

FEDERAL RESERVE BOARD

WASHINGTON

June 10, 1921.

X-3140.

SUBJECT: Comments by the Federal Reserve Board of recommendations made by Governors of the Federal Reserve Banks at their Conference with the Federal Reserve Board, April 12th to 15th, 1921.

Sir:

The Federal Reserve Board has examined the record of votes taken by the Governors of the Federal Reserve Banks on the topics considered at the Conference held in Washington, April 12th to 15th, 1921.

Those matters relating to fiscal operations and contemplating co-operation between the Treasury Department and the Federal Reserve System will be taken up by the Board with the Treasury Department, and you will be advised of the results in due course.

With a few exceptions, the Board concurs in the recommendations made by the Conference. The following matters are those which call for Board action or which require special comment. The paragraphs listed refer by number to corresponding paragraphs appearing in the minutes prepared by the Secretary of the Conference.

Paragraph 11: What arrangements should be made in cases where Federal Reserve Banks have presented to them Federal Reserve notes unsealed and unnumbered, but otherwise duly executed, which were apparently stolen within the Treasury Department and circulated, in view of the advice of the Treasurer that there is no provision for their redemption?

In view of the expression of the Governors at the Conference that they would be willing to redeem, under certain conditions, incomplete Federal Reserve notes as mentioned above in an amount not to exceed \$20,000 which may be presented to the Treasury for redemption, the Board has approved this action in order to prevent a possible discrediting of the Federal Reserve note circulation. The Board has advised the Treasury Department that the Federal Reserve Banks will redeem up to \$20,000 incomplete Federal Reserve notes with the understanding, however, that the Federal Reserve Banks do not admit of any liability in connection with the circulation of these incomplete notes and expect to be reimbursed ultimately by the Government for these advances.

The Board has further directed the Treasurer of the United States to forward any incomplete Federal Reserve notes which he has redeemed to the Federal Reserve Board's Division of Issue and Redemption, and has advised him that after the necessary verification and proof, the Board will reimburse him for the face amount of such notes up to \$20,000. The Board will then assess the Federal Reserve Banks the amount of such payments in the usual way, i. e., pro-rated on the basis of capital and surplus. The notes will be held by the Board for delivery to the Treasury when final disposition is made of the matter either through reimbursement by the employees of the Department or by an appropriation by Congress.

Paragraph 39: It was voted, (1), that a uniform practice be established in each Federal Reserve Bank with reference to the shipments of fit notes to other Federal Reserve Banks, the receiving bank to insure and pay shipping charges; and it was voted, (2), that each Federal Reserve Bank absorb the postage and shipping charges upon all unfit Federal Reserve notes sent by it to Washington for redemption, whether or not those unfit notes were issued by another Federal Reserve Bank.

The Board is of the opinion that the above action should be more far reaching and that the sending Federal Reserve Banks should absorb the cost of all shipments of Federal Reserve notes, whether fit or unfit, except the cost of insurance, which should be borne by the receiving Federal Reserve Bank, as heretofore. It is felt that this practice would eliminate many petty entries at the Federal Reserve Banks and that the expense would, in the long run, be practically equalized. In view of the fact that the Governors' Conference considered this matter and took the limited action above set forth, the Board is not inclined at this time to insist that the practice as approved by the Governors should be extended, but suggests that the matter be taken up for consideration at the next Governors' Conference.

The Board, therefore, approves the action of the Governors as set forth in paragraph 39 and rules that the said action shall be effective at all Federal Reserve Banks beginning July 1, 1921.

Paragraph 47: It was voted that the Federal Reserve Board be requested to advise the Federal Reserve Banks of its conclusions upon the question of uniform indorsements upon inter-district cash and collection items sent direct by member banks in one District to Federal Reserve Banks in other Districts.

The Board has placed this matter in the hands of its General Counsel and it is now receiving attention in connection with other matters of a like nature which were referred by the last Governors' Conference to a committee consisting of Mr. Harrison, Federal Reserve Bank of New York, Mr. Logan, Counsel of the Federal Reserve Board, and Mr. Walden, Federal Reserve Bank of Richmond.

