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ADDRESS REPLY TO
 FEDERAL RESERVE BOARD

FEDERAL RESERVE BOARD

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September 27, 1920.

X-2012

CONFIDENTIAL

Dear Sir:

The Federal Reserve Bank of New York recently sent to the Federal Reserve Board for its information a "Summary of Proposed Changes in Cash and Custody Functions."

The question of providing all possible safe-guards for the protection of cash and securities is always of paramount importance, and anything which tends to improvement in this field cannot fail to be of interest to the Federal Reserve Banks, as it is to the Federal Reserve Board. It occurs to this office that you might be interested in the plan adopted by the Federal Reserve Bank of New York and, with that Bank's permission, a copy of the plan is forwarded herewith. The Board is not prepared to say that this plan is adaptable to the other Federal Reserve Banks, but wishes merely to acquaint all the Banks with the latest developments in bank management.

Very truly yours,

Enclosure.

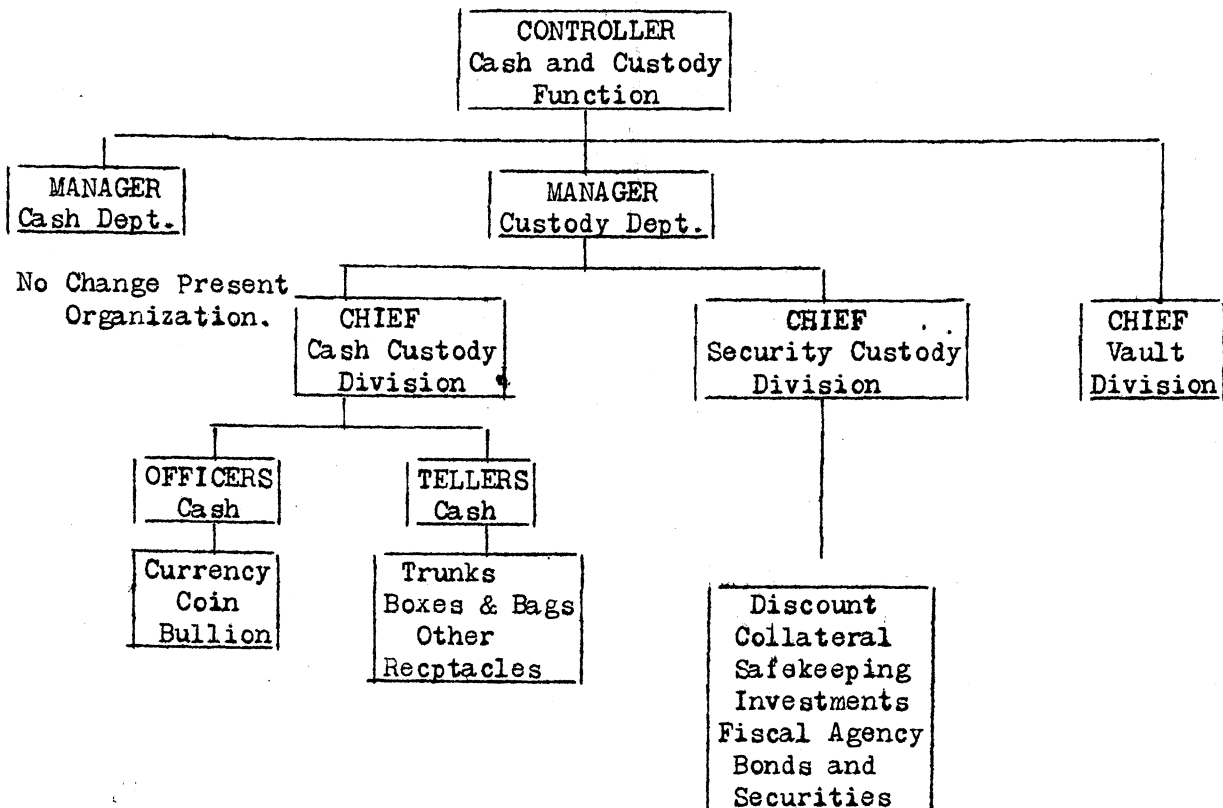
Governor.

