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X-988

MEMORANDUM TO THE FEDERAL RESERVE BOARD

SUBJECT: DAILY CLEARINGS THROUGH THE GOLD SETTLEMENT FUND

The following plan of daily clearings through the Gold Settlement Fund is submitted for the consideration of the Federal Reserve Board and the Federal Reserve Banks:

At the close of business each night, each Federal Reserve Bank will wire to the Federal Reserve Board the aggregate amounts credited that day to each other Federal Reserve Bank. This would amplify the present Wednesday telegram, in so far as actual dollars and cents would be wired, instead of even thousands. Credits now entered by each Federal Reserve Bank to the account of each of the other eleven Banks, which are grouped at present on Form No. 34 in "Due to Other Federal Reserve Banks", would be credited to "Gold Settlement Fund, Suspense" instead.

This telegram should be sent as an "open" message except for the introductory and final code words. It should show in numerals, properly punctuated, the exact amounts in dollars and cents credited to each of the other eleven Reserve Banks at the close of business on the respective day, and give the same figures as will be shown in the daily statement on Form No. 34 against new liability items. "Gold Settlement Fund - Suspense Account" (replacing item "Due to other Federal Reserve Banks").

A sample of the form of telegram with introductory test word and closing A. B. A. code word denoting date of credits would read as follows:

LABEG (X)	10,125,671.29
New York	5,285,024.74
Philadelphia	388,411.12
Cleveland	612,050.50
Richmond	78,056.49
Atlanta	47,411.99
Chicago	1,304,856.50
St. Louis	708,980.25
Minneapolis	98,412.16
Kansas City	504,411.88
Dallas	49,560.48
San Francisco	1,048,495.18

ESCALOP (XX)

Smith - Cashier.

(x) Charge our account in Gold Settlement Fund total of \$ _____ and credit

(xx) A. B. A. code for July 1.

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On the morning following, the Board having received twelve telegrams, will charge each sending bank in the Gold Settlement Fund with the aggregate of its telegram, distributing the individual credits as therein advised.

The Board will then credit each of the twelve Federal Reserve Banks of in the Gold Settlement Fund with the aggregate/credits telegraphed by the other Federal Reserve Banks and send appropriate telegraphic advice to each of the banks credited.

In these telegrams the Board will continue to show net gain or loss in the Fund, which would confirm to the Federal Reserve Banks that their respective telegrams of the previous day had been correctly received.

Upon receipt of the Board's telegram, each Federal Reserve Bank will make the following entries:

Debit - "Gold Settlement Fund, Suspense"
Credit - "Gold Settlement Fund"
 (With aggregate of telegram to the Board on the day previous)

Debit - "Gold Settlement Fund"
Credit - "Collection Items" (Deferred Debits)
(With aggregate of the telegram received that day
from the Board).

The necessity for "Gold Settlement Fund, Suspense" account arises from the fact that the Federal Reserve Board's published statement must reflect the figures shown on the books of, and reported to it by, the twelve Federal Reserve Banks.

This new account will eliminate telegraphic "float" and thus avoid a situation encountered several times on Friday nights, under which item BABE - "Gold Settlement Fund" had been credited by one Reserve bank without corresponding debit by another Reserve bank.

The above covers the modus operandi of the suggested plan, in so far as the Gold Settlement Fund accounts of the Federal Reserve Board and the twelve banks are concerned. The interior arrangements at the individual Federal Reserve Banks may be made as follows:

Everything dispatched from one Federal Reserve Bank to another should be deferred, and charged to "Collection Items, Debit". This covers not only cash letters, whether City or Country items, but payments on telegraphic transfers ordered by other Federal Reserve Banks, Federal Reserve notes or currency shipped to other Federal Reserve Banks, miscellaneous charges, expense, service charges, interest, telegrams, etc., - in fact, every item heretofore charged to "Due from Federal Reserve Banks" should under the proposed plan be charged to "Collection Items, Debits".

Some banks might prefer to enter these "Collection Items, Debits" by detail in books; while others would prefer to file the carbons of their letters or other dispatches, etc., under the names of the Federal Reserve Banks affected. Some banks prefer the latter plan for the reason that, by intelligent filing, an automatic tickler of unaccounted for items is thereby supplied for convenient tracing.

Each Federal Reserve Bank, in addition to the daily telegram to the Board, as outlined above, will prepare, as it now does, statement of the details with proper description, for the use of each other Federal Reserve Bank whose account in the Gold Settlement Fund has received credit.

The aggregate of each statement would of course agree exactly with the aggregate amount of credits wired to the Federal Reserve Board. This statement should be forwarded by first mail, carbon to be retained for the files.

Upon receipt of the Federal Reserve Board's daily wire, it will be impossible to do other than credit "Collection items" (Deferred Debits) with the total, one ticket for each Federal Reserve bank.

Upon receipt, however, of the mail advices from other Federal Reserve banks the carbon copies, or tickets representing previous debits to "Collection Items - Deferred Debits", covered in the mail advices received would be transferred from the "Collection Items - Deferred Debits" files, as well as the credit ticket representing the entry made on receipt of the Board's wire.

It would be necessary, of course, to see that the mail advice footed to the total of the wire, and that the items covered in the mail advice, corresponded to the carbons transferred from the "Collection Debit" file.

Without a full understanding of the plan, telegraphic transfers might at first seem to temporarily prejudice the reserves of the Federal Reserve Bank which credits its members and charges "Collection Items, Debits". As a matter of fact, however, the effect is exactly as at present, where "Due from Other Federal Reserve Banks" is charged. Both accounts are deductions from gross deposits.

The effect of this plan would be to eliminate a great deal of work at the Federal Reserve Banks, and to provide daily, instead of weekly, the proper participations in the Gold Settlement Fund in as nearly an automatic way as possible.

At the present time, the Reserve banks, in addition to the weekly settlement, have the privilege of demanding transfers at any time when a net debit balance is shown in account with other Federal Reserve banks. It is to be expected that under the present plan of weekly settlements such transfers will become more numerous in the future, as the calls upon the Reserve banks for financial assistance of their members become heavier. The proposed plan will do away with the greater part of such transfers, also with the necessity of rediscounts between Federal Reserve banks when due primarily to the unavailability of "amounts due from other Federal Reserve banks". The rediscounting operation, as at present conducted, involves a great deal of work, which, by some means or other, should be curtailed.

At the present time, practically all the Federal Reserve Banks are advising each other by mail, under the Dunlop-Anderson plan, their daily credits of immediately available items. While good, to a limited extent, the plan covers but a small proportion of the credits. The plan suggested above would reduce the number of telegrams very considerably, and cover every credit.

Washington -
June 7, 1918.