

EX OFFICIO MEMBERS

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SECRETARY OF THE TREASURY
CHAIRMAN
JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

FEDERAL RESERVE BOARD

WASHINGTON

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W. M. IMLAY, FISCAL AGENT

January 21, 1920.

X-1807

Subject: Comments by Federal Reserve Board with respect to recommendations made by governors of Federal Reserve Banks at conference with Federal Reserve Board, November 19-21, 1919.

Dear Sir:-

The Federal Reserve Board concurs in the recommendations made by the Governors of the Federal Reserve Banks at a conference of Governors held at Washington, November 19-21, 1919, as set forth in the attached memorandum, with the exception of the topics and recommendations discussed below. For the purpose of easy reference topics bear the same number as those in the attached memorandum.

Topic 4. SHOULD THE FEDERAL RESERVE BANKS CONTINUE TO ABSORB THE ABRASION LOSS ON GOLD COIN?

Voted, that the policy of absorbing abrasion of gold coin should be continued, with special reference to Governor Calkins' report on the attitude of the Sub-treasury in San Francisco, and that the Federal Reserve Board be asked to secure the cooperation of the Treasury Department in seeing that \$5 and \$10 gold pieces are not paid out by the Sub-treasuries.

The Treasury Department has been cooperating with the Board for sometime past with regard to the payment of gold, and the policy of the Treasury Department, including Assistant Treasurers located outside of Washington, has been to discourage the use of gold coins as a circulating medium, but in no case would gold be refused if demanded in redemption for currency or coupons payable in gold. The Treasury has agreed to supplement previous instructions to the Assistant Treasurers with request that \$5 and \$10 gold pieces be not paid out, but that such gold payments be made in \$20 gold pieces.

Topic 5. TRANSIT OPERATIONS:

(e) Transit Expense: In view of the fact that no uniform method has been adopted of determining transit expense, should not this segregation be abolished?

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VOTED, that in view of the fact that no uniform method has been adopted of determining transit expense, that the segregation be abolished.

The Board has recently had under consideration the question of the desirability of the segregation of transit expense, and the Board's statistical division has been making an analysis of the reports received from the Federal Reserve Banks, and has found that this segregation of expense is not being handled uniformly at the Federal Reserve Banks. The Board feels, however, that Federal Reserve Banks and branches should subdivide their expense figures to show separately the cost of operating the transit department, particularly where that department constitutes the major activity of a branch bank. It feels that such information would be valuable if calculated uniformly.

It is, therefore, requested that you forward to the Board a statement showing in detail the method followed by your Bank in arriving at transit expense for your head office and branches, if any, as reported on form 96. It is the intention of the Board, after analyzing these reports, to prepare instructions to be furnished to all Federal Reserve Banks to be followed in determining transit department expense, so that this segregation may be made uniform at all Federal Reserve Banks and branches.

Topic 10 ADMINISTRATION PROBLEMS:

(f) Pension plans:

- (1) Group insurance.
- (2) Disability and retirement allowances.

VOTED, that, subject to the approval of the Federal Reserve Board, the Pension Committee be authorized to carry out its recommendations. (The complete recommendation of the Pension Committee will be found in the attached memorandum.)

The Board approves the suggested action of the Pension Committee, except that before any commitment is made as to the employment of a committee of expert actuaries and pension specialists, the cost of the services of such experts shall be submitted to the Board for approval.

Special Topic. QUESTIONNAIRE FOR USE IN OBTAINING INFORMATION REGARDING INCOME AND EXPENDITURES OF EMPLOYEES OF FEDERAL RESERVE BANKS:

After consideration of the recommendations of the Governors (see attached memorandum) regarding the questionnaire for use in obtaining information regarding income and expenditures of employees in Federal Reserve Banks, the Board has decided to use the form of questionnaire furnished to Federal Reserve Banks in December, with a supplementary notice that the date should be changed throughout the form from December 31 to June 30, and that when the form has been filled out by an employee it should be returned to the Governor of the Bank rather than to the Federal Reserve Agent. A statement regarding the work undertaken by the Board's Division of Analysis and Research in compiling data for use in adjusting the salaries of employees of Federal Reserve Banks, together with a revised copy of the questionnaire to be answered by employees of Federal Reserve Banks is published in the January Bulletin.