To Chairmen of all F.R. Banks.

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SUMMARY OF PROPOSED CHANGES IN CASH AND CUSTODY FUNCTION.

It is recommended that the Cash and Custody Function be reorganized as follows, and that the vault regulations be amended to conform to such reorganization:



The policy of considering the cash of the bank as under the personal supervision and custody of the officers is a heritage of the days when banking was conducted on such a small scale that the cashier could be personally charged with the responsibility of supervising all cash. Since then, however, the functions of banking have become so enlarged and ramified that it has been necessary to segregate the various functions performed and place each in charge of a staff specialist, responsible only for the work falling within his function.

The recent reorganization of the Federal Reserve Bank took cognizance of this in all respects save in the custody of the cash of the bank. In this particular instance the old practice is still in vogue, the officers being jointly responsible for the control and custody of cash.

This method not only decentralizes the responsibility for controlling the cash, but proves in practice to be exceedingly cumbersome and expensive. Not only are several officers compelled to spend the greater part of the day in the vaults setting combinations, but departments are forced to waste a considerable amount of time waiting for an officer to reach the vault. These delays have a direct effect upon the service rendered to member banks in that, in many instances, bank messengers have been held on the line of our Paying Division for an unnecessarily long time.

No similar difficulties are experienced in handling securities, because the custody of all securities has been centralized in the Custody Department. The securities handled total \$3,400,000,000, in negotiable form, as compared with \$300,000,000. in cash, and in spite of the fact that there is infinitely more work attached to the handling of securities than to the handling of cash, it has been possible through the centralization of the control of securities in the Custody Department to handle securities with the maximum of protection combined with an economy and efficiency of operation that is lacking in the present decentralized method of controlling cash.

Our experience with securities indicates that the logical method of controlling and handling cash would be through the organization of a Cash Custody Division similar to the present securities Custody Department.

The advantages of the reorganization as charted above are briefly as follows:

A. CONTROL

1. (a) The Securities Custody Division will have custody of securities deposited in the vault for safekeeping. (This is the same as at present.)
- (b) The Cash Custody Division will have custody of all officers' cash deposited in the vault and of all trunks, trucks or other receptacles, deposited by tellers and departments in the vault for safekeeping over night.

2. The organization of a Cash Custody Division will definitely place the custody of officers' cash and trunks in a division of the bank that will be shown on the organization chart as above. The centralization of control and responsibility thus secured greatly increases the protection afforded the directors and officers of the bank in the handling of these valuables.
3. The two Custody Divisions will operate as a safe deposit company in conjunction with members of Group 1, making it possible to reduce the number of employees, approximating three hundred, now authorized by the vault regulations to have access to the vault, to approximately twenty employees other than officials of the bank. (See summary of Changes in Existing Vault Regulations attached.)

B. OPERATION

1. Transactions of the Cash Custody Division will be witnessed by representatives of three distinct groups.
 - (a) One or more members of Group 1
 - (b) One or more members of the Cash Custody Division
 - (c) One or more representatives of the Auditing Department
2. All transactions of the Cash Custody Division will be based upon properly authorized deposit or withdrawal tickets.
3. The Cash Custody Division will debit and credit other departments for transactions with it, and its daily proof will form an integral part of the cash proof of the bank.
4. All entries in the records of the Officers' Cash Section of the Cash Custody Division will be audited daily.
5. The process of depositing and withdrawing cash from the vault will be greatly simplified. Departments will no longer be forced to wait in the vault until an officer can be secured to set the combination, and officers will not be required to spend so much time in the vault, thus effecting an increase in operating efficiency with a decrease in cost.

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SUMMARY OF CHANGES IN EXISTING VAULT REGULATIONS
UNDER PROPOSED REORGANIZATION
OF CASH AND CUSTODY FUNCTION.

