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COMPTROLLER OF THE CURRENCY

ADDRESS REPLY TO

FEDERAL RESERVE BOARD

FEDERAL RESERVE BOARD

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November 15, 1919.

X-1725

Subject: Reports of Conferences of Transit Managers and Auditors of
 Federal Reserve Banks, held in Cleveland, June 23-25, 1919.

Dear Sir:

The reports of the Conferences of Transit Managers and Auditors, held at Cleveland June 23-25, 1919, have been received by the Board and considered, together with recommendations of Federal Reserve Agents and Governors of Federal Reserve Banks approving or disapproving the action taken at the Conferences. The Board has approved the reports of the Conferences and the action therein recommended, and suggests that the recommendations be made effective November 25th, except with regard to the topics discussed below.

For convenience, the topics referred to below are numbered the same as in the Conference Reports.

Topic II "FLOAT"

A. Report of Committee.

(1) Clearing House Exchanges.

(a) Board's letter X-1121.

RECOMMENDATION: It is felt that the recommendation of the Committee at the offices of the Federal Reserve Board on August 7, 1918 as covered in Federal Reserve Board's letter X-1121, requiring that credit be given remitting Federal Reserve Banks on day of receipt by receiving Federal Reserve Banks for Clearing House items, whether or not received in time for the day's clearing, is a step backward in the scientific treatment of "float". Actual "float" cannot be eliminated

by bookkeeping processes, as the remedy must be found in the correction of time schedules. Where items are received after Clearing House hours, 1 day's "float" results, and the order that credit be given by the receiving bank on the premise that the items will be collected on the same day settlement is made through the Gold Fund with the remitting Federal Reserve Bank, merely transfers the "float" from the remitting Federal Reserve Bank to the receiving Federal Reserve Bank and has no effect on the system as a whole.

It would seem that the solution in this case would be the lengthening of the time schedules to the depositing member banks, thereby placing the "float" where it properly belongs and relieving the system to that extent.

The Committee, therefore, recommends that the provisions of Federal Reserve Board's letter X-1121, August 12th, be rescinded in so far as it applies to the subject hereof, and that the Federal Reserve Banks look to the correction of time schedules affecting them.

The Board is unable to concur with the recommendations of the "Float" Committee that it rescind that part of its letter X-1121 requiring that credit be given remitting Federal Reserve Banks on the day of receipt by receiving Federal Reserve Banks for Clearing House items, and requests that there be no change in the present plan of handling such items. It is the understanding of the Board that where Clearing House items are received from other Federal Reserve Banks after clearing hours, the amount of such items is debited to "Clearing House Exchange" and credited to "Gold Settlement Fund Suspense". This method of handling does not result in the receiving bank's carrying any "float" on account of such items, as clearing house exchanges are permitted as a deduction from total gross deposits, which include Gold Settlement Fund Suspense account. The Board realizes, of course, that if credit is given to member banks in their reserve accounts for items prior to their collection by the Federal Reserve System, "float" is created, and that the only way to eliminate such "float" is by lengthening the time schedules.

(3) Treasurer's Account.

RECOMMENDATION: The Treasurer's account as a rule has a balance consisting of collected funds more than ample to cover its own float, and it is felt that the gross balances in this account should be held at all times available to the Treasurer for checking purposes. However, in order to avoid the float showing resulting from such treatment, the committee recommends that the account be divided on statement Form 34 to show Treasurer's account collected funds and Treasurer's account uncollected funds; the uncollected funds' account to accurately represent items in transit.

The Board does not deem it desirable to request at the present time that any change be made in the method of handling the account of the United States Treasurer, but concurs with the recommendation of the Committee that information should be available to show, for purposes of analysis, the amount of "float" actually carried by a Federal Reserve Bank for the Treasurer; and accordingly, commencing with November 29, the Board requests that each Federal Reserve Bank show in a short column on form 34 the amount of uncollected items which have been credited to the Treasurer's General Account, and also report to the Board on the daily TEND telegrams the amount of collected funds and uncollected funds credited to the Treasurer's General Account, as follows:

Government A, collected fund balance;
Government B, uncollected fund balance.

(4) National Bank notes, Federal Reserve Bank notes, and Federal Reserve notes.

RECOMMENDATION: As National bank notes and Federal Reserve Bank notes in practice are available for the liquidation of an equivalent amount of member banks' deposits, it is recommended that they be not included in calculating "float".

Federal Reserve notes of other banks are in fact an item of "float" and may be thus shown, although your committee feels that it should be recommended to the Federal Reserve Board that, if Congress should amend the Act so that these notes may be paid out by any Federal Reserve Bank, then this item of "float" should be eliminated from calculations.

