JOINT CONFERENCE BETWEEN FEDERAL RESERVE BOARD

and

EXECUTIVE COMMITTEE OF GOVERNORS

of

FEDERAL RESERVE BANKS.
At a joint conference between the Federal Reserve Board and the Executive Committee of Governors of Federal reserve banks, held in the office of the Board at 3:45 p.m. on Thursday, November 13.

PRESENT:

Mr. Delano, presiding Mr. Miller.
Mr. Warburg Mr. Willis, Secretary.
Mr. Allen, Assistant Secretary
Mr. Elliott, Counsel.

PRESENT ALSO:

Mr. Strong, Governor, Federal Reserve Bank of New York.
Mr. McDougal, Governor, Federal Reserve Bank of Chicago.
Mr. McKay, Deputy Governor, Federal Reserve Bank of Chicago.
Mr. Hendricks, Assistant Cashier, Federal Reserve Bank of New York.
Mr. Curtis, Secretary, Federal Reserve Bank of New York.
Mr. Rhoads, Governor, Federal Reserve Bank of Philadelphia.
Mr. Aiken, Governor, Federal Reserve Bank of Boston.
Mr. Fancher, Governor, Federal Reserve Bank of Cleveland.

Mr. Delano called upon Mr. McDougal for a statement of the object of the meeting.

Mr. McDougal said in reply the Governors'
committee had already presented the plan prepared by the credit managers of the banks at a conference of said managers held in Chicago on October 6 - 7.

The Governors had endorsed this plan, and now wanted to put it into operation. The question, therefore, was whether the Board would agree to the plan. A copy of the aforesaid plan was presented as follows:

Minutes of Transit Managers' Conference, October 6th and 7th, 1915.

The meeting was called to order at the office of the Federal Reserve Bank of Chicago at 10:25 a.m., October 6th, 1915, by Mr. C. R. McKay, who stated that the object of the meeting was to consider Intra-District and Inter-District Collection, and make recommendations to the Executive Committee of the Governors' Conference for the further development of the check collection function of the Federal Reserve Banks.

The several Federal Reserve Banks were represented as follows:

Boston, Mr. C. C. Bullen, Acting Chief Clerk,
New York, Mr. L. H. Hendricks, Assistant Cashier,
Philadelphia, Mr. F. M. Hardt, Cashier,
Cleveland, Mr. M. J. Fleming, Auditor,
Richmond, Mr. George H. Keesee, Cashier and 
Mr. C. V. Blackburn, Transit 
Manager,
Atlanta, Mr. J. B. Pike, Cashier,
Chicago, Mr. C. R. McKay, Deputy Governor,
St. Louis, Mr. O. H. Attebury, Transit 
Manager,
Minneapolis, Mr. Gray Warren, Transit Manager,
Kansas City, Mr. Jerome Thralls, Cashier,
Dallas, Mr. Lynn P. Talley, Cashier,
San Francisco, Mr. John Perrin, Chairman of 
Board.

Mr. C. E. Burnham, Director of the Federal Re- 
serve Bank of Kansas City, was invited to attend 
the sessions of the conference. On motion of Mr. 
L. H. Hendricks of New York and seconded by Mr. 
James B. Pike of Atlanta, Mr. C. R. McKay of Chicago 
was elected Chairman, and at the suggestion of the 
Chairman, Mr. H. C. Burnett of Chicago was elected 
Secretary.

The Chairman announced the topics to be con- 
sidered as follows:

1. **INTRA-DISTRICT COLLECTIONS:**
   
a - Objections to present collection systems
b - Immediate debit and credit
c - Deferred debit and credit
d - Schedule for deferred credit
e - Direct interchange of items between mem- 
ers by settlements through the Federal 
Reserve Banks
f - Should membership in the collection sys- 
tem be made mandatory?
g - Collection of items on non-member banks
h - Service charges for cost of operating the collection system
i - Should Comptroller make ruling that items in transit can not be counted as reserve?
j - Endorsement restrictions

2. **INTER-DISTRICT COLLECTIONS:**
   a - Endorsement restrictions:
   b - Exchange of collection facilities between the Districts
   c - Transfer of funds
   d - Purchase and sale of exchange
   e - Gold Settlement Fund

3. **SUGGESTED PLANS FOR IMPROVEMENTS OF CHANGES IN PRESENT METHODS OF INTRA-DISTRICT AND INTER-DISTRICT COLLECTIONS**

4. **RECOMMENDATIONS TO EXECUTIVE COMMITTEE**

   Morning, afternoon and night sessions were held on October 6th and 7th.