O U T S I D E D O O R S T O A L L V A U L T S

Membership	Present	Proposed
Group 1 Upper dial entrance doors to vaults	General Officers and Senior Officers, and Mr. Fowler Mr. Goodwin Mr. Sprowl Mr. Meeks	General Officers and Senior Officers, and Mr. Fowler) (Chiefs and Mr. Goodwin) (asst. chiefs Mr. Sprowl) (of Vault Div Mr. Meeks)
Group 2 Lower dial entrance doors to vaults	All managers Mr. Hammond Mr. H. C. Low, Jr. Mr. Furman Mr. Rees Mr. Jenkins Mr. Vansant Note: On main vault in this building the following are also authorized: Mr. Lotts Mr. Harvey Mr. Hollingshead Mr. Chapin	All managers Chief - Paying Division Chief - Receiving Division Chief - Money Division Chief - Securities Custody Dv. 1st Asst. Chief-Securities Custody Division Chief - Cash Division 1st Asst. Chief-Cash Custody Division

I N T E R I O R C O M P A R T M E N T S O F A L L V A U L T S

Membership	Present	Proposed
Group 1 Upper dial interior compart- ments:	General Officers and Senior Officers, and Mr. Fowler Mr. Goodwin Mr. Sprowl Mr. Meeks Note: Only controls compartments con- taining officers' cash and large re- serve. In case of latter, combination is held only by general and senior officers.	General Officers and Senior Officers, and Mr. Fowler) (Chief and Asst. Mr. Goodwin) (chiefs of Vault Mr. Sprowl) (Division Mr. Meeks Note: Hold upper dial combina- tions of <u>all interior</u> compart- ments which include all cash and custodies of the bank.

INTERIOR COMPARTMENTS OF VAULTS (Cont'd)

Membership	Present	Proposed
Custody Groups	<u>1. Officers' Cash</u> G. E. Chapin R. M. O'Hara C. H. Coe J. E. Raasch J. E. Crane J. M. Rice Ralph T. Crane L. R. Rounds B. M. Grant I. W. Waters W. A. Hamilton E. C. French H. M. Jefferson R. W. Furman J. W. Jones J. F. Hammond A. J. Lins H. C. Jenkins W. B. Matteson H. C. Low, Jr. H. R. Murray H. K. Rees S. S. Vansant	<u>1. Cash Custody Division</u> Officers' Cash and Tellers' Cash Manager, Custody Department Manager, Cash Department or in their absence any one of four names to be selected from the Cash Custody Division.
Custody Groups Lower dial interior compartment	<u>2. Custody Department</u> <u>Group A</u> <u>Group B</u> H. C. Jenkins L. Ten Eyck W. A. Watson C. E. Price W. E. Townsend P. DeFliese George Lown M. J. Heaphy F. Tellander C. F. Bahntge	<u>Securities Custody Div.</u> Manager, Cash Department Manager, Custody Dept. and in their absence any one of six names to be selected from Securities Custody Div.
Special Groups	<u>3. Bill Department</u> <u>Group A</u> <u>Group B</u> Earl V. Guy M. J. McLoughlin W. A. Keepers W. S. Leonard J. P. Dunn D. Gardner	Eliminated Will be deposited with Cash Custody Division
	<u>4. Cash Department</u> (Authorities Div.) Single combination compartment.	Eliminated Will be deposited with Cash Custody Division.
	<u>5. Cash Department (Gold Bullion</u> <u>Sec.)</u> <u>Group A</u> <u>Group B</u> John White F. M. Curtis P. J. Donohue W. C. Salter	Eliminated Will be deposited with Cash Custody Division.

INTERIOR COMPARTMENTS OF VAULTS (Cont'd.)