Topic 12 U.S. TREASURER'S ACCOUNT:

(a) Can more prompt and dependable verifications and reconcilements be obtained?

VOTED, that a committee of three be appointed (1 from New York, 1 from Chicago, 1 from Cleveland) to make a study of this matter, come to Washington and meet proper officials of the Treasury to see if an improvement cannot be made in the present system.

VOTED, also, that the Federal Reserve Board be requested to send a letter to the Governor of each Federal Reserve Bank, asking that all questions of practice in the handling of the accounts of the Treasurer of the United States, which are causing difficulty, shall be submitted to the committee of accountants or auditors now appointed from the Chicago, Cleveland and New York Federal Reserve Banks, these questions to be addressed to the Federal Reserve Bank of New York.

The Board approves the above recommendations of the Governors and requests that each Federal Reserve Bank forward, as soon as possible, to the Federal Reserve Bank of New York a report covering the questions of practice in the handling of the accounts of the Treasurer of the United States which are causing difficulty, to be used by the committee consisting of the auditors or accountants from the Federal Reserve Banks of Chicago, Cleveland and New York, in determining ways and means of improving the methods and practices of handling the accounts of the Treasurer of the United States.

VOTED, that, with the consent of the Federal Reserve Board, a permanent secretary be selected, to be paid by the twelve banks, to act as secretary during conferences and follow such matters as need attention, including the digest of the stenographic report of each conference.

The Board does not believe it necessary to appoint a permanent secretary of the Governors' conference at this time. Mr. W.W. Hoxton, who has recently been appointed to the Board's staff as Executive Secretary, will attend the conferences of Governors and is available to follow such matters and recommendations of the conferences as may need attention.

Very truly yours,

Enc.

Governor.

Letter to Governors of all F.R. Banks.

January 21, 1920.

Subject: Topics discussed and recommendations made by
Governors in conference with Federal Reserve Board,
in Washington, November 19-21, 1919.

There is given below the recommendations of the Governors of the Federal Reserve Banks on the topics discussed at the conference of Governors held in Washington, November 19-21, 1919. For convenience of reference the number of the page of the stenographic report on which the recommendation is given is shown.

Topic 1 RESERVES:

(a) The Federal Reserve Board is authorized to reclassify existing reserve and central reserve cities.

Should this power be exercised, and if so, how?

Should Congress be asked to amend Section 19 so as to require uniform reserves throughout the country, differentials to be based on the various classes of deposit?

VOTED, that it is the sentiment of the Governors of the Federal Reserve Banks that questions relating to changes in requirements of reserves of member banks be held in abeyance for the present. (Page 333)

(b) Is there a demand for the payment of interest on reserve deposits, and should such a policy be considered?

VOTED, that no consideration be given to the question of paying interest on reserve deposits. (Pages 92-93)

Topic 2. SHOULD FEDERAL RESERVE BANKS EXERT ANY INFLUENCE UPON THE POLICY OF MEMBER BANKS IN THE AMOUNT OF INTEREST ALLOWED ON DEPOSITS?

VOTED, that, while in the judgment of the conference this is the proper function of the Comptroller of the Currency and the State Banking Commissioners, it is the belief that Federal Reserve Banks should exercise such remedial influences as in their judgment occasion warrants. (Pages 99-100)

Topic 3. SHOULD EFFORTS BE MADE TO INDUCE MEMBER BANKS TO CONTINUE THE PROCESS OF SORTING AND DEPOSITING GOLD CERTIFICATES IN FEDERAL RESERVE BANKS?

VOTED, that it is the sense of the conference that the present practice be continued. (Page 104)

Topic 4. SHOULD THE FEDERAL RESERVE BANKS CONTINUE TO ABSORB THE ABRASION LOSS ON GOLD COIN?

VOTED, that the policy of asorbing abrasion of gold coin should be continued, with special reference to Governor Calkins' report on the attitude of the Sub-treasurer in San Francisco, and that the Federal Reserve Board be asked to secure the cooperation of the Treasury Department in seeing that \$5 and \$10 gold pieces are not paid out by the Sub-treasuries. (Page 106).

Topic 5. TRANSIT OPERATIONS:

(a) Method of treatment of transit problems through meetings of transit managers.

The conference suggested that it was not desirable that Transit Managers be given the privilege of making recommendations to the Federal Reserve Board, except through the Executive Officers of the Federal Reserve Banks.