   The deliberations of the Conference resulted in the passage of the votes recorded below, every representative being present when each vote was taken, except that in one or two cases representatives absent for a few minutes authorized the Secretary to record their votes:

1. Voted - That we heartily favor every extension of the operation of a check collection system consistent with sound principles and permissible under the Federal Reserve Act.

2. Voted - The deliberations of this body are based on the assumption that every member bank
is required by law to cover all checks and drafts drawn upon it received from the Federal Reserve Bank of which said bank is a member. Immediate debit and credit not required.

Mr. Pike of Atlanta asked to be reported as voting "No".

3. Voted - That the Federal Reserve Bank should have the privilege at its discretion of accepting checks on any bank, banker or trust company. Unanimously carried.

4. Voted - We recommend that the actual expense of handling items on non-member banks shall be assessed by the Federal Reserve Bank against the member depositing such items with the Federal Reserve Bank. Unanimously carried.

5. Voted - That consideration of a service charge by the Federal Reserve Bank for the collection of checks on member banks deposited with the Federal Reserve Banks be deferred at this time.

Carried without a dissenting voice.

6. Voted - WHEREAS, Section 16 of the Federal Reserve Act stipulates that Federal Reserve Banks shall accept at par from their member banks checks and drafts on their members, this Conference recommends to the Governors' Conference that this provision of the Act be developed by the several Federal Reserve Banks on a deferred credit and deferred debit basis, but we believe that the privilege
Concurred in to handle items on an immediate debit and credit basis, so far as expedient to do so, should be granted.

Carried.

Mr. Pike voting "No", explaining that the Atlanta directors are on record as being opposed to putting into effect any system of clearing on a par basis.

7. Voted - That items sent to Federal Reserve Banks should not be counted as reserve until credited by the Federal Reserve Bank, but in computing reserves the total amount of such items may be deducted from the member banks' gross demand deposits.

Concurred in

Unanimously carried.

8. Voted - That any plan for the interchange of checks between districts should apply only to those banks which do not impose restrictions as to endorsements.

Unanimously carried.

9. Voted - We recommend that the matter of transfers of funds for member banks between the several Federal Reserve Banks be handled on the basis outlined by the Governors of the Federal Reserve Banks at their recent Conference until such time as the intra-district clearing facilities are developed to an extent which will justify a reconsideration of this question.

Concurred in

Unanimously carried.

10. Voted - It is the sense of this meeting that transfers of funds between any two
Concurred in

banks in any Federal Reserve District should be made by means of direct order rather than by checks and drafts.

Unanimously carried.

11. Voted - That the direct interchange of items between members by settlements through the Federal Reserve Banks be encouraged.

Concurred in

Unanimously carried.

12. Voted - We recommend to the Executive Committee of the Governors' Conference that a system of Inter-District Collection be inaugurated at once as follows:

Each Federal Reserve Bank will accept from any of its member banks for deferred credit and deferred debit at par, in accordance with the provisions of Section 16 of the Federal Reserve Act, checks and drafts on member banks in any of the other Federal Reserve Districts.

Each Federal Reserve Bank will agree to accept at par from other Federal Reserve banks checks and drafts on its own members for credit a certain number of business days after the receipt of such checks and drafts, said number of days to be based upon the average length of time necessary to obtain returns from its members. Upon receipt of advice from the other Federal Reserve Banks as to the number of days determined as aforesaid each Federal Reserve Bank will prepare a sche-
dule of deferred credits applicable to checks on other Federal Reserve Districts deposited by its members.

Every Federal Reserve Bank operating on a deferred debit and deferred credit basis within the district will include in said schedule of deferred credits indication of the number of days for which it will defer credit to its members of checks and drafts on other members in its district.

Each Federal Reserve Bank will, if possible, avoid having more than three classes of deferred credit, and will request its member banks to sort items in accordance with the number of days for which credit is deferred, and to list in one letter all the items for which credit will be deferred the same number of days, furnishing the Federal Reserve Bank a separate letter for each class of deferred credit, as well as another letter in which will be listed all items to be accepted for immediate credit. Debit against a member bank's account of checks and drafts drawn upon it will be deferred for the same number of days for which credit is deferred in accepting such items from other members of the district.

Letters of transmittal to member banks will show plainly the date on which the items listed therein will be charged to the member bank's account. Each letter of transmittal to a Federal Reserve Bank will show plainly the date on which credit is expected, in accord-
ance with the schedule of deferred credits, and will be charged to the Federal Reserve Bank on said date.

In order to guard against the great congestion incident to taking on at once a large increase in the volume of items, the plan should be developed in progressive stages by beginning with checks, each one of which amounts to $1,000 or more, and gradually reducing the limit as to the amount of each check until the limit can be safely removed. Changes in said limits should be identical in all districts both as to the amount and the date on which the change is made effective.