Membership	Present	Proposed
	<u>6. Cash Dept. (Incoming Reg. Mail Sec.)</u> <u>Group A</u> F.B. Anderson F. Seeger F.N. Delevan J.A. Cole <u>Group B</u> R. McKinley J.J. Potter C.J. Witmore	Eliminated Will be deposited with Cash Custody Division.
	<u>7. Cash Dept. (Money Div. -Mixed Currency)</u> <u>Group A</u> A.L. Griffin A.C. Dunckleman R.E. Gatechair <u>Group B</u> A.C. Walton C. Hickok W.G. Seyforth	Eliminated Will be deposited with Cash Custody Division.
	<u>8. Cash Dept. (Money Div. - Nts. other F.R.B.)</u> <u>Group A</u> James Fletcher Albert Tuttle <u>Group B</u> C. Simonson H. Woolny	Eliminated Will be deposited with Cash Custody Division.
Special Groups Lower dial interior compart- ments	<u>9. Cash Department (Money Div.-Trunk Sec.)</u> <u>Group A</u> J.J. Byrnes F. Montignani A.C. Dunckelman B.P. Moffat W.A. Anderson E.H. Osterhaus A.C. Walton A.L. Griffin R.C. Chapin R.E. Gatechair <u>Group B</u> R.W. Combes C.M. Christie C.I. Budd J. Dundas J. O'Sullivan I.L. Parker R. Major B.P. Boas F. Gugal J.J. Logue	Eliminated Will be deposited with Cash Custody Division
	<u>10. Cash Dept. (Money Div. Unasst. F.R. Notes)</u> <u>Group A</u> R.C. Chapin Richard Major M.H. Rudyard <u>Group B</u> J.J. Logue F.S. Stubbs H. Kinne	Eliminated Will be deposited with Cash Custody Division
	<u>11. Cash Department (Paying Div.)</u> <u>Group A</u> C.C. Bell H. Hollingshead W. Marcus <u>Group B</u> G.H. Lotts T.B. Bruder A. Black C.A. Senior	Eliminated Will be deposited with Cash Custody Division

INTERIOR COMPARTMENTS OF VAULTS (Cont'd.)

Membership	Present	Proposed
Special Groups Lower dial interior compartments	<u>12. Cash Department (Receiving Div.)</u> <u>Group A</u> <u>Group B</u> V.A. Harvey J.A. Anderson P.P. Malcolm J.G. North F. Stocker A.G. Anderson	Eliminated Will be deposited with Cash Custody Division
	<u>13. Cert. of Indebt. Dept. (Issue)</u> <u>Group A</u> <u>Group B</u> U. Wells H.L. Carpenter T.B. DeLa Ree Garrett LaPort G. Stephenson H.A. Davis	Eliminated Will be deposited with Cash Custody Division
	<u>14. Cert. of Indebt. Dept. (Redemp)</u> <u>Group A</u> <u>Group B</u> U. Wells G.M.D. Klov F.J. Kammerer B.H. Manee G. Stephenson E. Voorhees	Eliminated Will be deposited with Cash Custody Division
	<u>15. Cash Dept. (Money Div. 1's & 2's Sec.)</u> <u>Group A</u> <u>Group B</u> I.L. Parker J.F. Dundas B.P. Moffat W.A. Anderson F. Montignani E.H. Osterhaus R.A. Falb J. O'Sullivan	Eliminated Will be deposited with Cash Custody Division
	<u>16. Cash Dept. (Money Div. Cancel & Cut. Sec.)</u> <u>Group A</u> <u>Group B</u> L. Carrazone R. Combes A. MacNeil T. Forster M.H. Rudyard	Eliminated Will be deposited with Cash Custody Division
	<u>17. Check Dept. (Redemp & Return Item Div.)</u> <u>Group A</u> <u>Group B</u> H. Drew A. Kesses D. Miller E. McMahon J. Earle R. Nalley	Eliminated Will be deposited with Cash Custody Division
	<u>18. Collection Dept. (City Coll. Div.)</u> <u>Group A</u> <u>Group B</u> F.J. Drier S. Lerer H.R. Tappan W. Reckert A. Surman F. Peterson W. Weaver L. Vorback	Eliminated Will be deposited with Cash Custody Division

INTERIOR COMPARTMENTS OF VAULTS (Cont'd)

