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ADDRESS REPLY TO
FEDERAL RESERVE BOARD

FEDERAL RESERVE BOARD
WASHINGTON

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June 7, 1920.

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SUBJECT: Comments by the Federal Reserve Board on recommendations made by Governors of Federal Reserve Banks at their conference with the Federal Reserve Board, April 7th-10th, 1920.

Dear Sir:

The Federal Reserve Board has examined the record of votes taken by the Governors of the Federal Reserve Banks on the several topics submitted for consideration at the conference held in Washington, April 7th-10th, 1920. With a few exceptions the Board concurs in the recommendations made. The cases where the Board is not prepared to accept the recommendations, or which would seem to call for special comment, are discussed below:

TOPIC III.

Sub-section (2), (c), Should the Banks not publish a non-par list instead of a par list?

Inasmuch as some of the Districts have not progressed as rapidly as others in securing par points, it was the opinion of the conference that the publication of a par list should be continued for the present. Nevertheless, because of the banks of doubtful standing, it was recommended that a non-par list should also be published of banks in those States wherein practically all banks are on a par basis.

The completion of the par clearing program in the 6th Federal Reserve District has been delayed because of the appeal which has been taken from the decision of the United States District Court. Reference is made to the Board's letter to the Chairman of the House Committee on Banking and Currency, requesting that the Committee, after hearing, report an amendment to Section 13 of the Federal Reserve Act which would either

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(1) authorize all banks, both members and non-members, to charge exchange at the rate of 10¢ per \$100 in remitting for checks drawn upon them, or

(2) require, in terms admitting of no dispute as to their meaning, all banks to remit to Federal Reserve Banks at par, letting the amendment be self-executing by imposing such conditions or penalties as would insure compliance with it. The Board has decided, for the time being, not to undertake to publish a non-par list on its own account, but has no objection to the publication of such a list by any Federal Reserve Bank which desires to do so.

TOPIC III.

Sub-section (3), Board's Inter-district Time Schedule.

(a) Should it be published in the Bulletin?

It was recommended that the Federal Reserve Board's Inter-district Schedule should not be published in the Bulletin.

(b) Correction of errors.

Recommended that inter-district time schedule should be promptly examined by each Federal Reserve Bank and if discrepancies occur they should be corrected at once and the corrections noted in the next schedule.

The Board does not concur in this recommendation, and the Board's inter-district time schedule will be published in the July issue of the Federal Reserve Bulletin.

For four years or more the Transit Managers of the Federal Reserve Banks have endeavored to agree among themselves as to a harmonious inter-district time schedule. Finally, last summer, the Transit Managers in conference admitted their inability to agree upon such a time schedule and requested the Federal Reserve Board to undertake the task. The present schedule was prepared at the office of the Federal Reserve Board, largely from data furnished by the Federal Reserve Banks, and, after exhaustive correspondence, a few remaining discrepancies were removed by careful

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analysis of railroad time tables, and finally on February 24, 1920, copies of the finished schedule were sent to the Federal Reserve Banks for examination and correction. During the intervening period of three months all corrections offered by the Federal Reserve Banks have been noted upon the schedule and that schedule, as it will appear in the July Bulletin, is believed to be as nearly accurate as possible. The schedule will be republished whenever the transit time between two points shall be changed upon the mutual request of the two Federal Reserve Banks concerned.

TOPIC III.

Sub-section (5), Routing of checks through intermediary banking centers instead of sending direct to drawee bank.

(a) Could not the wires be used to expedite such clearings?

It was voted that it is the recommendation of the Governors that any circuitous routing of checks, which delays presentation should be discontinued within a reasonable time. Chicago voting no.

The Board believes that in certain cases the routing of checks through intermediary banking centers might be of distinct advantage to the System in that it would leave undisturbed the relations between the banks in local centers and their country correspondents. The Board feels that the Federal Reserve Banks should avoid any action tending to force a country bank to remove its account from its own correspondent to the city of a Federal Reserve Bank. It is evident that loss of time in routing checks through intermediary banking centers is generally immaterial, and especially is this true if the wires are used in effecting or reporting settlement. The Board holds that the practice as contemplated in this topic should not be "discontinued within a reasonable time", but that all Federal Reserve Banks might well give thought to the matter of establishing some system by which checks upon country banks may be sent, upon request, by the

Federal Reserve Bank to the country bank's near-by correspondent.

