

REPORT OF GOVERNORS OF FEDERAL RESERVE BANKS
TO FEDERAL RESERVE BOARD COVERING RECOMMENDATIONS
FOR IMPROVEMENT IN SERVICE AND DISTRIBUTION OF
EXPENSES OF THE FEDERAL RESERVE LEASED WIRE
SYSTEM.

The committee appointed at the recent conference of Governors, to consider ways and means for improving the leased wire service and to provide, if possible, a more equitable division of the expense of the system, asked for suggestions along these lines from the Federal Reserve Banks and the Federal Reserve Board, and after considering carefully all suggestions received, respectfully submits the following recommendations:

IMPROVEMENT IN SERVICE

- (a) Only fast and experienced operators should be employed.
- (b) To facilitate prompt routing and delivery of messages received, each message should indicate the department for whose attention it is intended in the receiving bank and also the department in the sending bank for whose attention reply, if any, should be directed.
- (c) The custom of using the words "quote, stop, period," etc., should be discontinued through the use of ordinary punctuation in preparing copy, for which symbols are understood by all operators, as per copy attached.
- (d) Brevity should be observed in wording telegrams, and in no case should the wire be used when the mails would serve the same purpose. Each office should arrange for a careful censorship of all messages sent, with a view of eliminating unimportant telegrams and unnecessary words.
- (e) That the wire service of the System shall be limited to messages between Federal Reserve Banks, their branches, and departments of the government. Commercial messages, and messages signed by member banks, cannot be sent over the wires of the System without violation of the Interstate Commerce Law.
- (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.

- (g) One transfer of funds should constitute a message, for if several are included, an inaccuracy in the test word delays them all. The time limit fixed for the acceptance of transfers for current execution should be strictly adhered to except in extreme cases. This would guarantee that credits would be made on day of receipt.
- (h) That all telegrams between Federal Reserve Banks involving the payment of moneys or transfer of funds shall be identified by consecutive numbers, one set of such consecutive numbers to apply to the messages sent to each other Federal Reserve Bank, respectively. That the first word of each message shall be a code word, indicating the consecutive number of the message; and that the last word of each message shall be a code test word, in determining which one factor shall be the consecutive number indicated by the first code word of the message. That the remaining factors in determining the last test word shall consist of items A, D, E, F, and G of the formula for determining test words now in use between Federal Reserve Banks. That as an additional safeguard to the above, the item A (the correspondent's index number) shall be changed by the Federal Reserve Bank on receipt of advice from the Federal Reserve Bank of Chicago, to reach each bank at least three days before the change shall become effective. That these advices shall be sent under confidential cover, by registered mail, addressed to the Governors of the respective Federal Reserve Banks.
- (i) In the opinion of this Committee, the time has now come when, for the protection of Federal Reserve Banks and their members, a special code system with individual test words for each member should be devised for use with Federal Reserve Banks and their members and between Federal Reserve Banks, at least in all instructions given by wire involving the transfer or payment of funds, and this Committee recommends that:

A committee be appointed by the Governors in conference, to consider and prepare a code that will be comprehensive as to all matters of transfer of funds, the delivery of securities, and such other matters as they may deem necessary.
- (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.

(k) Recommended that:

The Federal Reserve Bank of Chicago shall be considered as the managing center of the 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.

DISTRIBUTION OF EXPENSE

It is recommended that the expense of the system be prorated among the twelve banks according to the number of words sent by each bank, instead of according to the capital stock, the present method. Each bank would reimburse itself in the same manner as it now does, by charging one-half of its pro rata to the Treasury Department as a part of the expense of fiscal agency operations. The War Finance Corporation would continue to reimburse the system for its telegrams figured at government rate.

While the business sent by the Treasury Department does not represent one-half of the total volume of business sent over the wires, consideration must be given to the fact that all overhead expenses of the system, such as office rent, clerical help, messenger service, etc, are borne by the banks, and only operators' salaries and wire rental are prorated.

This plan would not only provide a fairer division of the expense, but would tend to make the banks exercise more care in eliminating unnecessary words in sending telegrams. This method, if adopted, could be made effective without delay.

The attached reports show (1) the total number and classification of words sent over the leased wires during the week ending April 12th, (2) the division of the expense under the present and proposed plans of distribution.

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DIVISION OF EXPENSE OF THE LEASED WIRE SYSTEMSchedule A

The following figures show the percentage of cost borne by each Federal Reserve Bank and the Treasury Department (1) under the present plan of distributing cost, i.e. apportioning the total cost among the twelve banks according to capital stock, each bank charging the Treasury Department with one-half of its share, and (2) under the proposed plan, i.e., apportioning the total cost among the twelve banks according to business done, each bank charging the Treasury Department as in plan (1).

	(1) Percentage paid <u>under present method</u>	(2) Percentage paid <u>under proposed method</u>
Boston	.0416	.016
New York	.1284	.0857
Philadelphia	.0465	.019
Cleveland	.0566	.0403
Richmond	.0252	.0423
Atlanta	.0195	.0185
Chicago	.0693	.0566
St. Louis	.0235	.0401
Minneapolis	.0181	.0158
Kansas City	.0229	.0677
Dallas	.0197	.0391
San Francisco	.0287	.0589
Treasury Department	<u>.50</u>	<u>.50</u>
Total	100%	100%

Both of the above plans contemplate that the War Finance Corporation will reimburse the system for business chargeable to it figured at government rate.

To arrive at the percentages shown under plan (2), the total number of words of sent during the week April 12th by each bank exclusive/ those pertaining to War Finance Corporation, was used as a basis.

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REPORT BASED ON FIGURES RECEIVED FROM FEDERAL RESERVE
BANKS AND WASHINGTON SHOWING TOTAL NUMBER AND CLASSI-
FICATION OF WORDS SENT OVER LEASED WIRE SYSTEM FOR WEEK
ENDING APRIL 12, 1919.

Schedule B

	<u>Bank Business</u>	<u>Fiscal Agent</u>	<u>War Finance</u>	<u>Total</u>
Boston	6,680	828	676	8,184
New York	37,460	2,712	1,481	41,653
Philadelphia	7,570	1,354	877	9,801
Cleveland	16,176	2,701	1,511	20,388
Richmond	16,871	2,914	1,423	21,208
Atlanta	7,245	1,441	1,220	9,906
Chicago	23,189	3,315	1,026	27,530
St. Louis	15,934	2,882	1,631	20,447
Minneapolis	5,936	1,437	804	8,177
Kansas City	28,630	3,102	1,653	33,385
Dallas	16,994	1,365	1,157	19,516
San Francisco	22,052	5,528	1,426	29,006
Washington	<u>41,475</u>	<u>35,747</u>	<u>11,972</u>	<u>89,194</u>
Total	246,212	65,326	26,857	338,395

Bank business is .728 of total
Fiscal Agent business .193 " "
War Finance Business .079 " "

100%

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LEASED WIRE SYMBOLSSchedule C

PN	Begin parenthesis	DX	Dash
PY	End "	DN	Interrogation
QN	Begin quote	CX	Capital letter
QJ	End "	15	Small letter
QX	Begin quote within quote	E5	Not abbreviated
QY	End " " "	HX	Hyphen
UX	Underline, or all caps	NX	#
UJ	End of underline or caps	MM	Paragraph
KO	Colon	OSO)	
SI	Semicolon	or) %	
QX	Apostrophe	OUTO)	
KQ	Colon followed by quotation	Asterisks indicated by x's	
KX	Colon, dash	Comma dot dash dot dash	
		Period dot dot dash dash dot dot	