

EX-OFFICIO MEMBERS
—
WILLIAM G. MCADOC
SECRETARY OF THE TREASURY
CHAIRMAN
JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD

WASHINGTON

1916
W. P. G. HARDING, GOVERNOR
PAUL M. WARBURG, VICE GOVERNOR
FREDERIC A. DELANO
ADOLPH C. MILLER
CHARLES S. HAMLIN

H. PARKER WILLIS, SECRETARY
SHERMAN P. ALLEN, ASST. SECRETARY
AND AGENT

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

May 23, 1916.

Mr. J. B. McDougal,
Governor, Federal Reserve Bank,
Chicago, Ill.

My dear Mr. McDougal:

Answering letter signed by Mr. McKay under date of May 15th, as you have already been informed, the Federal Reserve Board is in general accord with the resolutions adopted at the Transit Managers' meeting as to the matter of details. This is true, generally speaking of all the resolutions with the exception of that in respect to developing the clearing operation in three stages instead of one. After hearing from all of the Federal Reserve Banks the Board concluded, as per our telegram of May 21, to direct the starting of the clearing system generally on Saturday, July 15th; thirty days later than the date set forth in our Circular of May 1st. There are a few matters, however, to which you have specially called the attention of the Board and these, after some discussion yesterday were referred to the Board's committee on clearing.

The first subject is that of par lists of non-member banks for each District, which is touched upon in Topic No. 6. Our committee entirely approves the conclusions arrived at by the Transit Managers and will be very glad to cooperate in any way it is desired in having lists printed by the Government

- 2 -

Printing Office for the use of the member banks. In this connection, however, we want to call attention to the fact that it is important that the committee having this matter in charge shall send us "copy" and "form" showing us exactly the style which is to be followed, and requisition stating the number of copies desired.

With reference to your Topic No. 10, entitled, "Penalties for Encroachment upon Reserves", the Board sees no objection to the rule suggested by the Transit Managers.

Topic No. 11: Analysis of Per Item Cost: We see no objection to this basis of analysis.

There are one or two other topics not specifically mentioned in your letter to which the committee would call attention.

Topic No. 3, entitled, "Sorting of Items by Member Banks", the resolution of the Transit Managers requires all member banks to sort their items in accordance with the time schedule. It appears to us this is entirely proper with banks of considerable size, but would be burdensome with small banks. In deciding what you should do in a matter of this kind we think you should certainly not be more exacting than large city banks have heretofore been in their requirements upon country correspondents. . Indeed this is a rule which might, we think, be based on the number of items sent.

Topic No. 9, entitled, "Statements of Reserve Requirements from Member Banks." The resolution asks that a statement be required from member banks at least once a month, showing the average reserve requirement for the preceding month. It is obviously impossible for a member bank to figure the average reserve requirement unless it tabulates the daily net demand and time deposits and from the sum of these calculates the average. Asking for the average will result in many cases in getting simply a shrewd guess as to what that average really is. It appears to us that the way to get this information accurately with the least labor on the part of the banks is to ask the banks to give you, either weekly or monthly, a statement showing their daily demand and time deposits, from which a clerk with an adding machine can quickly determine the average. The committee offers this simply as a suggestion which should have your consideration, especially in view of the fact that three of the Reserve Districts are now requiring such statements from their members.

Topic No. 12, "Method of Applying service charge to number of items." The Transit Managers recommended a uniform charge not exceeding $1\frac{1}{2}\phi$ per item. We understand, however, that in the Dallas and San Francisco Districts the Federal Reserve Banks believe that they must charge at least 2ϕ as compensation. The Federal Reserve Board's committee

believes that, while it is desirable that the charges should be as nearly alike as possible, it is not essential that they should be identical. It has occurred to our committee that you might like to determine that this charge of $1\frac{1}{2}\phi$ might be split so as to divide the compensation in some cases. As for example, a bank in the Seventh District might send Chicago a lot of items on the Cleveland District, or it might send them direct to Cleveland. If the Cleveland Bank is paid the whole $1\frac{1}{2}\phi$ per item in each case, there is nothing left for the Chicago Bank for its service. If, in this case, the Chicago Bank should receive $1\frac{1}{2}\phi$ per item and pay the Cleveland Bank something less than $1\frac{1}{2}\phi$ for collecting items, it would receive some compensation for its share in the service. It may be thought cumbersome and unnecessary to do this and the Board's committee does not care to press the point.

After ~~e~~xperience of several months it may be determined best to put the charge on some different basis or to make allowance for the gross total of items as well as their number.

Yours very truly,

F. A. DELANO)
) Committee
W. P. G. HARDING) on Clearing.

A copy sent to the Governors of each Federal Reserve Bank.