, even if it was perfectly satisfactory gold bars of the best assayers abroad. The gold would be destroyed, remelted in United States mints. Just to show you how sensitive the market is, two years ago, when we went into the market for foreign bars, possibly all of the bars that came to New York were sold to us rather than to the assay office, because the

final two per cent payment, which was deferred ten days in the assay office, was deferred only two days in the reserve bank, pending the weighing of the bars that were bought. The difference between the two days and ten days in the final two per cent has brought us the gold rather than bringing it to the assayers. That plus the fact also that the member banks were very desirous of cooperating with us in any event.

The Chairman. In commenting on this proposal the two things that stand out in my mind about it are, first, the matter Mr. Harrison mentioned as to domestic protection. There has been so much discussion of the plight of those people that it would hardly be advisable to adopt a regulation which would penalize them in the price they get for their gold. The second is it means a reduction in the price that we pay for gold in this country of maybe one-eighth of one per cent. That is the way it figures out roughly.

Mr. Harrison. Yes. It would be .16, or about one-eighth of one per cent.

The Chairman. It would naturally create comment abroad that we were doing something that was quite

unusual. Some of the nations have deliberately reduced the price of gold by 5 per cent. Now Switzerland has put an embargo on the importation of gold, and we are taking it.

Mr. Harrison. There is another important consideration, and that is this, that if we put a handicap on gold bars, or make them less valuable in the gold market, there is going to be a tendency ^{not} to withdraw the bars for export and export U. S. gold coin, and that is going to be a more expensive process than making bars. The Bank of England has been able to control that largely because they would pay out light weight coin. When I say "light weight" I mean within the limit of tolerance, but abraded coin. We could follow the same practice were it not for the fact that we haven't any old circulated coin. Most of the coin that we have got now is new coin. The proposition has been presented to us very concretely in an order from Brazil for an export of some thirty six millions in coin, and we have only twenty million in circulated coin that we can pay out and we have got to pay out the balance in new coin, whether we want to or not.

The Chairman. The circulated coin that we have had experience shows an abrasion value of about one-fourth of one per cent and some three-eighths. That is about double the mint reduction in the price of gold and that would overcome the disadvantage and stimulate the taking of bars rather than the gold coin. But we haven't got the abraded coin to pay out.

Governor Seay. You furnish the circulated coin at face value?

The Chairman. Oh, yes, as long as it is within one-half of one per cent, which is the limit of tolerance.

Mr. Harrison. The Bank of England used to grade their circulated coin into various groups within the limit of tolerance, depending upon whether they wanted to lose or keep gold, and depending upon that, they would pay out light gold or heavy gold accordingly.

The Chairman. They understand the proposition there. They had tons of abraded coin over in those countries where they have them in circulation, such as Germany. I imagine they have all got ample supplies. Hereafter, when they send the abraded coin over here, we will keep it and send it back to them.

Mr. Harrison. Even with its disadvantages, there is so much to be said for this program, if it is feasible, that we are most hopeful that it will be possible for the Treasury to work out, perhaps not this precise program, but some program that will have some net effect of reducing the price that we are now paying for gold in competition with all the rest of the world. I know, for instance, that a good part of the gold that we got early last spring and late last winter from France, would not have come to this country were it not for the fact that we paid more than any other market, and there was a shipment of practically 130,000,000. involved.

The Chairman. As Mr. Harrison says, this matter has been discussed for a long time, and the feeling has been that there were so many elements involved in this that it might be unwise for the Treasury to issue a new regulation out of a clear sky, and so we have proposed the preparing of a very careful article, describing the whole problem hypothetically, have it published somewhere where it would have wide circulation, and see what the public reaction was here and abroad. Mr. Mills has suggested that the article should appear in the Bulletin.

That struck me at the time as a good plan. On further reflection, however, we are led to believe in New York that that would make it appear as though it was really a proposal of the Government, being put out by the Federal reserve board, and we believe we should secure the publication of it in some magazine or publication with very wide circulation among people who study these things and probably get a better reaction, without any kick back to it at all. That was the last word in New York, as I remember it.

Mr. Harrison. I have felt that way myself very strongly and I think the others feel that.

The Chairman. Dr. Burgess feels that way. How do you feel about it now, Mr. Mills?

Undersecretary Mills. I have not felt that it would be quite as much commented on in this country--

The Chairman. It will be abroad, a great deal, and it might be construed as a possible difference between the Treasury and the reserve System, no matter how carefully you word the article. It will be very difficult to get across what we have in mind getting across without giving the impression that we are at odds with the

Treasury.

Undersecretary Mills. The Treasury Department is wholly sympathetic with the idea, but we did feel that inasmuch as the matter did not primarily concern the Treasury, but rather clearly came within the jurisdiction of the Federal Reserve System, that it would be better if the suggestion emanated from the Board in the form of a suggestion, simply for discussion, and then see what the public reaction would be. I do not think it is a matter of great consequence whether it appears in the Bulletin or in some other publication that will insure public discussion. We have not been able to see any fault in it. It looks to us as a wholly sound proposition.

The Chairman. There has been some complaint abroad that there is no quotation for gold in the United States in the foreign markets. What is meant by that is the fact that the whole world looks at the London market where gold is sold publicly. Every Monday or Tuesday all gold which goes to London is sold at what is equivalent to an auction at the Rothschilds' Company offices. There the bidders for gold make offers of the bank's

statutory price, which is 84 shillings 10 pence, for a fine ounce, plus any premium that they are willing to pay. The gold which is not sold to be taken to India, Germany, or wherever it is wanted, or taken by the manufacturer to manufacture in an industrial art, goes automatically to the Bank of England at its statutory price of 84 shillings and 10 pence. When the bank takes the gold to the mint, the coin turned back in sovereigns to the bank at the rate of 84 shillings and 11 ha'pennies in gold coin, a difference of one and a half points, which is the equivalent of the interest lost during the time that the coin is manufactured, and a difference of that same character, possibly in exactly the same amount, which this plan would produce in our practice, would result, and then if any buyer of gold wanted to buy gold we might in the course of time develop a practice in our market somewhat similar to what prevails abroad.

Mr. Harrison. In that connection I think it is worth mentioning, too, that it has been a great help in the situation to have the Treasury remove the bar charge on the gold sold by the Treasury. We never had any basis on which to try to persuade the foreign buyers

of our gold to take bars instead of coin when we had an extra charge on the bars; and while we are not making very much progress now, we are making some progress in getting them to take bars rather than coin, and we hope to make a great deal more progress as time goes along.

The Chairman. In that connection, what is the status of the supply of gold coin, Mr. Harrison?

Mr. Harrison. It is very bad, so far as we are concerned in New York; it is weak. Looking at it nationally, the situation is very much better than it was two years ago. The Treasury has minted, I should imagine, in that time approximately \$200,000,000 in gold coin, and while most of their coin is now used as the base for certificate issues, nevertheless the coin is here and is available if we have to have it in an emergency, either by some method of reducing the coin base against the certificates or a policy of retiring certificates in order to release the gold coin. The amount of excess coin in the country, over and above the base for certificates, is not nearly as large as we would like to see it, and in the New York bank, while we were able to build our supply of coin up to about \$80,000,000 a

short while ago, nevertheless withdrawals of \$31,000,000 for the Argentine and now \$36,000,000 for Brazil, has made our position very much weaker again, and I do not believe that there will be more than about thirty-five or forty millions in coin left in New York, including what is in the assay office and the Federal reserve bank, after this shipment is made to Brazil.

I have just received a cable, which was just handed to me, that we would be called upon next week for fifteen million for Poland. I hope and expect that Poland will take bars. Of course they have the right to take coin, but with these immense balances that we have of the banks of issue in New York, some of which banks may want coin and expect us to ship coin, our position is not a bit too strong and in my opinion it is quite dangerously weak.

The Chairman. We have these obligations against us, and anyone abroad can demand coin, and legally demand it. If these foreign banks of issue which have, I suppose, a billion dollars of demands upon us should suddenly decide that they want to take their gold, or any considerable part of it, they have a perfect right

to present their demand to the Federal reserve bank and ask for coin, and the coin does not exist to meet that demand.

Governor Fancher. May I inquire in what form you ear-mark this gold?

Mr. Harrison. There is a small part of gold that we have ear-marked in coin, but the great bulk of it is in bars. All the ear-marks we are making at the present time are in bars.

The Chairman. I do not think the situation would be quite as bad as it appears from the figures, because the mint can turn out about fifty millions a month, and there is a limit to the shipping facilities employed in carrying the gold, to any one point, certainly. While we could keep up with the demand, it might be very inconvenient and possibly embarrassing.

Mr. Harrison. In this connection I think it would be interesting to consider, from the System point of view, the status of our gold reserve. We have approximately three billion dollars in reserve. We speak of a System reserve ratio of around 75 to 80 per cent. As a matter of actual fact the percentage of payable gold

reserve is very, very small, and on the last figures we have it is about 20 per cent, speaking roughly.

Governor Bailey. The rest of it is in bars?

Mr. Harrison. The rest of it is in bars, and in ten thousand dollar gold certificates, which we do not consider in the class of payable gold reserve. I can give the figures for individual banks, but that is not worth while. The average for the System, the percentage of payable gold reserve for the whole System, on the last figures, was 19.5 per cent. The composition of the gold reserve for the System as a whole is this: 65 per cent is in the gold fund, 8 per cent is in bullion in vaults of the reserve banks, 8 per cent is in coin, and 19 per cent is in gold certificates. The percentage in the gold fund is not as great as it was two years ago. I think there has been a considerable improvement in converting from the gold fund to the vaults of the banks in the past eighteen months. We ourselves have at different times taken approximately 150 to 200 million of gold bars from the assay office and taken them to our vaults, and reduced our gold fund accordingly. While we do not feel that the same necessity exists

for the other reserve banks to convert their gold fund reserve into vault reserves, it is true nevertheless that some of them are very low in vault reserve and might, just as a matter of record, consider building up their bullion of coin reserve. As a matter of fact, the weak point of attack at the moment is the New York bank as far as gold coin reserve is concerned.

Governor Wellborn. I should think that the foreign governments would prefer bars to coin.

The Chairman. Unfortunately they do not, because they anticipate the possibility of having to shift it back here.

Governor Fancher. Our Board started about two years ago to increase our supply of coin up to \$25,000,000, but we haven't been able to get any of it, so to speak.

The Chairman. Another unfortunate situation about the gold settlement fund, especially, is the very high percentage of our reserve in that fund, which reduces the proportion of gold available for export in case a heavy demand arose, because while it is a part of the reserve we could not take it out as long as we maintain so much of it in the settlement fund. At times we have

debated in New York whether it might not later be desirable to have no gold settlement fund at all, but have settlements between the Federal reserve banks effected by book entries, which could very readily be done, and some regular method devised for dressing the reserve condition by shipments of gold that ultimately became necessary between the reserve banks, our shipments of certificates, which of course would be much better.

Mr. Harrison. Since all of the reserve banks have their new buildings and the most improved form of vaults, from the viewpoint of national interest we have considered the question of whether it is necessary to have over three billion dollars of gold in one place, as is now the case. While we have no doubt at all that those vaults in which the three billion is now put are the best and most adequate kind of vaults, nevertheless, if it is feasible, it might be a wise thing to distribute some of that metallic gold among other vaults, which are at least equal to, if not better, than the ones in which it is now located.

A few moments ago I mentioned, in discussing the progress that has been made by the Treasury in building

up their stock of gold coin reserve, which they have done quite considerably in the last year, that there has been a large improvement over what the situation was at that time. In reviewing the statement I have just received, of November 1, from the Treasury, I find that the improvement is even much better than I had indicated in talking to the Conference a few moments ago, and indeed better than I myself thought it was when I was discussing it. According to the calculations here, the amount of gold certificates outstanding is \$1,613,000. The total amount of gold coin in the Treasury is \$692,000,000, which would make an excess over the base required for certificates of \$160,000,000. While, therefore, I pictured a very gloomy situation in New York, it is chiefly geographical, and could be quickly remedied by shipments from the mint at Philadelphia, where the better part of this gold now exists. One of the influences that perhaps has contributed to my frame of mind about it has been the fact that the Treasury has had serious difficulty in getting sufficient appropriations to move the gold about, and in trying to support the contention that

substantially, the amount of gold certificates out-
standing is \$1,613,000. The total amount of gold coin

it is a Treasury expense rather than a reserve bank expense we have considered it at times an almost insuperable obstacle to getting it. But that is purely an internal proposition between us and the Treasury. As between the United States and foreign buyers of gold coin, somehow, some way, even if we have to pay the expenses ourselves in getting the coin, either in Philadelphia or New York the coin is available now, to the amount of \$160,000,000 excess.