(b) In the interest of more prompt presentation and payment of checks, should not nearby banks in given sections clear on each other directly, instead of through Federal Reserve Banks? Should the Federal Reserve Banks promote the establishment of such local clearing houses?

VOTED, that in those districts where they have congested areas, and where the collection of checks can be facilitated by exchange amongst the different banks, the situation be studied by the Governors with a view to facilitating the collection of those particular items, thereby reducing the float. (Pages 481-482)

(c) Collection of drafts, bills of exchange, etc. Should the collection facilities of the Federal Reserve Banks be extended to include collection of commercial paper maturing in Federal Reserve cities and branch cities, and credit given on date of maturity subject to final payment?

VOTED, that no action be taken on this topic. (Page 491)

(e) Transit Expense: In view of the fact that no uniform method has been adopted of determining transit expense, should not this segregation be abolished?

VOTED, that in view of the fact that no uniform method has been adopted of determining transit expense, the segregation be abolished. (Pages 491-492)

(h) Discussion by Federal Reserve Bank of New York of desirability of curtailment or elimination of practice of direct routing of items by member banks to Federal Reserve Banks in other districts.

VOTED, that action on this topic be deferred until the next conference. (Pages 508-509)

VOTED, also, that the privilege of direct sending from any Federal Reserve member to another Federal Reserve District be restricted to those cases who already have the privilege, and that they shall receive the approval of the Federal Reserve Bank to which direct sending is to be sent. (Pages 508-509)

Topic 6. RELATIONS WITH STATE BANKS :

(b) Fraudulent advertisement or claim of membership in Federal Reserve System. What means exist for preventing?

VOTED, that it is the sense of the meeting that each bank should adopt such methods as are thought proper to suppress such practices. (Page 122)

Topic 7. DISCOUNT RATES:

(c) Calculation of interest at 365 days per year: Present practice is to compute interest on notes rediscounted on basis of 365 days and on bills purchased in the open market at 360 days per year. Should basis of calculation be uniform?

VOTED, that no change be made in the method of computing discount. (Page 124)

Topic 8. CREDIT SITUATION:

(c) Discussion of the complicated situation presented by the amendment to Section 5200 U.S.R.S.

VOTED, that it is recommended that state banks, which are members of the Federal Reserve System, and national banks, which are members of the Federal Reserve System, be put upon the same basis as to limitation of liabilities, under both the Reserve Act and the Revised Statutes, and that Federal Reserve Banks be put in a position where the limitation as to endorsement of bills sold shall apply the same, both when the bills are payable abroad and when they are payable in the domestic market. (Pages 127-128)

Topic 10. ADMINISTRATION PROBLEMS:

VOTED, that a conference of representatives of the Federal Reserve Banks be called for the purpose of studying these matters and submitting a report. (Pages 426-427)

(f) Pension plans:

- (1) Group insurance.
- (2) Disability and retirement allowances.

VOTED, that, subject to the approval of the Federal Reserve Board, the Pension Committee be authorized to carry out its recommendations. (Pages 382-402).

The recommendation of the Pension Committee is as follows:

"Your committee, therefore, rather than suggest a plan

that if adopted might prove unsound, recommends that steps be taken to secure the services of a committee of expert actuaries and pension specialists, to advise with a committee to be appointed representing the Federal Reserve Board and the Federal Reserve Banks, and that such committees together shall work out the cost and an equitable distribution of cost between the Federal Reserve Banks, and their officers and employes, and such other persons, if any, that it may be decided should be permitted to participate in contributions or benefits, of a pension and benefit fund that will be self-supporting in perpetuity and embody in relative degree all of the benefits of the Canadian Bank plans, which are hereby recommended and provide maximum annuities of \$6,000. That such joint committees be requested also to formulate and furnish complete plan of organization and operation of such fund with due regard for the laws of several states, (taking such legal advice as may be necessary) that will provide for representation of employees and pensioners in the administration of the fund and establish valid contracts between the fund and the contributors and beneficiaries.

"That such plan shall include provision for participation by employees of the Federal Reserve Board, if legally possible, and the Federal Reserve Agents and their staff, and employees in the fiscal departments of Federal Reserve Banks.

"That the expenses of the committees including reasonable compensation for expert advisors and council be prorated among and paid by the Federal Reserve Banks.