Membership	Present	Proposed
Special Groups Lower dial interior compartments	<u>19. Collection Dept. (Coup. Coll. Div.)</u> <u>Group A.</u> <u>Group B</u> V. Willis B. E. Wendell R. J. Stephens G. V. VanSicklen A. W. Cunningham W. H. Mallon	Eliminated Will be deposited with Cash Custody Division.
	<u>20. Collection Dept. (Country Coll. Div.)</u> <u>Group A.</u> <u>Group B</u> A. H. Murdock J. C. Carraway F. G. Adams A. Hague W. R. Noe E. K. Foster	Eliminated Will be deposited with Cash Custody Division.
	<u>21. Disbursing Dept. (Expense Div.)</u> <u>Group A</u> <u>Group B</u> V. C. McLaren E. G. Stocker C. C. Hickey P. Bicksler M. S. Ross Cyril Boyce	Eliminated Will be deposited with Cash Custody Division
	<u>22. Govt. Bond Dept. (Bank Exchange Sec.)</u> <u>Group A</u> <u>Group B</u> J. G. Hall L. J. Winters W. W. Burt D. Denny S. C. Merwin C. A. Jagels E. Seer H. Griffin	Eliminated Will be deposited with Cash Custody Division
	<u>23. Govt. Bond Dept. (Supply & Prep. Sec.)</u> <u>Group A</u> <u>Group B</u> H. W. Scott C. A. Jagels A. Martin C. A. Newkirk S. C. Merwin G. Wallace C. Cable W. Roberts	Eliminated Will be deposited with Cash Custody Division
	<u>24. Govt. Bond Dept. (Conversion Sec.)</u> <u>Group A</u> <u>Group B</u> G. McCormick C. A. Jagels R. Haring F. Farrell S. C. Merwin L. Leger R. Brown T. Mannion	Eliminated Will be deposited with Cash Custody Division
	<u>25. Govt. Bond Dept. (Coupon Paying Div.)</u> <u>Group A</u> <u>Group B</u> J. B. Cunningham S. V. Ray William Wallace E. Wonsor S. C. Merwin C. A. Jagels W. Barritt F. Youhass	Eliminated Will be deposited with Cash Custody Division

Membership	Present	Proposed
Special Groups Lower dial interior compartments	<u>32. Liberty Loan Assn. Department</u> <u>Group A</u> <u>Group B</u> H.C. McGowan J. Traver F.C. Roche F. Dallimore M. Crosby S. Eddy	Eliminated Will be deposited with Cash Custody Division.
	<u>33. Loan Dept. (Loan & Disc. Div.)</u> <u>Group A</u> <u>Group B</u> C.N. Van Houten R.F. Cutler H.W. Stanley W. Cokelet R.M. Morgan H. D. Snyder	Eliminated Will be deposited with Cash Custody Division
	<u>34. Securities Department</u> <u>Group A</u> <u>Group B</u> U. Wells K.B. Russell G. Stephenson W. Valentine L.W. Glover F.O Johnson	Eliminated Will be deposited with Cash Custody Division
	<u>35. Securities Dept. (Govt. Deposit Div.)</u> <u>Group A</u> <u>Group B</u> J.G. Manchester, Jr. W.H. Conover J.R. Cook E.D. Hassard H.C. Low, Jr., E. Vollweiler G.W. Snedeker J.M.B. McCubbin	Eliminated Will be deposited with Cash Custody Division
	<u>36. Service Dept. (Employment Division)</u> <u>Group A</u> <u>Group B</u> Joseph Farnon R.R. Apgar H.B. Long E.C. Rink R.V. Brown G. Sharmon	Eliminated Will be deposited with Cash Custody Division
	<u>37. Service Dept. (Office Ser. Div.-Files)</u> Single combination compartment	Eliminated Will be deposited with Cash Custody Division.
	<u>38. Govt. Bond Dept. (Incoming Mail Sec.)</u> <u>Group A</u> <u>Group B</u> J. Hoffman I. Ross R. Gatlin J. Golden S.C. Merwin C.A. Jagels W. Griffiths J. Baker	Eliminated Will be deposited with Cash Custody Division