The Chairman. Is there anything further we wish to take up before Undersecretary Mills? If not, we are very much obliged to you, Mr. Mills.

Undersecretary Mills. Thank you very much, gentlemen. Governor Talley, if you will come in at your convenience we will see what we can find out. I am taking Governor Norris' memorandum with me.

(Undersecretary Mills thereupon left the Conference room, and the proceedings continued as follows):

The Chairman. Now, Mr. Strater, we are back to your report, and we were discussing this question of combining the three districts of Boston, New York and Philadelphia.

Governor Talley. Mr. Chairman, I was in the midst of an observation when Mr. Mills came in. I cannot see any difference in principle between the Federal reserve bank sending direct to a member bank in another district and a member bank in another district sending direct to another Federal reserve bank. I do not see where you have to have any amendment to the act to permit sending between districts as you might desire.

Mr. Harrison We have always assumed that we have had legal authority to send to the bank in Springfield, for instance, provided the Federal Reserve Bank of Boston would authorize us to use a double endorsement stamp. I know there are certain objections, in principle, to this double endorsement stamp, but they are in use already, and I understand some of the reserve banks authorize their own member banks to use the endorsement stamp, and have in the past authorized them to use the double endorsement, including the Federal reserve bank endorsement. If, for instance, we have authority from the Federal Reserve Bank of Boston as their agent, if you will, to send items direct to a bank in Springfield, Mass., and have remittance either in Boston or New York

funds as they choose, I think there could be no legal obstacle to our working it that way. Indeed, it already has been done in the past and is being done now in some districts, although to a limited extent only.

Governor Seay. That is, sending your own checks or checks received from your own member banks. The serious objection would come from the member bank, as I take it, which might be opposed to direct sendings because the checks would reach them one day sooner.

Mr. Harrison. The answer would be this: perhaps the greatest bulk of their own items that they are sending to the reserve banks are on the same schedule so that they are now receiving one day earlier credit, on the bulk of their own collections for which they themselves are suffering an offset, or would be suffering an offset by paying one day earlier.

Governor Norris. But suppose it is not a member bank.

Mr. Harrison. I think the majority of the non-member banks get the benefit of that one day saving one way or another.

Governor Seay. I do not think as a matter of law that there exists that right.

Mr. Harrison. You do not think what, Governor Seay?

Governor Seay. That as a matter of fact a Federal reserve bank of one district can forward its checks for collection directly to a member bank in another district. There is room for a difference of opinion. We do not think the right exists.

Mr. Harrison. I do not think it is clear-cut one way or the other, I agree, but my thought is, having decided in our own mind that it is legal for us to act as the agent of the Federal Reserve Bank of Boston, and the Springfield bank would object and say that we have no legal authority, then would come the question in the court as to whether or not Boston could authorize us as their agent to send direct.

Governor Seay. But could you act as agent for the Federal Reserve Bank of Boston when you are forwarding your own checks? If you were forwarding something that came to you from the Federal Reserve Bank of Boston--but how could you forward your own checks and act as their agent?

Mr. Harrison. Because those checks are checks which otherwise we would send to the Federal Reserve Bank of Boston and have them send them to Springfield. If Boston

says instead of sending them to us to forward to Springfield, send them direct for our account.

Governor Seay. That is true, but they are your own checks. I doubt very much if you would have, under the act as it is worded now, authority to forward those direct to that member bank. Boston has no control over them.

Governor Norris. I believe the committee was of opinion that it could not be done. On page 6 they say: "It is quite obvious such an arrangement could not be made without the consent of the paying bank," and so forth.

Mr. Harrison. You can do a lot by this principle of agency, provided it does not violate some other vested right of some third party. Now at the present time we authorize the Albany banks to send direct to Chicago items payable in the Chicago district. Those items, under the law, are technically supposed to come directly through us, rather than through the Chicago banks, but we short-circuit it in the interest of expediting the collection system. There is a difference to the third party involved, and the third party might object and bring the

matter up for test in the courts.

The Chairman. Gentlemen, what is your pleasure with regard to Districts 1, 2 and 3?

Governor Seay. There is one thing I would like to refer to and that is the fact that quite a bit of embarrassment arises from the fact of competition between the member banks for bank account. In times past we have had complaint from the Baltimore banks that the Philadelphia banks were willing to take their items on certain places in our district and credit them one day sooner than they could receive credit for that deposit in their own branch bank or the Federal Reserve Bank of Richmond. They have invited accounts on that basis. Where in New York, for instance, or Philadelphia, for instance, is over night from the member banks, they have an advantage over the member banks in Richmond and in Baltimore, and they have solicited accounts on that basis. The member banks in Baltimore have objected.

Governor Norris. The Baltimore banks object to the competition of Philadelphia and Philadelphia objects to the competition of the New York banks.

Governor Fancher. And Pittsburgh objects to

Philadelphia.

The Chairman. Gentlemen, are you ready to dispatch the three criminals at one stroke, or do you want to take them up separately? It is all the same problem, wrapped up together in one bundle. What do you suggest, Mr. Strater?

Mr. Strater. I would rather not make any suggestion, because the committee has gone as far as it can and this is largely a matter of policy, something which the Governors really should decide.

The Chairman. Do you think there is anything in my suggestion of looking for some short cuts with the idea of speeding up collections in the three districts?

Mr. Slater. Outside of what the committee has already suggested I really could not see that anything much can be accomplished. The committee of course would be very glad, I am sure, to render whatever aid and assistance it can, but it seems to me that the problem really lies with the management of the three banks concerned.

The Chairman. I don't suppose the banks in the other districts complain when they get credit a day earlier of their items, do they?

Mr. Strater. No, but as a matter of fact do the banks in the other districts have that advantage?

Governor Fancher. Some of them complain if they have to pay them a day earlier.

Mr. Strater. The banks in the Cleveland district cannot very well send New England checks to New York. That is prohibited under the provisions of the act. They can get no benefit out of the time schedule as it applies to adjoining districts.

The Chairman. We have an inter-district float of \$16,000,000, and all that means is that we have given the other reserve banks credit for \$16,000,000 a day earlier than they can collect the checks within our district, does it not?

Mr. Harrison. No. It means that our member banks get the benefit of that.

The Chairman. Then we shall not raise the question.

Mr. Harrison. I have given our platform, as I see it, and that is that we should attempt to ultimately-- I do not know how soon--adjust the time schedules of the reserve banks to a point where they give credit only for the time that is taken to collect the checks on the

average, that we should attempt to do that before changing our two-day schedule to a three-day schedule, and cause the resulting hornets' nest that I am sure would be raised as a result of that. In other words, we ought to do two things before we do it. First, see whether it is practical to do what the committee suggests we might try with the consent of the paying banks in other districts, send direct to those banks and thereby collect the majority of the items in those other districts actually in two days; and if it is impossible to do that, then I think the question becomes a System question, to see whether we want to admit not only to New England and the eleven Northeastern States, but to all the country, that we have a slow, cumbersome and inefficient collection system merely because of these arbitrary district lines and see whether in the process of time-- maybe not this year, but whenever it is feasible--it wont be wise to go to Congress with a view of changing the collection system and inaugurating or attempting inaugurating or adopting some sort of collection function that would work irrespective of district lines. I do not think the time is ripe yet, and there will be less

actually in two days; and if it is impossible to do that, then I think the question becomes a System question, to

objection on the part of member banks. I foresee objection on the part of some of the reserve banks, and very properly, but clearly, if Congress had been devising a collection system and not a reserve system, it would never have made these district lines as they have made them and limited the collection facilities to arbitrary, geographical limits, that work a hardship on those districts which are the most congested banking areas of the country.

Now, as I have said, it works practically all right out West because the districts are so large that they can send direct to all over night points, but because of our extensive banking resources and the necessity for congested district lines, geographically, in the Northeast, we have at the same time an arbitrarily and unnecessarily limited collection line, or lines, and I hate to stir up all the trouble that I think would arise in the Northeast if we gave up the two-day points, without first being certain--for this concerns the System as a whole and not merely the three northeastern banks--that there might not be some advantage in a general reorganization of the collection system in a way that will

adapt the collection System to the needs rather than to the credit needs.

Governor Seay. Mr. Chairman, plainly the committee has gone just as far as it can go and has discharged in a most effective manner its duties. It is plain to me, at least, that we cannot come to any agreement as to changing the present conditions without further deliberations. I concur in what Mr. Harrison has said. I am profoundly convinced that there is nothing we can do at the present time to bring about the desired end. Therefore I move that the report of the committee be accepted, be received and filed and studied, and that this Conference extend its thanks to the various members of the committee for their extremely effective work.

Governor Harding. I will second that motion.

The Chairman. Is there any further discussion?

(There was no further discussion, and the motion, having been duly seconded, was unanimously carried.)

The Chairman. We have not finished consideration of the whole report in detail. We have read it, and are prepared to adopt its recommendations, as I understand it. Do you wish to consider any procedure with

the Federal Reserve Board in dealing with this new time schedule and the inequalities which are presented and discussed in the report, because the adoption of a new time schedule requires action by the Federal Reserve Board?

Governor Talley. The Board has indicated that it is making a study of the float at the present time.

The Chairman. Would it be proper, having adopted the report, to ask the Standing Committee on Collections to take it up with the Federal Reserve Board and to do whatever it thinks is necessary in connection with it?

Governor Harding. I did not understand that we had adopted the report, but merely that it had been accepted and filed.

Governor Seay. Accepted and filed for study, and I will add to that that a copy of it be submitted to the Federal Reserve Board.

Governor Wellborn. I think it would be a good idea to submit the idea expressed by Mr. Harrison, that is, the possibility of going before Congress and getting an amendment to effect a scientific collection system. I think we should consider that.

The Chairman. The minute we attempt that now we are going to have the whole par collection business coming up again.

Governor Wellborn. I do not think there is so much objection to it.

The Chairman. To the par collection system?

Governor Wellborn. I never hear very much about that, only from a certain group that brought these suits.

The Chairman. There are about 1200 banks down in your country that are raising Cain all the time.

Governor Wellborn. Twelve hundred of them?

The Chairman. Are there not?

Governor Wellborn. No, about three.

The Chairman. How many did you have in that organized assault on the par collection system?

Governor Wellborn. There was no concentrated effort along that line. I have never heard a banker say a word about it.

The Chairman. Has that committee been disbanded?

Governor Wellborn. Yes. They were all broken up when the Manley banks failed. They were a part of that Manley business.

Governor Seay. Governor Wellborn's district is not now attempting and never has attempted to collect on the bulk of the banks in that district, as is the case with all the other Federal reserve banks. I think he has a limited number of par banks in his district.

Governor Wellborn. A limited number?

Governor Seay. Yes, the minimum number. That is, I think you have fewer relatively than any other district in the country.

Governor Wellborn. We have had a good many state banks withdraw from the System. A very few of our non-member par remitting banks have rescinded their action.

Mr. Harrison. I had hoped, Governor Wellborn, in my remarks, to indicate that under no circumstances should we go to Congress for any revision of the law on collections until after we had exhausted every other possibility of improving the System without an amendment. I should hope that we will take a sufficient time to enable all the objections to the par collection system to have settled down before we think of any revision along the Utopian lines that I discussed a few moments ago.

Governor Wellborn. I do not consider it Utopian.

I think it is rather practical.

Governor Harding. As between the choice of evils I think it is better to absorb some float rather than to advertise that we have a cumbersome collection machinery which deprives the banks of getting collections as quickly as they did get them when we didn't have any collection system.

Governor Seay. Especially when we have boasted about the superiority of the system over the former method.

The Chairman. It is superior. There is no question about that.

Governor Seay. Yes.

The Chairman. Are we ready to proceed with the program? The next topic is 2-D, direct sendings of cash letters.

