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FEDERAL RESERVE BOARD

July 3, 1919.

X-1607

Subject: Comments by Federal Reserve Board in re Report of Governors of Federal Reserve Banks covering improvements in Service and Distribution of Expenses of Federal Reserve Leased Wire System.

Dear Sir:

The Federal Reserve Board has approved the report of the Governors of the Federal Reserve Banks, a copy of which is enclosed, with regard to improvements in service of the Federal Reserve leased wire system, and suggests that the recommendations embodied therein be effective July 15th, except with regard to the topics discussed below.

IMPROVEMENT IN SERVICE

Topic (f). Wire transfers of funds through the Federal Reserve Banks shall be strictly limited to those ordering payments or credits to banks or bankers. Direct payments by Federal Reserve Banks to individuals, firms, or corporations other than banks will not be permitted, but such transfers can be effected through their banks.

For example: A message requesting one Federal Reserve Bank to deposit with another bank a certain sum of money for the account of an individual, firm, or corporation, is proper and will be handled; on the other hand, a request for a Federal Reserve Bank to pay direct to an individual, firm or corporation other than a bank or banker, funds over its own counter, or otherwise, will not be handled.

With reference to the above topic (f), it is the understanding of the Board that wire transfers of funds through the Federal Reserve Banks and branches may be ordered by member banks only.

In the example quoted in the report under topic (f), marked "For Example", in a case where a transfer is made from a member bank through Federal Reserve Banks to another bank for the account of an individual, firm or corporation the Board believes that the sending Federal Reserve Bank should accept the transfer from the member bank with an agreement to the following effect:

"The liability of the Federal Reserve Bank is limited solely to the proper transfer of the funds to the receiving Federal Reserve Bank for credit to the account of or for payment to the payee bank."

Topic (j). A manual outlining the plan of operation of the system shall be prepared for the guidance of operators and for the information of others concerned with the handling of telegrams. This manual, or set of rules, would embody the general instructions under which we are operating and it is recommended that the Federal Reserve Bank of Chicago, which is responsible for the operation of the system, be charged with the preparation of the same.

The Federal Reserve Bank of Chicago has been requested to prepare a manual in accordance with the above recommendation to be reviewed and approved by the Board and distributed to all the Federal Reserve Banks for use by persons concerned with the handling of telegrams over the leased wires.

Topic (k) Recommended that: The Federal Reserve Bank of Chicago shall be considered as the managing center of telegraph service of the Federal Reserve Banks, and that the Federal Reserve Board be asked to issue a letter to that effect to the several Federal Reserve Banks.

The Federal Reserve Board approves the above recommendation. All matters pertaining to the operation of the leased wires should be referred to the Federal Reserve Bank of Chicago. All matters of general policy, as heretofore, will be submitted to the Board for approval.

DISTRIBUTION OF EXPENSES.

The Federal Reserve Board approves the recommendation made by the Governors that the expense of the system be prorated among the twelve banks according to the total number of words sent by the banks

during the month, the new method to be effective commencing July 1, 1919. From that date each Reserve Bank will keep a daily record of the total number of words sent over the leased wire. The bills rendered, covering business handled during the month of July, will be based upon the number of words sent by each bank.

Under an arrangement with the Treasury Department, Federal Reserve Banks were authorized to charge 50% of the total main line leased wire expense as a fiscal agency expense. This arrangement terminated June 30, 1919. The Board was advised that commencing July 1, 1919, the Treasury Department would be willing to pay a flat rate of 25% of the total main line leased wire expense or to pay on a per word cost basis. Governor McDougal, Chairman of the Leased Wire Committee, recommended that the Treasury business be handled on a flat basis of 25%. This recommendation was submitted to the Governors of the Federal Reserve Banks by wire, and all have wired approval to the Board. Accordingly, commencing July 1, 1919, the Federal Reserve Banks will reimburse themselves on account of fiscal agency business by charging to the Treasury Department 25% of their prorata share of the monthly expense. The War Finance Corporation will continue to reimburse the system for its telegrams at the Government rate.

Very truly yours,

Governor.

Letter to Governors of all Federal Reserve Banks.