TOPIC V. BANKERS' ACCEPTANCES.

Sub-section (1), Are bankers' acceptances being created for purposes not contemplated by the Act and are accepting banks abusing the privilege?

Moved and carried that it is the sense of the conference that abuses and misuse of the bankers' acceptance credit may be abated most efficiently and without limiting the proper further development of this system of financing by a revision of regulations, Series 1917, and that the Board be requested to consider such revision at an early date, appointing a committee of individuals from the Federal Reserve Banks to consult and assist if the Board desires such assistance; that it is important to induce the most specific identification possible of the underlying transaction on the bill.

The Board is now at work upon an analysis of the whole subject of bankers' acceptances with a view of revising and amending the Regulations, Series of 1917.

SUPPLEMENTARY LIST: TOPIC 1. Inter-Federal Reserve Bank Pension Fund. Report to the Board from Mr. Kenzel.

Moved and carried that this conference petition the Federal Reserve Board to give prompt consideration to this matter and recommends that the expenditure be approved and divided equally among the Federal Reserve Banks.

The Board has approved the report of Mr. Kenzel, dated February 9, 1920, except as to Section III, and will authorize an expenditure of \$20,000 to be pro-rated among the Federal Reserve Banks for the compensation and expenses of the proposed committee. The Board is not prepared, however, to approve the fee of \$10,000, suggested for special counsel for the committee.

TOPIC 4. Cashing Government warrants and checks drawn on the Treasurer of the United States for disbursing officers.

Moved and carried that, if or when Federal Reserve Banks and Branches are required to cash Government checks and warrants, the procedure of the Banks should be that of commercial banks dealing with their own customers, and they should be governed in their actions by sound business principles and methods, or that they conduct the whole business for account and risk of the Government, as its agents and without recourse to the Federal Reserve Banks except for negligence; and that the Federal Reserve Board be requested to take the matter up with the Treasury Department to that end.

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Treasury officials take the view that where Federal Reserve Banks cash Government checks or warrants they do so upon their own responsibility and not as fiscal agents of the Treasury. The Treasury Department has, however, limited the cashing of Government checks and warrants by Federal Reserve Banks to disbursing officers of the Government under Pa. 29 of Department Circular No. 176, dated December 31, 1919, and in accordance with these regulations, Federal Reserve Banks and Branches will not be expected to cash Government checks and warrants presented direct to the Bank by the general public. Disbursing officers, of course, must be satisfactorily identified before their checks are cashed, and the Treasurer will, upon special request, advise Federal Reserve Banks and their Branches by wire the balance to the credit of such officers. Federal Reserve Banks, of course, should take such precautions as are generally taken by the commercial banks in cashing Government checks and warrants.

TOPIC 11. Charges for wire transfers for the account of individuals, etc.

Moved and carried by vote of six to five. It is recommended that the facilities for making telegraphic transfer at par be not open to banks that are known to charge for this service, for it very much weakens the position of the Federal Reserve Banks in enforcing a par collection system inasmuch as a bank would have just as much right to make a charge for remitting its own draft in payment for its checks as it would have in making an exchange charge on a transfer which has cost it nothing.

The Board desires to note its concurrence in the action of the conference upon the above topic.

TOPIC 14. Modification of Board's ruling giving preference in routing checks to member banks over non-members.

Discussion developed that while some of the banks are adhering to the rule set forth by the regulation referred to, others are using their own discretion in this matter.

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The Board is willing to modify its former ruling as expressed in Regulation J, sub-section (5), Series of 1917, to the effect that the Federal Reserve Banks give preference to member banks as collection agents for handling checks on non-member banks which have not become clearing members. When the non-member bank has voluntarily agreed to remit at par, it should, if it so desires, receive from the Federal Reserve Bank checks drawn upon itself. This opinion of the Board does not lessen the obligation of the Federal Reserve Bank to consider the matter of prudence and safety, nor is it expected that Federal Reserve Banks will so route their items in cases where valid reasons exist for not sending a non-member bank its own items.

Very truly yours,

G o v e r n o r .

Enclosure: (Mimeo. X-1906)

LETTER TO GOVERNORS OF ALL FEDERAL RESERVE BANKS.