II. Collections and Clearings.

D. Direct Sendings of Cash Letters.

It is suggested that each Federal reserve bank make a survey and report on the questions (a) whether it is receiving too many cash letters per day from any one direct sending member bank of another district, and (b) whether any of its own member banks are making a practice of sending daily letters of trifling amounts direct to Federal reserve banks of other districts.

The Chairman. That topic was suggested by a statement made to me by Governor Young, in which he said, speaking from memory, that they were receiving 1600 cash letters a day out there. Is that a fair statement, Governor Geery?

Governor Geery. I cannot tell you about the total, but just for illustration, on October 1st we received 32 cash letters from the Chatham and Phoenix National Bank of New York for immediate credit. That means items drawn on St. Paul and Minneapolis.

The Chairman. Thirty two?

Governor Geery. Thirty two. Either one of two things has happened. Either every time their transit department makes a run they wrap it up and make it a letter and send it out, or else each one of their branches sends out a transit letter.

The Chairman. That is what happens.

Governor Geery. But here is the week beginning October 3rd. Monday we had 32 immediate credit letters, Tuesday 11, Wednesday 22, Thursday 12, Friday 14.

Mr. Harrison. All from the Chatham and Phoenix Bank?

Governor Geery. Yes. From the Bank of Manhattan we 19, 7, 13, 11 and 9. Some of these letters are

petty items. One letter for immediate credit of \$3.60 from the Chatham and Phoenix Bank. A half a dozen were \$57, \$59, and \$67, \$76, \$14, and \$87.

The Chairman. The topic was placed on the program in order to develop this very thing. Are there any other districts that have had experience similar to that of Minneapolis?

Governor Seay. There is nothing to complain of on the part of the Richmond bank.

Governor McDougal. Of the direct sending banks located in New York City there are twenty eight which appear to be sending out more cash letters than necessary. They send us an average of 144 deferred letters and 110 immediate credit letters every day. We seemingly get more letters than necessary from the New York banks.

The Chairman. It is probably explained in all cases by the branches sending direct.

Governor McDougal. That I do not know.

Governor Geery. That does not apply to the National City Bank. They have a number of branches.

The Chairman. And they send only one letter?

Governor Geery. They send four or five.

Governor Harding. Would it be possible to limit direct sendings to items of certain amount?

The Chairman. I think it ought to be done in some way.

Governor Geery. On the other side of the case, of our banks sending direct, here is one week's letter of the Northwestern National Bank of Minneapolis, to the Federal Reserve Bank of Richmond. They send direct a letter each day in amount as follows: \$88, \$154, \$631, \$1477, \$183, and \$985. There is no excuse for a member bank sending an \$88 direct to the Federal Reserve Bank of Richmond.

Mr. Strater. There is a physical problem involved there, Mr. Geery. You will find that the banks in New York, like the banks in all the larger cities, have their direct routing arrangements set up more or less automatically. Your bank in Minneapolis, for instance, that sends so many letters, might have on one day an \$80,000 item on Richmond and the next day an \$88 item. The result of that is that they cannot possibly tell until the close of the day what they are going to have in any given Federal reserve bank. If they wait until

they have prepared all of their letters and then cull out the small ones, they have got to rehandle everything that they have already started and put through the mill. So far as our bank is concerned it doesn't make a particle of difference whether we get one letter or twenty. We consider it quite a simple matter to put twenty letters through the mail. It just means putting down a few more figures. Our transit man told me the other day he would lots rather get ten letters of \$200 than one of \$20,000, because it is much easier to verify and follow through a number of small letters than it is one large one.

The Chairman. At the Conference in November of 1925 there was a discussion of this, resulting in a resolution which was passed, indicating that each Federal reserve bank could take up with any member bank, guilty of sending trifling items, take it up with that bank and correct it. I notice with some amusement, however, that Governor Young was the only one who voted against that. However, I do not believe that any bank in New York should send direct an item of \$11.14. It seems to me that is an abuse of the privilege of direct

sending.

Mr. Harrison. Mr. Strater answered that question very satisfactorily from my point of view when he said that if a bank should wait until the last minute to find out whether or not it should be sent direct or sent to the Federal reserve bank that it would involve double handling at the last minute of all these letters, which, at the last minute, they found out were not big enough to go direct. We feel in New York that the best way to do would be to let the matter go as it is unless chronically a bank or branch is sending too many small letters, which indicates that a bank hasn't got a sufficient volume of items on a given point to justify direct sending. They should in that case send to the Federal reserve bank. But unless it is constant and chronic, we think the best thing to do is to let them go through, even if it does result in some cases to which Governor Geery has referred, where the items are quite small.

Mr. Strater. The thing will have a tendency to correct itself, because it is expensive to send

a lot of small letters. It seems to me that if anyone called their attention to the apparent abuse of the direct sending privilege, and would point out to the member bank that it is costing them too much to collect items from certain points by sending direct, and that it would be more to their advantage to cut down their direct sendings and pick out those points where they do not have very many items, eliminate those points from direct sending and include them in the cash letter to us, that they would be very glad to have the suggestion made, and that it would take care of itself naturally.

Governor Seay. It is evident that we covered the matter back in 1925, as we understood the situation then, as well as it could be done. It is a matter of pure mechanics when once a direct route has been established. It is then carried out by minor clerks in the transit department, and until attention is called by the reserve bank to the other offending reserve bank or offending member bank in another district, nothing can be done. I think in that resolution we have come as near a solution

of it as we can get.

Governor Harding. I have one other suggestion to submit, which I think obviates the mechanical suggestion which Mr. Strater raises. Suppose direct sending were limited in this way, that there should be no direct sending of any item less than \$500. Then any bank getting an item of \$2.40 would put it in one pigeon hole, to go to the Federal reserve bank, and if it gets a \$500 item it goes in another pigeon hole, and in that way all of the little items will go to the Federal reserve bank and there wont be any hardship in that.

Governor McDougal. Our procedure conforms to the recommendation of the committee on collections, as summarized in paragraph 29 of the Secretary's minutes of November Conference, 1925. The committee expressed the opinion that there should be no limit placed on the dollar amount of cash items that a bank might send direct. And where it appears that a direct sending member bank sends more letters each day than should be necessary, or as a regular practice sends letters of trifling amounts, the Federal reserve bank of the district in which

said member bank is located shall take the matter up with the bank in question and endeavor to reconcile it.

The Chairman. That is the minute I referred to a moment ago, Governor McDougal. Now, there are three courses that have been suggested or intimated. One is the action proposed at the former meeting of the Conference in November, 1925, under which the reserve banks shall call each other's attention to abuses; the second is to adopt some practice such as Governor Harding suggests and limit the amount, splitting the letters between the Federal reserve bank and the direct sendings; and the third would be to refer this subject to the committee and ask them to secure more data than we have here and submit a formula, without waiting until the next Conference. It is a question of which course to pursue.

Governor Seay. I believe the Standing Committee on Collections made a very complete study of this matter in 1925. The recommendation which they then made conforms to what I know is the experience of our own bank, and I doubt if any of us can go any further than that.

I will move, Mr. Chairman, that we refer to the

recommendations of the Standing Committee on Collections , made in November of 1925, and follow the practice there recommended.

Governor McDougal. I will second that motion.

The Chairman. You understand that the only complaint that I know of having been made to us was the statement of Governor Young some time ago, which resulted in this topic being placed on the program. The idea is that these abuses will be reported more frequently and more promptly and taken up. Is that the idea?

Governor Seay. That is the idea.

Governor Talley. I think it would be better for the complaining Federal reserve bank to take it up directly with the Federal reserve banks of the other districts rather than with its members.

The Chairman. That is what I mean, a matter between the Federal reserve banks entirely.

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

Governor Harding. I should like to be recorded as

not voting.

The Chairman. Now, gentlemen, I call your attention to the fact that three topics, III-A, III-B and III-C, have all been dealt with while Mr. Mills was here. The next is IV, the Board's regulations, and this must be dealt with after we have read them.

Topic IV-B remains on the program from the former Conference, and is raised again by the Board's letter X-4957. I am not sure to what bank that letter was addressed. The topic raises the inquiry on reimbursement of expenses rendered Government agencies.

Governor Norris. It was Philadelphia, Mr. Chairman.

The Chairman. Will you discuss that, please, Governor Norris?

IV. Operation and Administration.

- B. Reimbursement of Federal reserve banks for expenses of services rendered for Governmental agencies.

Governor Norris. At the last Governors' Conference, the question was raised whether the Federal reserve banks should not be reimbursed by Federal land banks for expense involved in paying Federal farm loan coupons. Governor Seay moved that they should be reimbursed, and Governor Talley amended by suggesting that they be

reimbursed if and when requested by the Federal reserve bank. After some discussion upon the volume of these services, and the cost of rendering them, Governor Seay stated that his principal purpose was to get the opinion of the Conference as to whether it was not a correct principle that reserve banks should, as a rule, be reimbursed for services which they rendered to other governmental agencies which were sustained by their own income.

A motion was finally offered by Governor Calkins that "In principle, the Federal reserve banks should be reimbursed for services performed for governmental agencies other than the Treasury, when the expense is sufficient to justify the filing of a claim by the individual bank concerned." This substitute motion was accepted by Governor Seay, and adopted.

Under date of June 24, 1927, by letter X-4887, the Federal Reserve Board advised the Governors that it was not in harmony with this view.

After receiving that letter I wrote to Governor Crissinger, acknowledging receipt of the letter, and inquiring whether it would be in order to ask why the

Board was not in harmony with the resolution adopted by the Conference. That was not answered apparently. I wound up that letter by saying "I have taken the liberty of stating these considerations at some length because while the immediate matter is of small importance, the principle involved is of very great importance. It occurs to me that possibly all of these implications were not fully considered by the Board prior to the action stated in your letter X-4837. If the conclusion stated in that letter is the considered judgment of the Board, I think that the matter would be worth discussing at the Joint Conference next fall." It was in answer apparently to that letter that this subject was put on the program.

Governor Wellborn. Did you get a reply to your letter?

Governor Norris. Simply a reply in the way of putting the subject on the program for discussion.

Governor Wellborn. But they did not give any reasons for their conclusion?

Governor Norris. None whatever.

The Chairman. We have had about as much of that,

if not more, than any other bank, possibly, with the exception of Minneapolis.

Governor Bailey. Mr. Chairman, the policy of the Federal land banks in calling their bonds for redemption before due date is causing considerable confusion in redeeming the coupons clipped from Federal Land Bank bonds.

There is outstanding a large number of these bonds of the various series that have not been presented for redemption, and it is necessary for the employees handling coupons to check each coupon against various lists received from the different Federal land banks.

We are in receipt of a letter from the Federal Land Bank of St. Paul regarding coupon redemption, and there is quoted below a portion of their letter:

"Due to the fact that some of the Federal reserve banks have transmitted coupons that should not have been paid we have a request to make and that is that the coupons be forwarded to us in the original envelopes in which they are delivered to the Federal Reserve Bank or its branches, bearing the name of the depositor or correspondent of such

bank or branch, and also the number or initial of the clerk by whom the coupons are checked in. If an improper item is then cashed and forwarded to us, it can be returned in the same envelope and the forwarding bank or branch will in turn be able to recover from its correspondent and sustain no loss. Greater care in handling these coupons will no doubt be taken if the clerk has to affix his number or initial to the envelope. We hope that all Federal reserve banks are willing to cooperate with us in this manner, and we assure you that such cooperation will be greatly appreciated."

The request of the St. Paul bank is impossible, as our member banks forward these coupons to us listed on a coupon schedule as to denominations, and do not attempt to list each Federal land bank coupon separately.

As the redemption of Federal land bank bonds and coupons is becoming more and more complex, and the volume will no doubt tend to increase, it seems only fair that the Federal reserve banks should obtain some relief either by being reimbursed for clerk hire,

or a change in the method of handling.

Governor Harding (after discussion). Mr. Chairman, I move that in the opinion of this Conference that in cases where any Federal reserve banks incur any unusual or substantial expense in rendering services to any bureau or agency of the Treasury of the United States, that it is proper for such banks to submit direct to the Treasury any claim for reimbursement which it may make.

The Chairman. Governor Harding, at the May meeting of 1927, when the question came up as to the expense of paying Federal land bank coupons, it was voted, without disapproval, that it was the sense of the Conference that in principle the Federal reserve banks should be reimbursed for services performed for governmental agencies other than the Treasury when the expense involved is sufficient to justify such bank asking for reimbursement. Now the Board says in their letter that they were not in harmony with that. The Board does not assert any jurisdiction over the question.