"It is also recommended that the plans of the Bank of Montreal and the Canadian Bank of Commerce receive careful consideration, as in the opinion of this committee, they combined most excellent features which should be adopted by Federal Reserve Banks."

The QUESTIONNAIRE was discussed and the following recommendations were adopted:

1. That the questionnaires now distributed be withdrawn;
2. That a new set of questionnaires be distributed to the clerks in the 12 Reserve Banks after salary adjustments are completed at the end of this year;
3. That the instructions to the clerks shall provide that the questionnaire be delivered in sealed envelopes to the Governor of the Bank or to such officer as he shall designate;
4. That the information contained in the questionnaires be first made available to the officers of the Reserve Bank and that they shall then be delivered to the Federal Reserve Board for such analyses and tabulation and so forth as will be prepared by each Reserve Bank;
5. That the questionnaire cover the period of the year ending December 31st next;
6. That the questionnaire be reprinted to conform to the above regulations;
7. That the form of letter of instructions addressed to the employees which accompanies the questionnaires shall be uniform at all twelve reserve banks. (Pages 182-183)

• Topic 11. BRANCH BANKS :

(a) Published Comparisons of Branch Operations and Expenses: Inasmuch as statistics afford no opportunity for comparison unless the functions and operations are comparable should they not be subjected to analysis or be discontinued?

(b) Advisability of conference of branch bank managers to study problems of branch bank operations.

VOTED, that, before the next Governors' Conference, the manager of each of the branches be asked to submit a list of inter-district questions affecting the operation of the branches and matters of uniformity of operation, to the Governors of their respective Federal Reserve Banks, together with recommendations on these subjects, to be considered by the Governors at their next regular conference, and that these recommendations be sent to Governor Fancher to prepare a program upon those matters submitted. (Pages 191-192)

Topic 12 U.S. TREASURER'S ACCOUNT:

(a) Can more prompt and dependable verifications and reconcilements be obtained?

VOTED, that a committee of three be appointed (1 from New York, 1 from Chicago, 1 from Cleveland) to make a study of this matter, come to Washington and meet proper officials in the Treasury to see if an improvement cannot be made in the present system.

VOTED, also, that the Federal Reserve Board be requested to send a letter to the Governor of each Federal Reserve Bank, asking that all questions of practice in the handling of the accounts of the Treasurer of the United States, which are causing difficulty, shall be submitted to the committee of accountants or auditors now appointed from the Chicago, Cleveland and New York Federal Reserve Banks, these questions to be addressed to the Federal Reserve Bank of New York. (Page 196)

Topic 14. ABSORPTION OF EXPENSE BY FEDERAL RESERVE BANKS:

(b) In view of large earnings of Federal Reserve Banks, would it not be well to furnish postage and pay all express and postage charges for member banks, covering their transactions with Federal Reserve Banks?

VOTED, that no action be taken on this topic. (Page 211)

Topic 16. CONTROL OF FOREIGN EXCHANGE TRANSACTIONS TO PREVENT DISHONEST BANKING PRACTICES.

VOTED, that this topic be referred back to the Treasury without action. (Pages 361-362)

Topic 18. FEDERAL RESERVE TELEGRAPHIC CODE.

VOTED, that the sub-committee of the leased wire committee be authorized to proceed at once with the preparation of a code for use between the Federal Reserve Banks; and, as soon as possible, another code for use

between the member banks and Federal Reserve Banks. (Pages 372-373)

Topic 19. STANDARD FORMS FOR ALL FEDERAL RESERVE BANKS.

VOTED, that a committee of three be appointed (1 from New York, 1 from Cleveland, 1 from Chicago), charged with the duty of perfecting a standardization of the forms which are used between the twelve Federal Reserve Banks. (Pages 374-375)

VOTED, that a resolution be sent to the Fuel Administrator requesting that cotton seed oil plants be placed on preferential list to receive coal. (Pages 351-352)

VOTED, that Mr. Kenzel shall be made responsible for starting the procedure required as the result of the meeting. (Page 379)

VOTED, that, with the consent of the Federal Reserve Board, a permanent secretary be selected, to be paid by the twelve banks, to act as secretary during conferences and follow such matters as need attention, including the digest of the stenographic report of each conference. (Page 381)