

April 17, 1920.

X-1906

Subject: Topics discussed and recommendations made by
Governors of Federal Reserve Banks in conference
in Washington, April 7-10, 1920.

The following are the recommendations of the Governors of the Federal Reserve Banks on the topics discussed at the conference of Governors held in Washington April 7-10, 1920. For convenience of reference, the number of the page of the stenographic report on which the recommendation is given is shown.

TOPIC I. CREDIT CONTROL.

- (1) Effect of recent rate increases upon liquidation.

The Governors differed chiefly as to the degree in which liquidation has been brought about by increases in discount rates. Several Governors reported no liquidation directly traceable to that cause. All agreed that the increase of rates coupled with the moral suasion employed by all Federal Reserve Banks had acted as a restraint upon expansion, which undoubtedly would have been great but for this restraint. General opinion was that the increases of rates had not yet had time to become fully effective. (page 387)

- (2) In view of pending amendments to the Federal Reserve Act authorizing progressive rates for large borrowings what should be the basis of the normal line?

In the opinion of the Governors, the basis of determination of the so-called normal line of discount should be the amount of the reserve deposits plus the capital investment in the Federal Reserve Bank by each member bank, that being the contribution of each member bank to the loaning power of the System. (page 389)

- (3) Should basis of normal line be uniform in all districts, and at all seasons of the year?

It was the opinion that the so-called normal line should be determined by each Reserve Bank. While it was agreed that this basis should be the same in all districts it was unanimously agreed that the rate if and when applied should be left entirely to each Reserve Bank, both with respect to the manner of application and seasons in which it should be applied. (page 389)

(4) What scales should be used in applying the progressive rate?

No recommendation. It was the consensus of opinion that the amendment to the Act should be studied by all the Reserve Banks before attempting to apply this method of credit control or to fix a scale for the progressive rate. (page 389)

(5) What steps should be taken to control the absorption in the System of an excessive amount of paper made by borrowers who do a nationwide business?

Voted that this is a matter for each bank to deal with, but that each bank should feel free to apply to the Federal Reserve Board for data concerning any paper of borrowers doing a nationwide business, which may be found in the portfolio of the other Federal Reserve Banks. (page 287)

(6) Is it practicable to discriminate effectively against non-essential business in favor of essential business?

Voted no. (page 290)

(7) What methods does your bank employ to inform and satisfy itself of the uses made by member banks of credit facilities obtained from their Federal Reserve Bank - more particularly the uses made for speculative purposes as contrasted with those for productive purposes?

Each Governor stated the methods used by his bank in the presence of the Federal Reserve Board. (pages 191-226)

(7-a) What steps have you taken to inform yourselves as to abuse of credit in hoarding commodities? (A written statement in response to this question is desired.)

Written statements received from all banks except Kansas City. (page 291)

II. ADVISABILITY OF INVOLVING SYSTEM IN LESS PUBLICITY WITH A VIEW TO REACHING MORE READILY A PEACE TIME AND NORMAL BASIS.

(1) Suggestions as to what activities produce undesirable publicity and should therefore be modified or eliminated.

While it was deplored that there should be loose and irresponsible newspaper comment upon rate policy, the Governors are not aware of any activities which produce undesirable publicity. (page 292)

III. CLEARING AND COLLECTION SYSTEM.

(1) In view of the fact that no system involving deferred availability is strictly a par system, should not in all discussions and publications the term "Par Collection System" be changed to "Federal Reserve Clearing and Collection System" or to some name more exactly descriptive than the one now in use?

Action taken by vote of seven to five that there should be no change in name "Par Collection System". (page 311)

(2) Assuming that the provisions of the Federal Reserve Act with reference to exchange charges will remain unchanged:

(a) What will be the most effective method of continuing the campaign for par points?

Recommended that every effort be exercised to place all remaining non-par banks on a par basis as quickly as possible. Non-par banks should be approached first through personal solicitation, second through correspondence, and if these methods are not successful every non-par bank in a given state should be notified that on a certain date the Federal Reserve Banks will handle checks upon it for member banks upon a par basis. All else failing, the Federal Reserve Banks should proceed to collect through express companies, post offices, or private agencies. (page 458)

(b) What will be the best procedure to meet and prevent the recurrence of the charges of coercion made by non-member banks?

It was agreed that the charges generally are unfounded and that anything tending toward intimidation or coercion can be avoided through the selection of proper solicitors and through exercising care in correspondence. (page 459)

(c) Should the Banks now 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. (page 460)

(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. (page 460)

(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. (page 460)

(c) Relation to intra-district schedules.

Recommended that each Federal Reserve Bank should correct its schedule to its own member banks as soon as possible. (page 461)

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(4) Direct routing of collection items by member banks in one Federal Reserve District to member and non-member banks in another Federal Reserve District, for wire transfer of proceeds to sending bank's Federal Reserve Bank.