Governor Harding (after discussion). This is merely reaffirming that, Mr. Chairman.

The Chairman. Mr. Harrison tells me that this was not submitted to the Board but they simply read it in the minutes. The Board has simply expressed the view that it was out of sympathy, and I do not believe it gave much consideration to it. Governor Harding's motion now is to reiterate the action taken by the Conference in May of 1927.

Governor Harding. That the Conference reaffirms and reiterates the action of the Conference taken in May, 1927, and believes it is entirely proper for any Federal reserve bank, performing any services for any governmental agency, to claim reimbursement for such expense.

Governor Wellborn. I will second that.

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

The Chairman. Gentlemen, it is time to recess for lunch.

(Whereupon, at 1.05 o'clock p.m., upon motion duly seconded, a recess was taken until 2.15 o'clock p.m. of the same day.)

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AFTER RECESS.

The hearing was resumed at 2.30 p.m.

The Chairman. The meeting will come to order and we will proceed to Topic IV-C, suggested by Philadelphia. Governor Norris?

IV. Operation and Administration.
C. Standardization or abandonment of
Functional Expense Reports.

Governor Norris. That is the functional expense reports. When the system of making these functional expense reports was started, I was quite strongly in favor of it. In fact, I think that Dr. Miller and I were two of the members of the first committee on the subject. There were some changes made afterwards, and I still stuck out for their value after I think a good many others had lost any opinion that they ever had of their value.

Now, it has been going on for how long--four years? If it is not four years it is about four. I think it started in 1923 or 1924, and I recently compared the figures as to where unit costs are given, which presumably are the most definite, taking coin counting, where the cost in the highest cost bank is over three

times that in the lowest. In city check clearings the highest is three times the lowest and the lowest is only one half of the average. In check collection, city checks, the highest is nine times the lowest and the lowest is two thirds of the average. In Government checks the highest is three and one half times the lowest and the lowest is only one half of the average. In country checks outgoing, the highest is more than three times the lowest and the lowest is one half of the average. In non-cash collections, city, the highest is five times the lowest and the lowest is only a little over one third the average, although that is not a fair comparison, because the lowest there is Minneapolis, at a time when they were not doing that business.

Governor Harding. Do you think any of these are on a comparable basis?

Governor Norris. You can judge that from the figures that I am giving. In non-cash collections, country, the highest is nearly four times the lowest, and the lowest is half the average. In coupon collections other than Government, the highest is three times the lowest and the lowest is half of the average. In

Government coupons, the highest is three times the lowest, and the lowest a little over half of the average. In loans, rediscounts and acceptances, discounts and records, the highest is nearly four times the lowest and the lowest is less than half of the average. In counting currency, the differences run from .052 to .064. There the evidence is that the cost is on a comparable basis.

Of course, discrepancies were inevitable in the beginning of the thing, and after a while a manual was gotten out to instruct the banks how to make these calculations. Some at least of the banks are in some respects paying little or no attention to that manual. For example, the employees in General Brooks' unit Boston reports only employing one and one half employees in the last half of 1923, and then the manual specified that certain things, from four to eleven things, should be grouped under that heading, but the inclusion or the failure to include all of those things has only brought Boston up from 1.50 to 1.95, the general average being 4.18.

I do not give any of these figures by way of re-

flection on any bank, or criticism, but only as evidence that the manual is not being followed, that the results are not comparable.

Now, I asked the assistant cashier in charge of our accounting to give me an estimate of the cost to us of making up these functional reports, and he replies, among other things, that it is necessary to keep daily reports in some fifteen departments of the bank in order that, at periodical times, a report may be furnished to our accounting department, where the actual final report is prepared, showing the volume of work handled in numbers or pieces. The time represented is approximately equivalent to that of three persons for each working day in the year, and figuring this on an average salary basis the cost to us is about \$4,300 a year.

I find as a rule our figures on almost anything represents about one tenth of the System, so that we would suppose that it was costing the System somewhere between \$40,000 and \$50,000 a year.

It seems perfectly obvious to me that it is not worth \$40,000 or \$50,000 a year to the System to keep up the

making of these reports, which are not prepared or made on the same basis, and are therefore not comparable, and by way of bringing the thing to a head I would offer this resolution--I am not particular about the wording of it, but this is a draft:

"Whereas, the making of the functional expense reports is costing the Federal reserve banks a sum which may be estimated as between \$40,000 and \$50,000 a year; and

"Whereas, it has not been found practicable to assemble the figures of these reports on the same basis in all the banks, thereby destroying their usefulness for purposes of comparison; and

"Whereas, the inauguration of the budget system in all of the banks now serves the purpose intended to be served by the functional expense reports:

"Resolved, that the Federal Reserve Board be requested to discontinue the requiring of the making of these reports."

Governor Seay. I would like to ask, Mr. Chairman, if Mr. Norris and his officers have any particular criticism of the manual, or is his criticism directed to the fact

that it seems to elicit different methods of reports and a different organization in the several banks, so as to render it impracticable to get their reports on a comparable basis?

Governor Norris. I do not know where the fault lies, and therefore I do not undertake to allocate it. Either the manual is defective or the banks have chosen to ignore the manual. I do not know which is the fact, and I do not care, but the result is that the figures are not comparable, and if they are not comparable I cannot see that they are of any value.

Governor Fancher. I second that motion, if it has not already been seconded.

Governor Wellborn. Don't you think the functional reports are beneficial to the banks in their own work, as well as in the comparison with other banks? Don't you think that they tend to bring about a better perfection?

Governor Norris. No, I do not. For a great many years, for almost every quarter or half year since these have been in existence I quote from, the items where we are higher than the average or particularly where we are higher than Boston, because the conditions are so

similar in Boston and Philadelphia that I feel that pretty nearly the same average results ought to be worked out in these two banks, and knowing the able way in which the Boston bank is run, I want to keep as close to them as I can; so wherever our figures are above them or on the average, I have been in the habit of taking it up with our people.

Governor Harding. I have done the same thing, and here is the answer I have got. In cases where our figures are higher, I have got a satisfactory explanation, that the system cannot be changed, and so on.

The Chairman. I would like to raise one question about this topic which I have not raised heretofore, but Mr. Rounds, who had much to do with the organization of this thing, makes this suggestion. He says that the reports have been in operation since 1922, and by this time these inequalities should have been ironed out if there was any method of bringing about uniformity of accounting. It is obvious that the existence of uniformity is sufficient to defeat it, or that uniformity is not possible if we attempt to iron it out, and I think the latter is the case; but he says that the report

does serve a useful purpose by reason of the fact that by a reasonably uniform method we are enabled to determine the System costs of things like transits, and so on, and that if this is abandoned such uniformity as we have in comparing the cost of this service would be lost. We would advocate continuing this report unless some method can be devised for substituting the useful features of it in place of such an elaborate report.

My belief is that it would be a mistake to abandon entirely a method of dividing up the expenses of the reserve banks so that we can report or get some understanding of what is being done.

Governor Bailey. We get this through Form E?

The Chairman. Yes, Schedule E. Why would it not be a good plan, Governor Norris--I do not want to interfere with your motion prevailing.

Governor Norris. I said that I only offered that motion to bring the matter up for a concrete discussion, and I am perfectly willing to accept any amendment that is suggested to that motion or any change in its phraseology.

Governor Wellborn. I would offer an amendment to that, that we can eliminate some of these statements where they

are not comparable.

Governor Norris. That would eliminate 90 per cent of it.

Governor Wellborn. I think there is no use of having them unless it is comparable.

Governor Norris. It is not.

Governor Wellborn. You take my friend from Richmond, his bank and mine, the Atlanta bank. We have got so much expense there for offices. That is on account of the numerous branches we have. You could not compare that expense with another bank which has only one branch bank, and that is all useless work. I would not put such an item as that in the report.

The Chairman. You take all the foreign business of the System, you have a department which spends money or else you would absorb the expense in some department to do whatever accounting or whatever work is necessary in that connection, and we have segregated the whole thing, and now we have got a lot of clerks and a considerable expense. There is no basis of comparison between the banks in that department, and it is rather misleading than otherwise.

Governor Wellborn. I should think we could keep up the cost of transit items and handling currency and things of that kind. We have sent it to the men who have charge of those departments, and it has resulted in our bank in them trying to make a good record.

The Chairman. I would like to see this resolution modified to this extent, that we are in favor of abandoning the report unless the committee, in collaboration, say with the gentlemen who work on it--and it would be Mr. Smead and Mr. Rounds--can devise or simplify a method which would accomplish the results which are still of value.

By the way, Mr. James asked me at lunch if we would not get Mr. Smead in to discuss this matter, and I had overlooked it entirely. I think we ought to do that, Mr. Norris.

Governor Norris. Yes. If he asked you, certainly we should; particularly, if we are going to pass any resolution in any way adverse to the making of these reports, we ought to give Mr. Smead an opportunity to be heard first.

The Chairman. Would you be willing to defer further

discussion until we get Mr. Smead here?

Governor Norris. Certainly.

The Chairman. In that case we can go ahead with the next item, which is--

IV. Operation and Administration.
D. Report of Leased Wire Committee.

The Chairman (continuing). Brother McDougal, have you a report to make?

Governor McDougal. I have a report which has been submitted and I think passed around by the Secretary.

The Chairman. What is your pleasure?

Governor Norris. I move that it take the usual course, whatever that is, that it be accepted and filed.

The Chairman. Is that seconded?

Governor Talley. What was the increase in the volume?
Seven and

The Chairman. /Seven-tenths per cent, due principally to fiscal agency operations.

Governor Talley. I merely wanted to ask if there was not some opportunity to restore some of the service to the leased wire which were formerly performed and later taken out. Necessarily that question was based on the assumption that the volume, through the coding of messages,

had declined, but if the report itself shows an increase of over seven per cent, I will not go any further.

The Chairman. The motion is that the report be accepted and filed.

(The motion was put and unanimously carried.)

The report of the Leased Wire Committee is as follows:

"Report of Leased Wire Committee.

"To the Conference of Governors:

"Since the last report rendered by your committee there have been no changes in the circuits comprising the Leased Wire System, excepting the addition of the San Antonio-Dallas circuit.

"There was an increase of 7.7 per cent in the volume handled for the first eight months of 1927 compared with the same period of 1926. This increase was due largely to Fiscal Agency operations.

"The system is apparently operating satisfactorily and the facilities in use appear to be ample.

"Respectfully submitted,

"(Signed) J. B. McDougal,

"Chairman, Leased Wire Committee."

The Chairman. The next is E, the report of the Insurance Committee.

IV. Operation and Administration.
E. Report of Insurance Committee.

Governor Norris. I think the Insurance Committee simply reported that nothing had been brought to their attention, and there was nothing to report. Isn't that the report?

The Chairman. That is right. There was no report to make. The next is Topic F, the report of the Pension Committee, and that has been distributed.

IV. Operation and Administration.
F. Report of the Pension Committee.

Governor Seay. The basis of contribution has not yet been worked out. Is that correct, Governor Strong?

The Chairman. It cannot be because of the accumulations. You see, the accumulations now are very large,

and they have to be considered over the actuarial life of the payments, and until we get the day fixed and calculate the accruals and then spread those over the contributions by the bank and of each employee, you cannot tell what the contribution will be.

Governor Seay. Do you know whether it is contemplated to make a large lump sum contribution in the case of officers who have been with the bank a long time, or to make an annual contribution, prorata, we will say?

Governor McDougal. That has not been taken up.

The Chairman. I think the assumption has always been that the amount to be contributed will be the amount which should have been provided at the origin of the service, plus a sum to make up the arrears, so to speak, which sum would be appropriated over the actuarial life of the plan to each individual.

Governor Seay. One of our officers was in New York recently at your bank, and had some conversation with Mr. Kanzel, and I understood him to say that it was then in contemplation that the contribution in the case of such officers would be about 10 per cent. Do you know whether they have got that far or not?

Governor Fancher. I do not think they have.

The Chairman. I never heard of such a thing.

Governor McDougal. We have not gotten that far.

The Chairman. As it stood originally it was slightly over 3 per cent.

Governor McDougal. It is going to be at the rate of a million dollars a year or more now.