The Board realizes that National bank and Federal Reserve bank notes are available for liquidation of an equivalent amount of member banks' deposits, providing they are so-called "fit notes". The Board, however, permits their deduction from deposits on the ground that they are demand obligations of a bank, and as such must be treated as uncollected items so long as they are held at Federal Reserve Banks. Under the present law, therefore, the Board cannot consistently authorize Federal Reserve Banks to treat such notes as deductions from deposits without classing them as uncollected demand obligations of the issuing bank, and if they are uncollected demand obligations of a bank the Board holds that they must be classed as "float".

(6) Board's Table of Ratio of "Float" to Earning Assets and Deposits.

RECOMMENDATION: Your committee feels that the calculation of "float" to total earning assets is conducive to misunderstanding, as the same amount of "float" in dollars would show a different percentage from day to day as the earning assets might go up and down, and would recommend that this column be eliminated from the Board's table.

In this connection, the committee is of the opinion that the last column of the Board's table, ratio of "float" to immediately available Government and bank deposits, is the proper basis for determining the percentage of "float", and also that a recommendation be made to the Federal Reserve Board that such weekly report be based upon the average daily totals for the period.

The column referred to in the discussion of this topic was eliminated from the Board's "float" statement in December 1918.

The Board approves the recommendation that its weekly "float" statement be based upon the average daily totals for the period, and accordingly the new form of report will be effective December 6, 1919.

Topic III TIME SCHEDULES.

A. Report of Committee.

A proposed interdistrict time schedule has been submitted by the Board to all Federal Reserve Banks (Board's letter X-1658).

Topic IV PAR LIST.

F. It is recommended that the Board arrange to omit the phrase, "subject to change without notice", from the published par list and supplement.

In accordance with the recommendation under this topic, commencing with the October first supplement to the Par List, the notation on the front cover of the Federal Reserve Board Par List and monthly supplements, "Subject to change without notice", will be omitted.

K. It is recommended that the par list issued by the Federal Reserve Board contain as a supplement a list of state bank members of the Federal Reserve Districts, listed by states and districts, and that the supplement to the par list contain the changes between the dates of the issuance of the complete par lists.

The Board adopted this suggestion, effective with the July first Par List.

Topic V. CASH LETTERS.

E. Uniform method of deferring country cash letters when a Sunday or holiday intervenes.

It is recommended that the deferred time be by actual business days.

The Board considers that if an item is actually in transit on a Sunday or a holiday, this day should be counted in calculating the deferred time; if, however, the item is due to arrive on a Sunday or holiday at its destination or an intermediate point, the Sunday or holiday cannot be counted as a business day, and one more business day should be added in calculating the deferred time.

Topic VI COLLECTION ITEMS.

G. Direct routing by member banks of one district to other Federal Reserve Banks of collection items.

It is the sentiment of this conference that, if possible, collection facilities should be extended to member banks to enable them to direct-route collection items to Federal Reserve Banks and Branches of other districts.

The Federal Reserve Board has ruled that, under Section 13 of the Federal Reserve Act, a Federal Reserve Bank is authorized to collect maturing

notes, bills or drafts payable within its own district when received from its own member banks or from another Federal Reserve Bank, but is not authorized to handle such items when received direct from a member bank located in another Federal Reserve District. The ruling of the Board above referred to is published on page 467 of the Federal Reserve Bulletin for May 1, 1919.

K. Advisability of sending non-cash collection items to member and non-member banks in other districts for remittance when paid to the sending Federal Reserve Bank or the Federal Reserve bank in the district in which the collecting bank is located.

It is recommended that any Federal Reserve Bank having collection items payable in any other Federal Reserve District, send those items to the Federal Reserve bank or Branch in the district where the item is payable.

The Board feels that action on this topic should be deferred, and that there be no change in the present method of handling by Federal Reserve banks of collection items payable in other Federal Reserve Districts.

VII WIRE TRANSFERS.

The Board's letter of July 3, 1919 (X-1507), advises a uniform method of handling wire transfers of funds between Federal Reserve Banks adopted by the Board, effective July 15.

XI. EXCHANGE DRAFTS AND TRANSFER DRAFTS .

It is recommended that the limit on exchange drafts be removed, and that transfer drafts be abolished.

The Federal Reserve Board disapproves the motion that the limit on exchange drafts be removed and that transfer drafts be abolished, and requests that the procedure of handling exchange and transfer drafts as outlined in the Board's letter of April 12, 1917 (X-92) be adhered to.

AUDITORS' CONFERENCE

Topic II FEDERAL RESERVE BANK ACCOUNTS .

B. Uniform method of adjusting erroneous deductions and credits.

1. When shall errors in deferred cash letters be deducted?

It is recommended that the adjustment be made on the date of discovery.

The Board concurs with this recommendation, providing the date of discovery is the date of availability or a date subsequent thereto.

Topic V FORMS

A. Revision of forms X-794 and X-794-a.

The Board has prepared and forwarded a supply of revised forms X-794 and X794-a, and if necessary these forms will be again revised January 1, 1920.

Very truly yours,

Assistant Secretary.

Letter to all Chairmen of F.R. Banks.