

FEDERAL RESERVE BOARD

WASHINGTON

January 4, 1921.
X-3014

Subject: Comments by the Federal Reserve Board on recommendations made by Governors of Federal Reserve Banks at their conference with the Federal Reserve Board October 14 and 15, 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 October 14 and 15, 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 seem to call for special comment, are discussed below:

I. Check Clearing and Collection
(Steno. report page 18.)

ACTION: Voted that the confusion existing at present in connection with transactions of this character is due to the difference of opinion as to what constitutes a proper telegraphic transfer of funds, and that it is recommended that the Federal Reserve Board issue a mandatory ruling to the effect that no Federal Reserve Bank should accept telegraphic transfers from any except member and non-member clearing banks.

COMMENT: The Board rules that telegraphic transfers shall not be made by a Federal Reserve Bank except upon request of a member or non-member clearing bank.

II. (Steno. report page 27.)

The propriety of Federal Reserve Banks sending collection items to member and non-member banks in other districts, with instructions to remit to the nearest Federal Reserve Banks for the credit of the sending Federal Reserve Bank.

ACTION: The Conference voted that "this privilege should not be permitted, unless the time involved in the collection is such that the Federal Reserve Bank must necessarily send the items direct, in order for collection to be made before the maturity of the items. Reference is invited to the recent ruling of the Federal Reserve Board permitting Federal Reserve Banks to receive collection items direct from member banks of other districts, and allowing them to permit their member banks to route collections direct to other Federal Reserve Banks, after the permission of such other Federal Reserve Banks has been obtained by the Federal Reserve Bank of the district in which the member bank requesting the privilege is

located. It is recommended that member banks be permitted to send collection items direct to Federal Reserve Banks of other districts, and that all Federal Reserve Banks be required to accept non-cash items for collection when received from member banks of other districts; it is also recommended that the Federal Reserve Board make a mandatory ruling to that effect. It is further recommended that the Board direct each Federal Reserve Bank to issue uniform circulars on the direct routing of collection items, embodying certain essential points, and if this action meets with the approval of the Federal Reserve Board, the Committee on Forms appointed at the last Governors' Conference be instructed to design forms necessary to take care of all transactions arising from the operations mentioned therein.

COMMENT: The Board concurs in the above, and makes the mandatory ruling requested through the medium of this letter.

III. Currency and Circulation (Steno. report page 69.)

In view of the present insufficient supplies of new currency, is it desirable that the Federal Reserve Banks and Branches adopt the uniform policy of paying out new and redeeming unfit currency?

ACTION: The Governors presented an urgent petition to the Board to take up with the Secretary of the Treasury the question of providing the necessary notes through contract with private concerns.

COMMENT: Reports of currency operations (form 160) received by the Board since August 27th have shown that currency operations in the several Federal Reserve Districts vary to such an extent that it is not desirable for Federal Reserve Banks and branches to adopt a uniform ratio of payments of new currency to total payments of currency. The Board, however, desires to direct the attention of the banks to the fact that present supplies of new currency printed by the Bureau of Engraving and Printing are not sufficient to meet payments for normal replacements and requests all banks to continue to conserve their supplies of new currency.

In accordance with the vote of the Governors, the Board has submitted to the Secretary of the Treasury the report of the new Currency Committee together with the resolution adopted by the Governors in conference, pointing out the inadequacy of the supply of new currency and urging that immediate steps be taken to increase the Bureau's output. As the Federal Reserve Banks have been advised, arrangements have been made for the purchase of new equipment by the Bureau of Engraving and Printing to be paid for by Federal Reserve Banks and to be used exclusively for printing Federal Reserve Notes.

The Secretary of the Treasury advises the Board that he hopes that with the completion of the Liberty Bond printing program at the Bureau, the output of new currency may be increased, and that it will be sufficient to provide for normal replacements.

IV. Operation-(Steno. report pages 129 & 135)

Advisability of standardizing methods of auditing and accounting, including real estate accounting, and also advisability of providing a method, a "clearing house" so to speak, for the exchange of details concerning methods or devices which any Federal Reserve Bank has found efficient in operation.

ACTION: It was the sense of the Conference that this topic, together with others related to operation, should be referred to a conference of operating officials of the twelve banks to be called in the near future.

COMMENT: The Board does not approve, at this time, the calling of a conference of operating officials. A regular conference of auditors has been authorized and, with the Group Conferences already provided for, it would appear that the objects to be attained in the way of standardization of accounting through an exchange of ideas might be taken care of through machinery already provided.

V. Circuitous Routing of Checks. (Steno. report pages 158 to 167.)

ACTION: It was moved and carried that the Governors request the Federal Reserve Board to reconsider the Board's letter No. X-1944, dated April 7, 1920, relating to the circuitous routing of checks and, if consistent, to issue a ruling in accordance with the recommendations of the last Governors' Conference.

COMMENT: The Board reaffirms its opinion in this matter as set forth in letter X-1944, dated April 7, 1920.

VI. Check Clearings and Collections. (Steno. report pages 179 to 193.)

Exchange of letters between Federal Reserve Banks covering indorsement of items sent direct to other Federal Reserve Banks by Member Banks.

ACTION: The Conference recommended that this matter be referred to the Federal Reserve Board, with request that Counsel for the Board prepare a uniform letter of instructions or a regulation covering these indorsements to be exchanged by the twelve banks.

COMMENT: The Board concurs, and will direct its General Counsel to prepare the form requested.

VII. Inter Federal Reserve Bank Transactions.
(Steno. report pages 194 to 201)

The devising of a method to avoid present frequent holding up of books in connection with inter-bank rediscount operations. Also, a better method of prepayment by Federal Reserve Banks of paper under rediscount by other Federal Reserve Banks.

ACTION: The following resolution carried: (1) That rediscounts made by one Federal Reserve Bank for another Federal Reserve Bank be made as of the day when the request is made, except on Friday when the reserve position of each Bank is made public. (2) That each Federal Reserve Bank rediscounting for another Federal Reserve Bank prepare and forward promptly the schedule of papers it has been rediscounting. (3) That requests for anticipation of paper under rediscount be combined in one wire each day, and that such transaction be effected upon the day of receipt of the request, if received before the close of business; if not, upon the following day.

COMMENT: The Board's letter of February 17, 1920, X-1835, subject "Gold Settlement Fund Daily Clearing", paragraph 2 of page 2, states that,

"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."

In order to avoid the frequent necessity of consummating rediscount transactions the following morning as of the previous day's date due to rediscounting banks sending their requests for rediscount accommodations to the Board too late in the afternoon for details to be arranged that day, the Board requests that rediscounting Federal Reserve Banks arrange to wire the Board not later than 2:30 p.m., Washington time (11:00 a.m. Washington time on Saturdays) the amount it is then estimated it will be necessary to rediscount to maintain their combined reserve position above 40% after final closing of the books for the day. Under such an arrangement the bank's excess reserve should be sufficient to provide a reasonable margin for contingencies.

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The Board requests that advance payments and rebates of rediscounts with other Federal Reserve Banks be handled in accordance with the Board's letter of October 18, 1920, X-2030, subject "Uniformity in method of handling inter-Reserve Bank transactions through the Gold Settlement Fund", except that as provided for in the above resolution requests for anticipation of paper under rediscount be combined, in so far as possible, in one wire to the Board each day.

Very truly yours,

G o v e r n o r .

Letter to Governors of all Federal Reserve Banks.