Paragraph 52: It was voted, (1), that it was the sense of the Conference that Federal Reserve Banks should adopt a plan whereby each Federal Reserve Bank shall wire each night the amounts of notes of each other Federal Reserve Bank counted and shipped by it, whether shipped to Washington or back to the bank of issue, credit for the amount of these notes to be given by the respective banks of issue as of that date; and (2), that the Federal Reserve Board be requested, with the recommendation of the Conference, to consider the advisability and, if legally possible, the adoption of a plan whereby each Federal Reserve Bank may deduct from the amount of its own notes outstanding the total amount of all Federal Reserve notes held by it, those issued by other Federal Reserve Banks, as well as its own.

The Board approves the first vote, as set forth above, and will deal with the matter in a separate circular, in which circular an effective date will be fixed. With reference to vote No. 2 above, the Counsel of the Board is of the opinion that the adoption of the suggested plan to permit each Federal Reserve Bank to deduct from the amount of its Federal Reserve notes outstanding the total amount of Federal Reserve notes of other banks held by it would contravene the provisions of Section 11(a) of the Federal Reserve Act which requires that the weekly statement published by the Federal Reserve Board shall "show in detail the assets and liabilities of the Federal Reserve Banks, singly and combined."

Paragraph 53: It was voted, (1), that free wire transfers over the leased wire system be limited to a minimum amount of \$1,000, and that anything below that minimum be transferred over commercial wires at the expense of the member bank; and (2), that telegraphic advices relating to collections be limited to a minimum of \$100.00, and that advices relating to collections below that minimum be transmitted over commercial wires at the expense of the member bank.

The Board disapproves the above vote. It rules that free wire transfers and telegraphic advices shall not be arbitrarily limited and is of the opinion that the Federal Reserve Bank should handle personally and individually those member banks which are inclined to abuse or make a nuisance of the privilege.

Paragraph 54: It was voted that the proposed pension plan be approved and that it be referred to the Federal Reserve Board for action, subject to such satisfactory adjustment of the suggestions made by Senator Smoot as might be effected by the special committee appointed by the Conference.

Mr. Curtis of New York has prepared a bill for introduction to Congress covering this matter. This bill has been approved in general, except with regard to the insurance feature, by the Federal Reserve Board.

Paragraph 60: It was voted that the recommendation of the last Conference regarding the appointment of eligibility committees in the several Federal Reserve Banks be affirmed and carried out by each of the Federal Reserve Banks, -that is, that each Federal Reserve Bank appoint an eligibility committee which shall report to all other Federal Reserve Banks any paper of general circulation which it holds to be ineligible.

The Board concurs in the above and fixes July 1st as the effective date for the above action.

Paragraph 63: It was voted that acceptances made by banks which have defaulted or refused to honor their confirmed or irrevocable commercial letters of credit be referred to the eligibility committee of the Federal Reserve Bank to which they are presented for discount or purchase, for the ascertainment of the facts relating to the alleged default or dishonor; and if the accepting bank is found to be guilty of such default or dishonor with respect to other credits, all Federal Reserve Banks be advised of that fact, with the understanding that such Federal Reserve Banks will not purchase any acceptances of such a bank.

The Board disapproves the last sentence of the above quotation, since it is felt to be improper for the Federal Reserve Banks to enter into any agreement in advance as to the paper of any particular bank which they will or will not purchase; all such cases, however, should be immediately reported to the Board.

Paragraph 67: It was voted that the Federal Reserve Board be requested to recommend an amendment to the terms of Section 5202 of the Revised Statutes by eliminating the words "payable abroad" from the terms of the 7th exception of that Section.

The above action has been approved by the Board, upon the recommendation of its law committee, and the following proposed amendment has been prepared by General Counsel and submitted to Congress:

A BILL

To amend Section 5202 of the Revised Statutes of the United States.

BE IT ENACTED BY THE SENATE AND HOUSE OF REPRESENTATIVES OF THE UNITED STATES OF AMERICA IN CONGRESS ASSEMBLED, That Section 5202 of the Revised Statutes of the United States, as amended, be further amended by striking out the words "payable abroad" in the seventh exception enumerated in said section so that said exception will read as follows:

"Seventh. Liabilities created by the indorsement of accepted bills of exchange actually owned by the indorsing bank and discounted at home or abroad,"

Very truly yours,

Vice Governor.

To Governors of all Federal Reserve Banks.