Recommended that this practice be discontinued until the mechanism therefor can be worked out. A committee was appointed to study the matter as follows: Mr. Strater of Cleveland, Chairman, Mr. Hendricks of New York, and Mr. of Richmond. (page 321)

(a) Are the facilities afforded being abused by non-member banks?

Question discussed, but no definite action taken.

(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. (page 331)

IV. SCHEDULE OF CHARGES ALLOWED TO BE MADE BY MEMBER BANKS AGAINST THEIR CUSTOMERS UPON OUT-OF-TOWN CHECKS WHICH ARE CLEARED THROUGH THE FEDERAL RESERVE SYSTEM.

(1) Report of progress made in preparation of this schedule.

(2) Is the plan suggested by the Board, Circular letter X-1844, February 26, 1920, fair to the member banks?

Unanimously voted that the Board be requested to continue to defer action on this matter for the present. (page 334)

V. BANKERS' ACCEPTANCES:

(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. (page 403)

(2) Should an import or export bill bear specific details of the transaction upon its face, including the name of the ship, as is the custom in certain foreign countries?

Moved and carried that accepting banks granting import or export credits without documents at the time of acceptance should require that when the shipments are made and documents issued,

they should be delivered to the acceptor, who should handle them from that time on, realizing their proceeds in due course and applying same to the retirement of the credit. (pages 124, 125, 126 and 404)

(3) Warehouse acceptances - how to prevent their abuse without destroying their usefulness?

Moved and carried that banks granting warehouse secured credit should limit their lines as to names, commodities, and length of credit term to commercial and seasonal usance, and in no case should speculation in commodities be permitted on bankers' acceptance credit, and that the acceptor should remain secured during the life of the credit; that domestic transportation credits should be limited to drawings of the seller of goods shipped for the credit term granted by the seller: the purpose of this credit being to substitute a banker's name for the merchant's name as drawer. (page 404)

(4) Should open market purchases of bankers' acceptances by the Federal Reserve Banks be curtailed at this time with a view to taking more of such acceptances for rediscount?

Moved and carried that the open market purchases of the Federal Reserve Banks should not be curtailed at this time. (page 409)

(5) Trade Acceptances:

(a) What is being done to encourage their use?

Much has been done in the Cleveland district to encourage the use of trade acceptances, but little has been accomplished in the other districts, due chiefly to the feeling of most of the Governors that the trade acceptance is much abused. (page 411)

(b) Requirements, credit conditions, etc, incident to trade acceptances offered for rediscount?

Moved and carried to adopt the views of Mr. Kenzel as appearing in the stenographic report, pages 411 and 412.

VI. RATES.

Moved and carried that there be no change in the present rate on commercial paper. (page 298)

(1) Should preferential rates on Government secured paper be discontinued?

Moved and carried that there should be no change at present in the rate on paper secured by Liberty Bonds and Victory Notes. Voted eight to four. Chicago on record as opposing motion. (page 163)

(2) Shall there be a differential rate in favor of, or preference shown, paper secured by receipts of warehouses operated under the Federal Warehouse Act or complying with the terms of that Act in essential particulars?

Consensus of opinion was there should be no preference in rates upon paper secured by receipts of any special class of warehouse. (page 167)

VII. BUILDING OPERATIONS.

Moved and carried that the Secretary convey to Mr. Trowbridge the advisability of making comparisons between plans of the various banks to the end of facilitating a comparison of features of each for the benefit of all. (page 340)

(1) Present situation?

Each Governor outlined the present situation with reference to his bank quarters. (pages 335-343)

VIII. DESIRABILITY OF SEEKING FURTHER AMENDMENTS TO THE ACT.

(1) Federal Reserve Board's attitude as to payment of interest upon reserve balances.

Conference unanimously agreed with view of Board in matter of interest on reserve balances as expressed in circular letter X-1844. (page 343)

(2) Suggestion that amendment be sought allowing the use of the 10% super-surplus fund in the payment of extra dividends.

Discussed. Opinions varied. No action. (page 352)

IX. ORGANIZATION DETAILS.

(1) How many of the banks have organized Member Banks Relations Departments?

Four, New York, Chicago, Cleveland, and Minneapolis. (page 352)

(2) Have the Boards of Directors placed these departments under the authority of the Governor or the Federal Reserve Agent, or both?

In New York such department under control of the Federal Reserve Agent. Governor Case on record as expressing his entire satisfaction with this arrangement. In the other cities there is joint jurisdiction; all matters referring to state bank membership being under the jurisdiction of Agent and all other matters relating to member banks being under the jurisdiction of Governor. Consensus of opinion that Member Banks Relations Department should be under joint jurisdiction of Governor and Agent under conditions that exist in Chicago, Cleveland, and Minneapolis. (page 353)

(3) What steps have been taken, or are in contemplation, looking to the satisfactory adjustment of all differences which arise between the Federal Reserve Bank and the member banks?