The Chairman. And to make up these accruals, I do not know, but it might be around $4\frac{1}{2}$ or 5 per cent.

Governor Seay. Is it expected that it would be worked out prior to the presentation of the bill in Congress?

The Chairman. Yes.

Governor Seay. So that you will have your whole plan?

The Chairman. The men have been working on it.

Governor Seay. I mean, it will be worked out by the time it is presented to Congress?

The Chairman. Yes. That was the object of the appropriation in the last Congress. They are taking a hypothetical date in the future to work to, so that the error in the accrual will be as small as possible.

Governor Seay. What I meant was chiefly, is it thought to be necessary to present the details of the

plan along with the introduction of the bill?

The Chairman. One of the committeemen wanted the details incorporated in the bill and we endeavored or we are going to endeavor to get away from incorporating any detail in the bill by submitting it to the committee as a sort of a representation of what it involves, and leave the details entirely for the discussion of the Federal Reserve Board, so that there would be no material departure from what is to be represented to the committee.

Are there any further remarks? What is your pleasure about the committee's report?

Governor Biggs. I move that it be accepted and filed.

The Chairman. The usual course, made by Governor Biggs. Is it seconded?

Governor Talley. I second the motion.

(The motion was put and carried.)

The report of the Pension Committee is as follows:

"The report submitted at the last conference reviewed in some detail the history of the Pension Committee and its work. At that time counsel for the committee was engaged in revising the pension bill in certain respects, based upon criticisms

encountered by the original bill in the House Committee on Banking and Currency. These changes were discussed in considerable detail in that report and will not, therefore, be repeated now.

"Since the last conference copies of the revised bill have been submitted to each of the governors for his individual suggestions or criticism and the bill is now ready to submit at the opening of the next session of Congress.

"In its last report the committee recommended that there be appropriated an additional \$10,000 for expenses, a necessary recalculation of the pension data including accrued liabilities being contingent upon this appropriation. The appropriation was approved by the conference and subsequently by the Federal Reserve Board. All of the banks have now submitted the data required by the actuaries for a recalculation of the accrued liabilities and for testing the soundness of the plan originally proposed. The task of determining the accrued liability

as of July 1, 1927, has been completed within the last few days and compares with previous calculations as follows, all figures being in round numbers:

"Original calculation as of October 1, 1920,	\$1,973,000
"Estimated tabulation as of October 1, 1924,	6,052,000
" " " " " January 1, 1926,	7,400,000
"Actual " " " July 1, 1927,	8,100,000

"It will thus be seen that the accrued liability continues steadily to mount, and of course the longer we are delayed in making the plan operative, the greater will be the problem of taking care of this liability. While the actuaries have not yet completed the tabulations for a complete test of the original plan to the present conditions, they advise that the actual experience appears to justify the original tabulations made, and it is believed that no very drastic changes in the plan will be necessary.

"The actuary states: 'The check on experience shows that the actual number of separations from service on account of resignation and dismissal which occurred during the past six years was more than expected according to the rates prepared on the basis of the exper-

ience investigation covering the period prior to 1920. The experience also showed that the death rates in use are conservative. The results of the check on the experience show that had the fund been established at the rates of contribution originally set it would today be in a very favorable position.'

"The actuaries expect to have the data completed within a very short time to the point of making definite recommendations as to the contribution rates necessary to be used to take care of both the accrued and current liabilities. Your committee expects to have all of this work finished so as to have complete data available when the bill is introduced in the forthcoming session of Congress.

"Respectfully submitted,

"E. R. Fancher,

"J. B. McDougal,

"E. R. Kenzel, Chairmen."

The Chairman: The next is V, A. Future public program.

V. Relations with Member Banks and the Public.
A. Future publicity program.

The Chairman (continuing). This is to be discussed at the Joint Conference tomorrow, according to my under-

standing, and the report of the committee will now be distributed, and you are asked to read it before the Joint Conference tomorrow, and I would like to announce that it is arranged that the Joint Conference will occur at 10.30 tomorrow morning.

V. Relations with Member Banks and the Public.

B.A survey of the Bank Relations Departments of the Federal reserve banks.

The Chairman. Topic V-B is a survey of the Bank Relations Department of the Federal reserve banks, suggested by Philadelphia. In anticipation of the meeting, reports have been received from all reserve banks and were distributed this morning. Governor Norris, do you wish any discussion of that report? I have not had a chance to read it.

Governor Norris. Not unless somebody else wants to discuss it. I would only like to say a word in explanation of my reason for putting it on the program. At the time that I did it I overlooked the fact that in most of the banks that work is now under the charge of the Federal Reserve Agent. I believe that in eight of the banks it is under the Federal Reserve Agent and in four under the Governor or the operating side. We have a

feeling that one of the duties of the senior officers of a reserve bank is to popularize the System with the public, and that that must necessarily be done to a very great extent, particularly outside of the large cities, through the officers of the member banks; that if they are in a frame of mind to speak kindly of the System and of the operation of the reserve banks in their district, that the general public sentiment in their respective communities is apt to be friendly. Therefore, we feel that the Bank Relations Department is most useful and valuable part of the work. We feel that we were doing it in a satisfactory way, judging from the results in our own district, but we were anxious to ascertain to what extent it was being done in other districts, and in particular whether there was work being done in other districts along those lines that we had not thought of, and which we could advantageously adopt, and it was with those thoughts in mind that I put it on the program, and while I have not had time as yet to study these reports, and while it is evident that in some minor details they are subject to the same criticism that I made a few moments ago about the functional expense reports, that they are not absolutely

comparable, I think on the whole, considering the general character of the questions, that they have been made up on very fairly comparable basis, and I am glad to see that pretty much all of the banks are alive to the necessity of the work, and I hope, in going over the reports more carefully and really studying them, we will be able to get some valuable suggestions out of the replies that have been made by the other banks.

The Chairman. What action do you desire, Governor Norris?

Governor Norris. None at all.

The Chairman. The reports have been distributed and no action is desired.

(At this point Mr. Smead entered the Conference room.)

The Chairman. Gentlemen, we have now got Mr. Smead here, and, Mr. Smead, this is the situation:

Governor Norris had a topic on the program suggesting a reorganization or a discontinuance of the Schedule E report. Before you got here he read an analysis of the comparable unit costs as reported in that schedule, showing the obvious inequalities of the cost due to different

methods of accounting and so on, and he has made a calculation that it costs the reserve banks somewhere between \$40,000 and \$50,000 a year to maintain these reports in over bank.

Much of the material is collected as the result of a daily system of reporting certain work. Then the question arose as to whether, if it were completely discontinued, we would be able on even a reasonably comparable basis to get the total aggregate costs of the various functions, whether some control would not be lost, and whether in point of fact there was not a value in maintaining at least a portion of Schedule E system of reporting, even though a very large part of it was eliminated, so as to reduce the cost.

I discussed this with Mr. James at luncheon, and he said that he had had a talk with you about it and hence we called on you to come over here. I think on a matter of this sort we are very liable to pass snap judgment in passing a resolution. I am not ready to vote to abandon that report.

Governor Bailey. I am not, either.

The Chairman. And maybe some of the others

know the same way; I do not know.

Governor Seay. We feel the same way, Mr. Chairman.

Governor Bailey. It is very valuable to us. Of course, we eliminate some of the things called for. Every time we get that Form E the head of every department scans it, and we talk it over at our morning meetings and a lot of it is eliminated because we cannot furnish it. But, after all, it seems to be something that keeps our fellows in line for economy and efficiency. We would miss it and we do not want to abandon it so far as we are concerned, and I should certainly vote against its abandonment.

The Chairman. Well, I should vote against it as it is now. If we could substitute some system or some scheme of reporting which would eliminate those things which are obviously of no value, I would be in favor of that.

Governor Norris, read some of those figures to Mr. Smead.

Governor Norris. Mr. Smead, of course there are bound to be variations in the cost of different functions in the different banks. I won't detain you by reading all of them, but I have here an analysis of all the figures where unit costs are calculated. I have not selected

any extreme cases. I have taken them all, and without specifying what they are, in the first the highest bank is $3\frac{1}{3}$ times the lowest; in the next the highest bank is three times the lowest, and the lowest is only half of the average of the System. In the third the highest bank is nine times the lowest, and the lowest is only two thirds of the average for the System; and so it goes through the ten or twelve sections that are itemized here.

As I say, some variation is bound always to exist, and at the start of the system, when the basis upon which the reports were to be made was not fully understood, those variations were bound to be very great; but after four years and the issuance of a manual and the assembling of these figures in your Board here and the mailing of them to the banks, and so on, it would seem to me that one of two things should have resulted, either that we should get closer together on these things as we are, or that we should have to admit that we are attempting to compare things which are incapable of being compared.

Now, that frankly is my feeling about it. I would

like very much, as we all would, to have your views on it as to why these extreme discrepancies still exist after four years of attempted correction, and whether you think you ever will be able to get them down to the same basis of reporting.

Mr. Smead. I would be glad to, Governor Norris. We realize and have right along that some wide differences in costs are reported to us on these forms. We have gone into the matter on several occasions, and we know of course that the very wide differences which you read there are generally due to one of the banks having a large volume and another bank a very small volume of work. That is not always the case, but you will find a good many times where the bank has a small volume of business and only one or two employees in the given department, that the figures will be very much out of line and must necessarily be so.

Governor Norris. May I interrupt you for just a moment? That, for instance, would not apply to country checks, I should judge, where St. Louis reports the case as .23 and Chicago is .629.

Mr. Smead. That is cents per item?

Governor Norris. Cost per unit. .230 for St. Louis and .629 for Chicago. Now, Chicago must be including in that cost some items that the rest are not including, or St. Louis must be omitting some items that the others are including, I should think.

Mr. Smead. Yes; those differences there, in that particular unit, are much more than could be properly reported if they were doing the same kind of work, and it must be that there is something wrong in those two functions. I off-hand cannot tell what it is, but these are country checks, you said?

Governor Norris. Those are country checks outgoing.

Mr. Smead. I could not attempt to explain that right now.

Governor Norris. Of course, I understand that.

Mr. Smead. It may be that it is, as you say, because they are doing some work in the country check department in Chicago that they are not doing in St. Louis, and that will have to be looked into; but, so far as the functional expense reports are concerned, we here have thought that probably the greatest value in those reports would be derived by the Federal Reserve Banks

themselves in comparing their costs as reported with the costs as reported by other Federal reserve banks, and where the character of work done in a given unit or department seems to be the same, to find out exactly what was the cause for the difference, and whether one bank had a better system than the other, and probably avail themselves of that. How extensively that has been done of course we have never made any survey to find out, but we do know in a number of cases very marked savings have been made through those very means.

Whether the functional expense reports have very largely outlived their usefulness is a question about which a good many people will very naturally have a difference of opinion. We here in the Board have felt that they have in the past served a very valuable use in the System, and they have been of importance in enabling the banks to cut down their expense quite materially.

Most of the banks I imagine do not make the same use of them now that they did some time ago. That may mean that the form of the report, as Governor Strong suggested, may need revision.

We have thought here also that the budgets which the Federal reserve banks have put into use in recent periods of one to five years have been extremely beneficial.

Governor Norris. Yes.

Mr. Smead. I know that officials in a number of banks have told me that since putting the budget into use they did not really have much use for it, because they feel that they have all the control over their expenses that they could reasonably get, but that after they put it into use and were operating it for a while, they found that the department managers were taking an entirely different attitude toward the costs of their department, and they were having very valuable results.

I personally would hesitate very much to see the banks do away with Form E entirely. I feel myself that it is quite likely that a substantial revision might be made.

The Chairman. How would you like to have the Conference pass a resolution requesting you and Mr. Rounds-- Mr. Rounds was with you in this matter, wasn't he?

Mr. Smead. Yes.

The Chairman. To ask you and Mr. Rounds to take it up with the Board's committee and see if we cannot have a pretty thorough revision that would not attempt to change all the practices in the reserve banks, but eliminate the things where comparisons cannot well be made, and just take total figures for comparison and reduce the cost of the work involved in making up the Form E? In other words, retain what is good and useful?

Mr. Smead. Yes; and I might make this suggestion, Governor Strong, that you would not lay down too much of a straight-jacket with respect to the matter, but it would probably be a good idea for you to ask the committee to report to the Governors' Conference at the next meeting, so that you would have an opportunity to pass upon the work that the committee might do, and give the committee full freedom to make such suggestions as occurred to them, and I think also in that connection it might be a good idea that you should have some resolutions to refer to the committee.

