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ADDRESS REPLY TO  
 FEDERAL RESERVE BOARD

## FEDERAL RESERVE BOARD

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February 17, 1920.

X-1835

Subject: Gold Settlement Fund Daily Clearing.

Dear Sir:-

With reference to the Board's letter X-1766 of December 20th, subject, "Method of Determining Required Reserves", and the Board's wire of December 31st, advising that the date of making this plan effective would be March 1, the Board has decided that effective March 1, the method of settlement between Federal Reserve Banks through the Gold Settlement Fund will be changed so that Federal Reserve Banks may settle inter-Reserve Bank business as of the same date that items are collected rather than the day following as is now the plan. The plan of operation is given below.

Commencing with the afternoon of March 1, each Federal Reserve Bank and direct settling branch should arrange to wire to the Board as early as possible in the afternoon, and in no event later than 7:30 P.M., Washington time, its daily Gold Settlement Fund clearing telegram (code LABEG), giving credits to other Federal Reserve Banks covering that day's business, which now are credited to Gold Settlement Fund Suspense on Form 34 and telegraphed to the Board the next morning. It will be necessary to have a telegraph operator on duty at each Federal Reserve Bank and direct settling branch until these telegrams have been dispatched, received by the Board, verified, and release instructions given from Washington.

Upon receipt of the daily clearing telegrams the Board will effect the settlement and the return clearing telegrams (code BEPEG) will be prepared ready for dispatch to the Reserve Banks upon the opening of the telegraph wires the following morning.

Federal Reserve Banks should complete all their transactions and entries in the customary manner now in effect, with the following exceptions:

First, Federal Reserve Banks will no longer carry an account "Gold Settlement Fund Suspense". Entries in connection with the daily Gold Settlement Fund clearing affecting the Gold Settlement Fund, Uncollected Items and Deferred Availability Items accounts should be made immediately upon receipt of the Board's clearing wires (code BEPEG) the following morning, and the Federal Reserve Banks' books closed for the day.

Second, the paragraph of the Board's letter of August 12, 1918, X-1121, reading as follows:

"In order to bring about a daily settlement for clearing house items, it is recommended that all Federal Reserve Banks give immediate credit for clearing house items the day received from other Federal Reserve Banks, without regard to the time of day received, inasmuch as the balance so created is reported to the Gold Settlement Fund at the close of business but is really settled the following day when the checks have been collected,"

is rescinded, and commencing March 1, Federal Reserve Banks will give deferred credit for one day on all clearing house items received from other Federal Reserve Banks after clearing hours.

Where a Federal Reserve Bank has direct settling branches, entries, of course, will have to be made in connection with the branch office accounts.

The Federal Reserve Banks will be expected to anticipate in so far as possible their net debit balances or net credit balances in the settlement, and wherever necessary request the Board to arrange rediscounts with other Federal Reserve Banks in the afternoon as at present, in order to maintain their reserve position at about 40% after final closing of the books for the day. Whenever a Federal Reserve Bank receives a heavy debit in the settlement (advice of which will not be received under the new plan until the following morning) which was not anticipated and which will reduce its reserve below the required minimum, notice of this should be promptly communicated to the Board with the request that rediscounts be arranged in sufficient amount to bring the reserve to the required minimum. Entries of course, in connection with this transaction will be made on the books of both the rediscounting and lending Federal Reserve Banks before the final closing of books as of the previous day.

Daily TEND wires regarding condition, also Friday night Form 34 telegrams should be prepared and dispatched to the Board in the manner at present prevailing; that is, before receipt of the Board's daily code BEPEG Gold Settlement Fund clearing telegrams. Upon receipt of the daily condition telegrams (code TEND) and Form 34 wires on Saturday mornings, the Board's Statistical Division will make the following adjusting entries in connection with the results of the Gold Settlement Fund clearing:

Debit.....Deferred Availability Items  
Credit.....Gold Settlement Fund

Total of amounts each Federal Reserve Bank credits to other Federal Reserve Banks through the Clearing; also

Debit.....Gold Settlement Fund  
Credit.....Uncollected Items

Total of amounts credited to each Federal Reserve Bank by other Federal Reserve Banks through the Clearing.

Saturday mornings after receipt of the Board's Gold Settlement Fund clearing telegrams (code BEPEG), and after closing its books each Federal Reserve Bank is requested to wire the Board the balances in the accounts affected by entries resulting from the Gold Settlement Fund clearing using the code words as shown against the captions of such accounts on Form 34. The following introductory code word is recommended for use in order to designate these telegrams:

Code Word

SETL..... In order to conform to the balances as shown on our books after entries were made in connection with the results of the Gold Fund clearing and our books finally closed for the day, please change amounts reported against respective code words on our Form 34, Friday night telegram of \_\_\_ (date) \_\_\_ to read as follows: BABE\_\_\_ (\$25,496,672), \_\_\_-etc.

Ever since the inauguration of the daily settlement between the Federal Reserve Banks there has been from time to time, more or less agitation for a daily settlement between Reserve Banks through the Gold Settlement Fund as of the same day rather than on the following day as is now the practice. The principal difficulty in putting this plan into effect has been the difference in time between the East and San Francisco. It is believed that this difficulty will be overcome with the adoption of the above plan, and inter-Federal Reserve Bank accounting simplified and inter-Federal Reserve Bank "float" eliminated.

Very truly yours,

Governor.

To Governors and Chairman of all F.R. Bank.