Adjustment of differences which arise are handled by Member Banks Relations Departments where such departments exist. In other Federal Reserve Banks, these matters are attended to by the executive officers. (page 361)

(4) Is there any systematic plan for using clerks, temporarily idle, in other than their own departments?

All banks shift idle clerks to busy departments. (page 361)

(5) Advisability of making efforts to secure the use of checks of standard size by the Federal Reserve and member banks.

Moved and carried that it is not advisable to try to bring about methods of standardizing check forms. (page 367)

X. RESERVE SUPPLY OF CURRENCY

(1) In view of present insufficient supplies of new currency, is it desirable that all Federal Reserve Banks and branches adopt a uniform policy of paying out new and of redeeming unfit currency?

Moved and carried that a Committee be appointed to go into the whole matter of currency supply and use. Committee appointed representative of New York, Boston, and Chicago with Mr. Emerson also a member. (page 474)

XI. TREASURY POLICY OF ISSUING CERTIFICATES OF INDEBTEDNESS TO COVER OVERDRAFTS.

Stricken from the list.

SUPPLEMENTARY LIST OF TOPICS

- 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. (page 374)

- TOPIC 2: Can market for Liberty Bonds be strengthened by educational propaganda among prospective investors in the several districts?

This question answered in the affirmative. (page 470)

- TOPIC 3: Should the Federal Reserve Banks assist in broadening the open discount market by offering to purchase bankers' acceptances for the account of member banks?

Moved and carried that it is desirable that the Federal Reserve Banks assist in broadening the market by offering to make purchases. (page 410)

- 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. (page 500)

- TOPIC 5: Condensed financial statement form approved and recommended by Clearing House Section of the American Bankers Association.

Moved and carried that, while the conference approves the statement form recommended by the American Bankers Association and deems it highly desirable to secure as wide a use of this form as possible, it is not practicable to grant preferential rates to the paper of borrowers using these forms. (page 170)

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TOPIC 6: Method of making collection of checks drawn on weak banks in whole par states.

Disposed of by action on Topic III, Sub-section 2, paragraph (c) (page 460)

TOPIC 7. The propriety of Federal Reserve Banks sending collection items direct to member and non-member banks with instructions to remit to the nearest Federal Reserve Bank for the credit of the sending Federal Reserve Bank.

Disposed of by action on Topic III, Sub-section 4. (page 321)

TOPIC 8. Disposition of old records, reports of examinations, etc.

Withdrawn from program. (page 481)

TOPIC 9. Clearing member accounts.

Withdrawn from program. (page 483)

TOPIC 10. Member bank promissory notes secured by borrowed Government securities.

Withdrawn from program. (page 484)

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. (page 487)

TOPIC 12. Redemption of National Bank Notes.

TOPIC 13. Correction of total Federal Reserve notes outstanding.

Topics 12 and 13 referred to committee appointed under action upon Topic X, Sub-section 1, with instructions to report to a future conference. (page 477)

- TOPIC 14. Modification of Board's ruling giving preference in routing checks to member banks over non-members.
(pages 487-494)

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.

- TOPIC 15. Effect on closing of books by new plan of settlement through Gold Settlement Fund.

Mr. Emerson explained situation. No action taken.
(page 473)

- TOPIC 16. Personnel welfare.

Committee appointed with instructions to report back to conference at next meeting. Personnel of committee Mr. Hopf of New York, Mr. Cramer of Chicago, and Mr. Davis of Cleveland. (page 494)

- TOPIC 17. Should Federal Reserve Banks act under instructions from departments other than the Secretary of the Treasury.

Informal discussion. No Action. (page 501)

- TOPIC 18. Advisability of Federal Reserve Banks absorbing float on currency shipments to member banks.

Tonic passed with understanding that Governors would give consideration to the matter. (page 501)

ACTION TAKEN ON MATTERS NOT ON PROGRAM

The matter of whether the gold now deposited with the Bank of England should be left there or brought back was left to the discretion of the Federal Reserve Bank of New York. (page 428)

Moved and carried that the Federal Reserve Banks should participate ratably in the arrangement which the Federal Reserve Bank of New York has with the Bank of Japan. (page 437)

Moved and carried that it is the sense of this meeting that the stabilization of the open bill market is incumbent upon the System as a whole and that a committee be appointed to develop an equitable basis for making such support effective. Committee appointed, Governor Fancher, Governor Morss, and Mr. Kenzel. (page 455)

Advisability of inducing the Treasury Department to ship to the Federal Reserve Banks for completion and delivery the incomplete note issues of the member National banks. Referred to committee mentioned in Topic X, Sub-section 1. (page 484)