The Chairman. Every bank now has a budget system of some kind, hasn't it?

Governor Norris. Yes, sir, I think so.

Governor Seay. Mr. Chairman, there recently occurred I think in Chicago a conference between the operating men of the Federal reserve banks with Mr. James, upon the very subject, did there not?

Mr. Smead. When that conference was called the functional expense reports were not specially on the program, but they were discussed there, and at that conference there was some doubt as to the value of the reports as made up in their present form. Some of the members of the committee thought that it was pretty near time to discontinue them, others thought that they should be continued as they are, and others that they could be revised properly; but the final result was that we wrote a report that we should not change them just at this time, and I think that the members of that committee feel that within a reasonable time in the future that would have to be taken up and if possible a revision made.

Governor Fancher. At that meeting had all of the banks got the budget system installed?

Mr. Smead. Yes.

Governor Fancher. I got it in mind that perhaps there were still two or three banks that had not got the

budget system installed.

Mr. Smead. Well, I think there were two or three that might not have had the budget working in a desirable manner, but they were operating under some form of budget. Most of the banks I think have a very good form, and the operating departments have been taking a very decided interest in it, and as a result of it have achieved some very desirable results.

Governor Talley. Mr. Chairman, as budgets have been referred to, I would like to say that as a matter of fact in our bank we base our budget upon the results that we obtain from these reports, and that budget is the lid to the box, instead of the bottom. I had in mind--there is a motion before the Conference already--but I had in mind offering a substitute, but I think this suggestion which the Chairman has just made is all right, but that we defer any action on this until at least the next Conference, and that in the meantime we ask the Board to ask its examiners to see if each bank is following the manual and making up the schedules. I think that is where the difficulty lies.

Governor Norris. I was about to ask a question along

that line, Mr. Smead. I presume that you accept these reports as they are made by the banks. This happens to be a case such as my eye falls on at this minute, where the cost per unit on Government coupons is .174 in Dallas and .514 at Atlanta. Wouldn't it be possible for you to ask Dallas whether they are sure that everything has been included in that item that ought to be included, and also to ask Atlanta whether they have not included something that ought to have gone to some other function? I want to read this:

"In connection with General Books now the manual states that the following work, no matter where done in the bank, shall be charged to General Books unit: First, general and subsidiary ledger; second, officers check register and paying the officers checks; third, preparation of daily statements; four, daily telegrams to Federal Reserve Board and Treasury Department; five, preparation of weekly press statements; six, daily transcript of United States Treasury account; seven, capital stock applications issued and surrendered; eight, maintenance accounts with branches and checking of branch transcript; nine, reports and statistics for the Federal Reserve

Board or for their own use; ten, all other work incident to the maintenance of the general books of the bank."

One of the larger banks in the System reports that they do that work with 1.95 employees. Of course, it is manifest that they are not charging to that function all the things that the manual says they must.

The Chairman. We could not possibly do it.

Governor Norris. Can't you take that up with that bank, and if you cannot, what is the use of having a report on the expense of that function if one bank puts three things in it and another bank puts fifteen or twenty?

Mr. Smead. Yes, that could not be done. We could take up all of those marked differences in the report, but it is a very difficult thing to do that from this end, because if you write to a bank about these things it is pretty hard to put the inquiry in such way that will get a satisfactory reply, because the banks think at the present time they are following that manual.

The Chairman. I do not think we do. We could no more make up an expense account under that heading, that would involve cutting our departs all up.

Mr. Smead. What I mean by that is that they are following it to the best of their ability, doing their work in ten different places, and there is a lot of allocating.

The Chairman. Yes, but the application of the division of expense would be more than it is worth to compile that information on that basis.

Mr. Smead. That all goes to show that it may be advisable to materially revise the report.

Governor Harding. Does the manual say anything about postage on country bank checks?

Mr. Smead. The manual is pretty clear on that, Governor Harding.

Governor Harding. What does it say about that?

Mr. Smead. If my recollection is correct, on most of those units the postage is taken care of as a separate item. It is quite complicated. I know postage is not handled the same way in all of the units of the bank, and how it is on that proposition I cannot recall.

Governor Harding. If we were to carry out the manual to the letter it would involve considerable expense in putting up all of these different items.

Mr. Smead. Of course, if you keep an accurate record, the cost would be prohibitive.

The Chairman. During the war the regulations of this department required that we send a duplicate bill for all telegrams in one continuous sheet, and duplicates of all telegrams, so as to check up. We sent one bill to Washington which was forty-six feet long, and three trunks with copies of the telegrams. They took a year and a half to check it up and for one company we were \$40 over in the payments, and for the other company we were \$20 under, and I suppose the Government spent \$20,000 and got \$20 back for it.

In those items which you read, take the report, the reports in connection with the business that we are now doing for all the reserve banks in foreign matters, in buying bills, and so on. They are all made by manifold machines, and of course they go out from the department that handles them. The expense of the department is carried with a certain allowance out of the revenue from the other reserve banks, and to make a suitable apportionment of the cost of reporting and passing it back to the reserve banks, would be a very nice piece

of cost accounting, and we just have to ignore these things. It all comes in a lump sum, in that case, I believe, in your department, Mr. Harrison. I just have a feeling that if those things were eliminated from the report and many of the items of the report are studied with a view to getting a calculation of the total costs of some of the departments where the departments are thoroughly uniform, then you could get a comparison of the number of clerks employed and the number of items handled that would give a rough check, without imposing all of this work and expense on us.

Governor Fancher. There are three or four operating departments of the banks that you should make very favorable comparisons of, and that is in your check collections and particularly in your currency operations.

The Chairman. The currency works out mathematically, but take the country checks.

Governor Fancher. I think there can be singled out three or four or five of the important functions on which there ought to be a basis of comparison, and then abandon all of these other work that is done and information which is of no value and on which there is

no basis of comparison. As Governor Bailey says, he has singled out certain things that he is interested in as a basis of comparison with some other banks.

The Chairman. Here is one bank handling unbroken packages of checks, where we count a package as really containing 750 or 1000 items, and another bank will weigh that and say there are 2,000 items in it.

Governor Fancher. Absolutely. But if you have no basis of compiling the information, what value is it? Governor Norris has calculated that it is costing from \$40,000 to \$50,000 to prepare this information which is not comparable. If that is true, and it probably is, how much can be eliminated from that which is of value and that which is of no value?

Mr. Smead. I would like to say in connection with that cost, I have personally asked a number of banks how much this report was costing them, including your bank, Governor Strong, and it was almost always the answer, "Probably very little." They did it along with some other work that they would do any way, and if there is an additional cost it is so small that it is pretty hard to iron it out. That may depend very largely on

how a given bank is doing the work. Some bank might do the work in such a way as to cost them several thousand dollars. Other banks, like New York, for instance, it would not cost but very little. I have not the slightest idea of what the System cost is, but if it is costing \$50,000 a year it is an item that is well worth while looking into to see if we cannot cut down the cost.

Governor Norris. To the best of our ability we have been following and observing the manual. It appears that at least two banks here as to certain things at least have been attempting to follow the manual. Of course, if we threw the manual aside, we could reduce our costs, I suppose, quite materially. So that the cost depends a good deal on whether you are observing the manual and doing all of this cost accounting, or whether you are just ignoring the manual.

Mr. Smead. Another thing, it depends very largely on how closely a bank's organization corresponds with the set-up of functional expense reports. I understand in Governor Fancher's bank that it does, consequently the cost in his bank would be very, very slight, whereas

in another bank it is quite likely that the cost would be very great.

Governor Talley. Is there anything in this thought, to let the banks prepare the facts or material for this report, very largely in accordance with their own organization, and then let you compile it here? I will give you an example of what I mean there. For instance, the general books items, as described in the manual, are not anything like our general books, because all of that work is not done in that department, but now if we could get up our costs based upon what our general books department is as it exists, then of course, as applying to our bank, that would be general books expense. Then aren't we going about it possibly the wrong way? Couldn't we give the information to you here and let it be compiled here?

Mr. Smead. We here are very well aware of just what you say is very, very true, and that in itself is one reason why we are pretty strong for the budget. When you have a budget in your bank you put that on the line on which your bank is organized, so you can have control over the particular expense in mind, but when you take the function expense report and you throw costs of oper-

ations that are carried on under four or five different units, it is impossible to get a very satisfactory check. The banks work up their own organization, and having the Board here at Washington try to put it together in such a way that anything of a comparable nature between banks would be the result, would be I think out of the question. We think it would be rather unwise to attempt a thing like that, because we certainly cannot put it together as the banks themselves would.

The Chairman. Gentlemen, I have guaranteed a number of you that we would complete the program this afternoon, and this is a kind of a thing that we could discuss in detail and could never settle. The question is how to do it. One way is to recommend the banks doing it and another is to revise it and then again to suggest how it should be revised. I do not mean the details.

Governor Norris. We have stated to Mr. Smead the thoughts that are running in our minds and the difficulties that have led to the introduction of this topic into this Conference's program, and if he has any suggestion to make as to what would be the best way of getting at a further standardization, if possible,

of these reports, or the cutting out of such parts as cannot be standardized, I would be very glad to have the suggestion. I imagine we would all be glad to adopt any resolution to that effect.

The Chairman. The proposal, as I understand it, was to pass a resolution indicating that the adoption of the budget plan by every reserve bank had now in a measure accomplished the results that were sought for by Schedule E, and that the time had arrived to endeavor to effect a revision of the method of reporting Schedule E that would be more economical and require less work and simplify it, and that we would request Mr. Smead and Mr. Rounds to make a study of it, I suppose in connection with the Board's committee that has charge of this, so that before the next Conference we could have a recommendation of a plan. Is that about what covers the ground?

Governor Norris. That is perfectly satisfactory to me, and if you will just put that in the form of a motion I will withdraw the motion that I have previously made.

The Chairman. I will get Mr. Harrison to do the putting of the form, and I will put the motion. What

is your pleasure, gentlemen? Does anybody want to second the motion?

Governor Fancher. I second that motion.

The Chairman. Is there any further discussion?

(The motion was put and carried.)

VI. Supplementary Topics.

B. Proposed revision of Regulation D dealing with reserves of member banks..

The Chairman. We have the revised drafts of regulations and one is headed "Collection of maturing notes and bills."

* * * * *

The Chairman. After discussion off the record, it was agreed that the following motion should be submitted to a vote:

"Resolved, to recommend to the Federal Reserve Board that no regulation be issued covering the collection of non-cash items.

"Further Resolved, that the questions of (a) a uniform circular and (b) limitations upon the character of the items to be handled, be referred to the Standing Committee on Collections for study and recommendation to the next Conference.

"Further Resolved, that without waiting for such report, that it be the policy of the System to gradually discontinue the handling of drafts with bonds and stocks attached.

"Further Resolved, that it is the sense of the Conference that no Federal reserve bank should be expected to collect non-cash items payable at points where adequate and satisfactory facilities do not exist."

Governor Fancher. I move the adoption of the first separate resolution.

Governor Talley. I second it.

The Chairman. The first separate resolution is as follows:

"Resolved, to recommend to the Federal Reserve Board that no regulation be issued covering the collection of non-cash items."

(The motion was put and carried, Governor Seay voting "No.")

The Chairman. The second resolution is as follows:

"Further Resolved, that the questions of (a) a uniform circular, and (b) limitations upon the

character of the items to be handled, be referred to the Standing Committee on Collections for study and recommendation to the next Conference."

Governor Geery. I offer that.

Governor Seay. I second it.

(The motion was put and carried.)

The Chairman. And the third one:

"Further Resolved, that without waiting for such report, that it be the policy of the System to gradually discontinue the handling of drafts with bonds and stocks attached."

Governor Wellborn. I move the adoption of that.

Governor Bailey. I second it.

(The motion was put and carried.)

The Chairman. And the next one:

"Further Resolved, that it is the sense of the Conference that no Federal reserve bank should be expected to collect non-cash items payable at points where adequate and satisfactory facilities do not exist."

Governor Geery. I make that motion.

Governor Fancher. I second it.

Governor Bailey. I second it.

(The motion was put and carried.)

The Chairman. Now we come to Regulation D.