Nothing in the foregoing shall be construed as prohibiting any Federal Reserve Bank from continuing to handle such items as it is now receiving.

In order to show how schedule of deferred credit may be made up in each district, there is herewith submitted a tentative schedule applicable to checks deposited in the Federal Reserve Bank of Chicago by its members.

In accepting checks from other Federal Reserve Banks, Chicago will give immediate credit for checks on members of the Chicago Clearing House Association, and will defer for two days credit of checks and drafts on other banks in its district.

This plan contemplates that Federal Reserve Banks particularly may adopt short-cut methods for eliminating time in receiving credit.
For instance, if Chicago accumulated a large volume of items on Seattle, it would expect to send such items to Seattle for account of the Federal Reserve Bank of San Francisco, after agreeing with San Francisco as to a basis of deferred credit for our Seattle letter.

The foregoing plan approved by a vote of eleven "ayes" and one "no", Mr. Pike of Atlanta voting "no".

**SCHEDULE OF DEFERRED CREDITS FOR DISTRICT NO. 7.**

**TWO DAYS**

Illinois (Except Chicago Clearing House Banks - immediate credit)

Indiana

Iowa and all Federal Reserve Cities except San Francisco

Michigan

Wisconsin

**FOUR DAYS**

Alabama Maine North Dakota West Virginia

Arkansas Maryland Ohio

Colorado Massachusetts Oklahoma

Connecticut Minnesota Pennsylvania

Delaware Mississippi Rhode Island

District of Columbia Missouri South Carolina and San Francisco, Calif.
13. Voted - In submitting our plan of Inter-District Collection we recommend that any expense of covering deficiencies in the Gold Settlement Fund incurred by Federal Reserve Banks shall be apportioned in an equitable manner to be determined later.

Unanimously carried.

14. Voted - That any Federal Reserve Bank may adopt and operate an Intra-District Collection System not inconsistent with this report.

Unanimously carried.

15. Voted - That the plan as read, together with those votes already taken by the con-
ference, be adopted as the recommendation of this body to the Executive Committee of the Governors of the Federal Reserve Banks.

Carried.
Mr. Pike of Atlanta voting "No".
Mr. Pike's vote applies to the aforesaid plan and those votes on which he is recorded in the negative.

16. Voted - We extend our thanks to the Chairman for his able and tactful conduct of our deliberations; to Mr. Burnett for his faithful and valuable services as Secretary; to the Officers of the Federal Reserve Bank of Chicago for their hospitality.

Adjourned sine die at 11:10 p.m., October 7th, 1915.

H. C. BURNETT,
Secretary.

C. R. McKAY,
Chairman.

Referring to "Vote 2" in the plan, Mr. McDougal called attention to the provisions, and asked Mr. Elliott for an opinion with reference to
the question whether a member bank was obliged, under the law, to pay checks at par (face) at the Federal reserve bank of their district. Mr. Elliott replied that, in his opinion, such banks were not required under the law to meet checks at par anywhere except at their own counters.

Various members, particularly Governor Strong, called attention to the fact that this view if sustained would necessarily lead to the creation of more exchange charges than exist at the present time.

Mr. Warburg inquired whether Mr. Elliott thought that the Board had power to require a member bank to limit its charges for collection to the cost of shipping. An affirmative reply was returned, whereupon general discussion ensued with reference to the meaning of the term "exchange".

Governor Aiken called attention to the practice of the Boston Country Clearing House as to exchange, and noted that the custom of remitting at par was spreading widely over the country. He thought it would be unfortunate to interfere in any
way with this process.

Mr. Miller expressed a wish to have a definite, practical solution of this question, rather than a mere paper solution. He desired to have immediate and definite action, and was disposed to advocate the introduction of a mandatory plan of clearance on the basis adopted in Kansas City and formerly in St. Louis.

Answering Mr. Miller, Governor Strong expressed the opinion that the mandatory plan was not wise, nevertheless he was willing to undertake it on a certain definite understanding - that the Board would accept all responsibility for results.

Mr. McDougal said he was prepared to go ahead on the proposed plan, provided the Board would rule definitely on "Vote 2" already referred to.

By unanimous consent the various paragraphs of the plan were then read in order and briefly explained.

Mr. Willis inquired what amendment to the law was, in the judgment of Governor Strong
needed in order to enable the carrying out of the original intent of the Act.

In answer Governor Strong said that he thought the meaning of the Act ought to be cleared up as related to clearing, but he should not care to see any change that would compel the banks to clear all checks on a basis of immediate debit and credit.

Governor McDougall said the question was simply that of having the Board act definitely one way or the other on the proposed plan. This was necessary before further progress could be made.

On motion at 6:40 p.m. the conference adjourned.

[Signature]
Secretary.

[Signature]
Chairman.