Mr. Harrison. This regulation is in precisely the form that was submitted to the Open Market Investment Committee, when five members of the Board and I think five members of the committee and two other members of the Governors were present, and it was agreed to in form by everybody present in that meeting.

The Chairman. What this proposes is that in those cities where there is a reserve bank or a branch, the adjustment shall be twice a week, and otherwise I believe it is all left unchanged, isn't it?

Mr. Harrison. Yes. They decided to eliminate all that proposal to define time deposits, feeling that it was quite difficult to do anything that would satisfy everybody under the present terms of the law.

Governor McDougal. I think this resolution should be considered very carefully.

The Chairman. When would you like to consider it?

Governor McDougal. In the tentative draft which was approved by the Board defining "savings" there was one

provision that I think was a very wise one and that was that deposits of one bank in another shall not be in any case considered a savings account. That would give protection, I think, against some of the abuses that have crept in. I do not know whether that would fit Boston's case in some way, but I think that ought to stay in, and it ought to go further and state that deposits of banks and corporations shall not be included as savings accounts, because there is a great tendency on the part of the banks to solicit business on the strength of issuing savings pass books against deposits made by banks or corporations, which in reality are payable on demand.

The Chairman. There are really four points in connection with this new regulation, Governor McDougal, which are possible changes or suggestions that require consideration. I will enumerate them, if I may. One is the change to the semi-weekly reserve report in cities where there are reserve banks or branches. The second is the adoption of a scheme of penalties for deficient reserves by a progressive rate, which may, however, be waived in individual cases upon application to the Federal Reserve

Board. The third is a provision for giving security for the deposit of trust funds, with which Governor Norris is quite familiar. Where a bank which exercises trust powers makes deposit of funds in some other bank, I believe this regulation proposes that the depository bank gives the depositing bank security for the deposit. The fourth is the question of definition of time and saving of deposits, raised by Governor McDougal.

I would like to say that I believe we are all agreed upon the semi-weekly arrangement of adjusting reserves, and if you are ready to vote on that, will someone make the motion?

Governor Wellborn. I make that motion.

The Chairman. Is that seconded?

Governor Fancher. I second it.

(The motion was put and carried.)

The Chairman. The second point is this progressive penalty, and I would like to state I think that is a very great mistake to have any progressive penalty in any regulation of the Federal Reserve Board, and I believe it will come back to haunt the Board, because you

will find that every failing member bank before it fails will subject itself to a progressive penalty which may go up to 10 per cent, or something like that, and then there will be a howl.

Governor Harding. I move that we advise the Board against it.

Governor Fancher. Don't they cover that by a waiver provision at the request of the Federal Reserve Board?

The Chairman. Then why put in?

Governor McDougal. The provision for an accumulated penalty, Mr. Chairman, has been in the regulation all along.

Mr. Fancher. Absolutely. You have it now.

Governor McDougal. We have lost 130 member banks, and I think we have never had any come-back that I know of.

Governor Bailey. I was wondering why that was put in there.

Governor McDougal. This is a re-draft of the regulations.

Governor Harding. They have a provision requiring the Federal Reserve Agent, in case of a deficient reserve, to notify the directors.

The Chairman. That ought to be enough.

Governor Seay. Do I understand that you are objecting to the progressive penalty up to 10 per cent?

The Chairman. It is mandatory here and optional in the previous one. Here you have got to impose it, unless you go through the procedure of reporting it to the Federal Reserve Board and having it waived.

Governor Norris. We have always treated the previous regulation as mandatory, and have never had a kick.

Governor Fancher. So have we.

Governor Seay. So have we, and we have never had a kick.

Governor Talley. We have always considered it as mandatory perhaps, because we approved of it. We have assessed the penalties and collected them. I do not say that we have done so without a complaint.

Governor Wellborn. The penalty is not so great after all, except that it is in excess of the regular rate. I am opposed to a progressive rate, I think.

The Chairman. Well, we have discussed it, and I think we understand about it. Suppose we vote on it.

Governor Bailey. Does that include that we will

have to come to the Board to get a rebate?

The Chairman. Yes.

Governor Bailey. I am against it.

Governor Harding. I offered a resolution that we advise the Board not to incorporate it.

Governor Fancher. You make it permissible rather than mandatory?

Governor Harding. Yes, permissive rather than mandatory.

Governor Bailey. Let it stay just as it is.

The Chairman. Are you ready for the question? The motion is to advise the Board that it is the sense of the Conference that the penalty for defecient reserves should not be mandatory, but optional, as at present. Is that seconded?

Governor Bailey. I second it.

(The motion was put and carried.)

The Chairman. The third question relates to the giving of security for the deposit of trust funds. Under the present regulation, as you are aware, a member bank exercises trust powers--that is, a member national bank--

Governor Seay (interposing). Do you intend by that

resolution to eliminate the waiver of a penalty from this, Mr. Chairman?

The Chairman. We intended by that resolution to put it just back where it is now.

Governor Seay. That would eliminate the waiver penalty.

The Chairman. The Federal Reserve Board under this regulation proposes to make the progressive penalty mandatory on us, the Board only reserving the right to waive it.

Governor Seay. That would eliminate this provision in here, I take it?

The Chairman. Yes. Governor Norris, are you prepared to speak on this subject of giving security for trust deposits?

Governor Norris. I have been studying the regulation on that, and so far as I can see that has been thrown out. I understood that the Law Committee of the Board was of the opinion that they had no authority to impose such a regulation as that, and the latest news that I have heard on it I think was that it had probably been discarded. I cannot find it in here. The provision

of Section III-A, as given on page 4 of X-4980, refers only to reserves against the trust fund. There is nothing said there about security at all, and then in Mr. Wyatt's memorandum of August 15th, X-4915, the only change that he suggests in that is, in order to make the language of the section conform more nearly to that of portions of the regulations, he recommends that the word "carry" be substituted for "maintain." I would like to be sure that that is corrected on the paper before saying that provision for security has been eliminated.

The Chairman. Would you care to invite Governor Young to join us to discuss this regulation?

Governor Norris. I would be very glad to, or I think perhaps if Mr. Hamlin is here, he is more familiar with it.

The Chairman. I do not think we can invite Governor Hamlin without inviting Governor Young.

Governor Norris. Of course, we should be glad to have Governor Young.

The Chairman. I mean to say that, if we are going to confer with a representative of the Board, we ought

to confer with the head of the Board, it seems to me.

Governor Norris. Governor Fancher calls my attention to the fact that the security of uninvested trust funds is in regulation (F) and not in this section, and that has not been referred to. This is simply a question of the reserves.

The Chairman. If you please, we will wait until Governor Young comes in, to continue the discussion of Regulation (D), and I would like to take up now the report of the Subcommittee of the General Committee on Bankers Acceptances. Has that been distributed?

Mr. Harrison. Yes, sir.

- VI. Supplementa ry Topics.
- A. Report of sub-committee on Bankers Acceptances.

The Chairman. This is a report, as you know, which was made by the Special Committee of officers of five of the banks, I think, which met in New York, and had a conference with the vice-presidents and partners of the principal accepting banks and firms, reviewed all of the regulations and bulings of the Federal Reserve Board relating to the acceptance practice, and after a good deal of study have submitted a report, of which you have a copy.

The report of the General Acceptance Committee and the Sub Committee of the General Committee on Bankers Acceptance is as follows:

"October 28, 1927.

"Report to the Governors Conference of November 2, 1927, by the Chairman of the General Acceptance Committee and the Sub-Committee of the General Acceptance Committee.

"Since the last Conference of Governors the only matter that has been referred to either of these committees was the question of what impediments, if any, existed that restricted the free competition of American dollar acceptance credit with sterling or other foreign currency credits issued by foreign bankers in connection with foreign trade. The Federal Reserve Board requested consideration and recommendation by one of these committees if possible prior to the present Conference.

"Accordingly the matter was considered by the Sub-Committee on October 21, 1927 and recommendation in this regard made to the Federal Reserve Board. Copy of the report of the Sub-Committee to the Federal

Reserve Board, which is self-explanatory, is attached hereto as supplementing and completing this report of the Sub-Committee to this Conference.

"Respectfully submitted,

"E. R. Kenzel,

"Chairmen."

"Report of the Sub-Committee of the General Acceptance Committee to the Federal Reserve Board October 21, 1927.

"The Sub-Committee of the General Acceptance Committee held a meeting in New York on October 21, at which the following were present: Messrs. Zurlinden, Paddock, McKay and Wyatt, Mr. Kenzel chairman, and Mr. O'Hara, secretary.

"Consideration was given to a proposal to recommend to the Federal Reserve Board certain modifications of its existing rulings with reference to acceptances growing out of the importation and exportation of goods which will make it possible for American banks to accept bills drawn upon them for the purpose of financing such transactions where it is necessary for such bills to be drawn after the goods have

reached their destination, in order to conform to usual commercial and credit practices.

"After full discussion of the subject and consideration of a statement of facts related by the Chairman substantially as expressed in the accompanying memorandum it was unanimously voted by the Committee to recommend to the Board as follows:

"That the Board revoke its previous rulings to the effect that a bill cannot be eligible for acceptance by a member bank or for rediscount or purchase by a Federal reserve bank as a bill growing out of the importation or exportation of goods if it is accepted after the goods have reached their destination, and rule in lieu thereof:

"That bankers' acceptance may properly be considered as growing out of transactions involving the importation or exportation of goods when given for the purpose of financing the sale and distribution on usual credit terms of imported or exported goods into the channels of trade, whether or not the bills are accepted after the physical importation or exportation has been completed. "

"Memorandum of Statement by the Chairman of the Sub-Committee of the General Acceptance Committee made at a meeting of the Committee in New York on October 21, 1927.

"The question of the manner and extent to which use of American acceptance credit was hindered in competition with foreign credit in financing foreign trade was the subject of inquiry recently made by the Federal Reserve Board of your Chairman.

"On a visit to Washington last week, your Chairman explained to Governor Young and to the Federal Reserve Board that, according to his observations and from information gained from interviews with many bankers from England, Holland, Switzerland, Germany, France and Italy, the only practical obstacles lay in rulings of the Board which had the effect of prohibiting bills from being accepted at all by national banks or as eligible by other banks and bankers after the physical exportation or importation of goods was completed.

"He stated that these foreign bankers had told him that industry in the industrial countries of the Continent had always had to look to foreign credit

for the purchase of imported raw materials and in the export of finished goods; that due to various causes, such credit was required for longer periods than was customary in the United States. Among the causes named were lack of working capital in the American sense, slow transportation, the closing of river navigation during the cold months, and the economic impracticability of industries closing down temporarily or for longer periods, as is frequently done in the United States without serious economic consequences. The combined effect of these conditions requires manufacturers seasonally to carry raw materials for six months of operation and they, accordingly, require credit up to six months with respect to a considerable portion of their purchases.

"The fact that banks on the Continent are much more closely identified with the industries than is the general case in America normally permitted them to discount freely for their manufacturing clients and also to procure for them from abroad the additional foreign credit that they required. England, Holland, Switzerland, and to some extent, France, were normally the creditor

countries and the first three continue at the present time to extend the kinds of credits for the time required to the Continental industries; generally through the medium of Continental banks.

"It was explained that, owing to the higher price level at the present time as compared with pre-war, the volume of domestic bills in Germany and other industrial sections of the Continent represented a physical volume of goods considerably less, perhaps 75 per cent of the quantity of goods, than would have been represented by an equal amount of bills pre-war, and that, accordingly, the rise in the price level required relatively greater recourse to foreign credit than before the war.

"It was explained that both before and since the war it was the practice of London banks and bankers to extend commercial acceptance credit for the benefit of Continental industry and trade freely and that the restrictions in the American practice had doubtless caused a great deal of financing to go to London that otherwise would have come to New York on account of the ability of American to create credit and the lower American discount rates.

"The cutting of acceptance commissions by London banks for Continental banks to attract this kind of business to London was also referred to as constituting a substantial competition but one which would not be so serious if American banks could give the credits that the Continental trade requires on terms otherwise equal with London.

"Since your Chairman advised the Board in these respects, he has conferred with a considerable number of prominent New York bankers who create the large bulk of American acceptances to inquire of them what in their experience had prevented them from giving acceptance credits abroad such as London bankers habitually grant, and he was informed by each of them that the rule against accepting after goods had arrived in the country of import and the rule against permitting customers to redraw after goods had arrived in the country of import were the only two points upon which they felt their disability depended.

"They felt that they would not wish to extend credits in Europe for purely domestic purposes, explaining that by that they meant the purchase of goods of domestic

origin, the fabrication of such goods and its sale for domestic consumption within any European country, but that they did feel that they should be permitted to finance through acceptance credits the sale within European countries of goods of origin foreign to those countries, and the fabrication and sale of goods for export. Many of them cited the familiar problem of American cotton which is now sent so largely to European countries on consignment by American shippers and is sold to European spinners out of warehouses in Europe. Spinners require credit of ninety days or more. Under the present rules, American banks can give such credits where the cotton crosses a frontier in Europe, that is, where it is exported from one European country to another, but they cannot give such credits if the cotton is sold to spinners located in the same European country in which it is stored pending sale. A similar negative position arises with respect to cotton which is sold and shipped from America on terms that have become quite usual, i. e., that at the buyer's option he may pay cash on arrival or give ninety days bankers credit. It frequently happens that the cotton has ar-

rived and so the physical export completed before the buyer elects how he shall pay. If he elects to give ninety days bankers credit the banker may not accept the bill if the cotton has arrived at the foreign destination named in the shipping documents.

"The American bankers consulted felt that the time has certainly arrived in the development of American acceptance business when American accepting bankers should be permitted the free exercise of their discretion within the law and regulations and that, within those limits, full latitude should be granted them in the accommodation of business as it is done in foreign countries. They stressed particularly the point that they regarded it as preferable to give a three months credit with a renewal for a further period, if it were found that a renewal were required at the expiration of the original period, than to grant the credit originally for a period of six months, and that if the rule against accepting a bill after the goods had arrived were rescinded, the end sought would be practically accomplished without a specific ruling in favor of renewal bills. It was pointed out that from the bankers' point

of view it was preferable to be able to review credits at more frequent intervals than is the case when credits up to six months are being insisted upon by the borrower as a precaution against being unable to redraw at the end of a shorter period in case of need even for a small part of the credit.

(At this point Governor Young came into the Conference Room.)

The Chairman. Governor Young, we are struggling with some regulations, and I will tell you what we have done to date and then we struck a snag and thought we had better have you in.

A resolution passed I think almost if not quite unanimously suggesting to the Board that no regulation be issued just now on non-cash collection items. We have gotten along after a fashion for ten years, and we thought we might struggle along a while longer, as there was some question about the position that it might leave the banks in if such a regulation were issued. That is the first resolution passed by the Board.

There were three other resolutions passed, the first referring the matter to the Committee on Non-Cash Collections; and, second, the enumeration of items which it was undesirable to handle; then a resolution was passed accepting the sense of the Conference that it should be our policy gradually to discontinue the handling of these stock and bond security drafts. The

volume is increasing very rapidly, and there is a great responsibility about it, and we have just got to stop it in New York, there is no question about; and finally we passed a resolution that it was the sense of the meeting that no reserve bank would be expected to collect items on points where there were no satisfactory collection facilities, and it seems that that general expression giving the committee six months to work on it and report to the next Conference, in the meantime without any regulation and then gradually cut down and eliminate the security drafts. We are not asking you to express any view about it, but we are just reporting informally on what we did on that one subject.

Now, we took up the question of regulation on reserves, and we have just unanimously agreed that the provision for semi-weekly reserve adjustments of the member banks in cities where there are reserve banks and branches, is satisfactory to everybody. We felt that there were three other items for consideration, but one I find is not in this regulation. I did not realize it. The one that is in Regulation F is the one requiring security for deposit for trust funds. The other two items

here in this regulation are, first, the question of the definition of time and savings deposits, and we wanted to ask you to make an explanation of that, and the third item in this regulation on reserves is the manner by which there is provided a mandatory progressive penalty for deficient reserves, with the exception that the Federal Reserve Board might waive the penalty on application for cause, and so on.

We believe that that is a mistake, and that it would be better to have the penalty optional, as it is now, and not mandatory, just to avoid possibly getting into a jam or a criticism at this time, and that was reported unanimously as our recommendation to the Board.

We have come to the subject of the definition of time and savings deposits, and accepting in principle that the deposits of banks could not be construed as savings deposits, Governor McDougal suggested that that should be extended to include corporations, and at that point I feel that we were getting into deep water and needed a little bit of discussion with you as to how this thing had developed.

Governor Young. I cannot discuss that particular

part of the regulations. As I recall, the regulation was sent out limiting every savings account to \$5,000, and innumerable suggestions, and limiting corporations other than religious or charitable organizations, and all such ideas as that. The comments came in from all the Federal reserve banks on that, and it was the conclusion of Mr. Wyatt and the Board that we might better eliminate all those provisions rather than to attempt to discriminate, and what they have really done is to go back to the old regulation, that is just about what it amounts to, and they attempted to cover the California situation, and when they got all through it they found out that they could not cover it very well, and found out that there is only one way you can handle this. The description of savings accounts and time deposits that is in that regulation now is as good as anybody can describe it, in our opinion.

Governor McDougal. Mr. Wyatt's idea, Governor Young, is that these cases can be dealt with by a ruling, and it is better to be handled that way than in a regulation. In the tentative draft that was approved by the Board, there was one very good provision, I think, contained

in that, by which deposits made by one bank in another could not be under any conditions considered as savings accourts, and I think that is a very wise precautionary measure to adopt, and beyond that I had made the suggestion here that deposits of corporations ought to be and could properly be included in this same category as not being savings accounts from the standpoint of the question involved here, that of determining the reserve requirements, and I think it would be very much more effective and satisfactory if that could be covered by a regulation, because the tendency which we see in one of our banks apparently is to be found in other districts too, whereby banks are encouraging the deposits by banks and by corporations and issuing in this case a special savings bank check, under which they may or they may not have the right to take thirty days' notice or require thirty days' notice, but with respect to which they pay them without presentation of the pass-book excepting by the bank itself, and making them in fact subject to check, and they are checking accounts.

I would like to see that safeguarded. By a ruling it is going to be very difficult to handle, because you

will have to take it up with each bank and you will have to send your examining officers or detectives into the bank to see whether it is being done or not; whereas if it is in the regulations it will be right there.

Governor Young. So far as the deposits of one bank with another is concerned, my reaction agrees with yours; in so far as the corporations are concerned, to correct the abuse of a few corporations, you would penalize many institutions that have bona-fide transactions. Northern Michigan is just filled with corporations savings accounts that have been there for ten, fifteen or twenty years.

Governor Seay. Not commercial corporations?

Governor Young. Yes.

Governor McDougal. You would not penalize them at all, because you could take that class of deposits and convert them into time deposits instead of savings. If they are time deposits, that could be so adjusted, I am sure.

Governor Young. It is almost three or four months since I went over this whole matter, and it is not fresh in my mind. I read the regulation this morning and read

Mr. Wyatt's report. I think it might be to the advantage of the Conference to have Mr. Wyatt come in--I think I could get him to come in--because those things are all fresh in his mind, and he has been wrestling with them, and he can give you a better answer to that than I can.

Governor McDougal. I think his answer is pretty well covered in the memorandum which he prepared. His idea is that, by dealing with these questions by a ruling rather than by a regulation, probably the Board is keeping off dangerous ground, for the reason that the danger of law suits and things of that sort, he says, are not so great when you are dealing with a ruling as it would be if there should be a blanket regulation. He argues at least along those lines.

Governor Young. I am sorry that at the moment I cannot give you any more information than I have now. It is out of my mind and it has been three or four months since I have considered the problem.

Governor Geery. Governor McDougal, on page 2 under section II (d), 3 appears the following:

"Deposits which are permitted to be withdrawn by check or otherwise, without the actual presen-

tation of the check book, certificate or other similar form of receipt whenever a withdrawal is made, shall not be considered 'savings accounts' within the meaning of this regulation." Doesn't that cover your point?

Governor McDougall. Well, there is a question about that, Governor, because it is contended on one side that the pass book is presented.

The Chairman. The case where the original pass book is lodged in the bank and remains there, and a duplicate is sent out.

Governor Geery. It says right here, "The retention of the pass book, certificate or other similar form of receipt, or a duplicate of same, by the bank and the presentation of same by the bank to itself is not an 'actual presentation' within the meaning of this regulation."

Governor Young. Mr. Wyatt in his memorandum cuts that out.

Governor Strong, if I understand this correctly, the new regulation is practically the same as the old regulation, with the exception that there is a mandatory provision for penalty?

The Chairman. And the semi-weekly proposition.

Governor Young. Yes. Those are the things that are really up to the Board. I do not think it is advisable to attempt to change the regulation. I agree with you on the penalty on reserves. I think that is extremely dangerous, from long experience in the Northwest. You get a bank that is slipping and you think that you can help the institution out, and frequently you refuse to lend money because you want to keep them short in reserve. That is one of the strongest weapons you have with a weak bank. The bank cannot weather the storm and finally goes down, a receiver comes in, and the stockholders, through an investigation and what-not, find that under those unusual conditions the Federal Reserve Board penalizes that institution 10 per cent. It is an argument that you cannot justify, and it will cause a lot of trouble. If a good bank slips in its reserve you are always in a position to deal with that institution without a progressive penalty. I had rather see it left out, and I am glad to know that that is a majority view.

Governor McDougal. It is to be left just as it has been--optional? Some banks have applied it and some have not.

The Chairman. That answers the two matters you submitted to me, except the question of giving security for trust deposits.

Governor Young. All the banks are in agreement about that, with the exception of Cleveland and Philadelphia, and I do not think that their Governors wanted to bother with that. Maybe we can straighten it out.

The Chairman. Then we will pass that. That leaves only the regulation about liberalizing the rules on acceptances. You have just read the report, and we are just about ready to vote on it. Are you ready to take some action on the report of the committee? The report has been distributed.

Governor McDougal. I move the adoption of the report.

Governor Fancher. I second it.

(The motion was put and carried.)

The Chairman. Governor Young, we passed a resolution indicating to the Board that we thought that a meeting of the counsel of the reserve banks would be a very desirable thing, and there is just one topic left on the Governors' program of a legal character which we would ordinarily leave to that meeting if it is to be held.

I am taking it for granted that it will have serious consideration by the Board, and I am going to ask this Board to refer Topic VI-C to the meeting of the counsel. Is there any objection to that?

Governor Seay. That is the course I recommended myself, so I make the motion that it be referred.

(Motion put and carried.)

The Chairman. At the meeting tomorrow morning, Governor Young, what would you like to have us deal with?

Governor Young. The open market topic here has already been discussed before the Board. There is no use going any further about that.

The Chairman. It has been discussed with this meeting, and we suggested that it would take the usual course-- the report was received and discussed in much detail, and that it now go to each bank for action by the directors. I mean, that cannot be finally approved here, because all of these proposals are subject to the action of the board of directors of each bank.

Governor Young. "Relations with foreign banks" has already been reported and discussed?

The Chairman. Yes.

Governor Young. What were your conclusions on ID?

The Chairman. Why, it is a rather interesting situation. When a member bank submits an application for discount, it will submit an item with the letter P indicating that it is purchasing the paper, and S indicates that it has been discounted, and that a statement is on file. If that is a corporation, say for instance a milling company out there, with subsidiaries, the question arises at once if that is a complete statement when the parent company files its statement. What actually happens is that we decide, whether that is logical or not, by looking up our files to see whether there is a statement on file, and to see whether it conforms to the regulation, the statement having been furnished to us by a member bank, and we will assume that the member bank which buys that paper in the market has got a statement on file which conforms to the regulations. It may have the consolidated statement or it may have the consolidated statement and the statement of all of the subsidiaries, but when this paper comes in, when it is offered to us, we are not going back and say, "What kind of a statement have you? Does it comply with the regulations?" We have got one which complies with

the regulations, and we got it from a member bank, and it seems to me that that meets the situation.

Governor McDougal. Governor Strong, we went further than that. We went to the point where it was moved that complete statements be filed with all the depository banks which purchased credit loans.

Governor Geery. Here is a copy of the resolution as passed (handing paper to the Chairman).

The Chairman. If there is nothing further, I will declare that the Conference of Governors is adjourned.

(Whereupon, at 5.20 p.m., the Conference of Governors adjourned.)
