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FEDERAL RESERVE BOARD

WASHINGTON

X-3726
May 29, 1923.

SUBJECT: Committee on Economy and Efficiency.

Dear Sir:

In pursuance of its plan of keeping the Reserve Banks in touch with the work of the Board's Committee on Economy and Efficiency, there has been forwarded to you as Chairman of the Board of Directors of your bank, each month, an exhibit showing in comparative form the costs of operating each function and expense unit of the several Federal Reserve Banks and Branches for the month. There have also been sent you from time to time letters informing you of the general progress of the Committee's work. This letter is being sent to inform you and the officers of your bank of recent developments and the present status of the Committee's work, also of certain changes it is desired to make in the compilation of the expense reports.

In a letter dated December 12, 1922, X-3582, there was outlined a plan for a study of the four major functions of the banks. Such a study has since been made of the following functions:

Currency and Coin
Transit and Collections
Accounting
Loans, Rediscounts and Investments.

During April the representatives of the banks met in twelve different groups, three for each of the four functions under review. At these meetings there was a discussion and comparison of the methods of the four banks in each group, following which the chairman of each group prepared a report setting forth in comparative form the methods of the banks, and wherever possible a comparison of the unit costs.

The group chairmen have since met with the Board's Committee for a study and discussion of the results accomplished from this survey. Much information has been collected which it is believed will be of value to the banks. The Board's Committee is of the opinion that better results will follow from the passing on to the banks of comments and suggestions respecting specific operations, than would result from an attempt to make a complete report of the entire survey, much of which report would be of comparatively little interest. This policy will, therefore, be pursued and as the study of the material now in hand progresses, the banks will be fully informed of anything which will be of interest to them. The group chairmen have reported that the bank representatives were practically

unanimous in stating that much benefit had already resulted from the study and comparison of methods, and from these reports it is apparent that nearly all of the banks have profited as a result of this interchange of information and ideas.

At the meeting of bank representatives held in Chicago on December 13, 1922, it was recommended that as soon as practicable, Form E would be discontinued as a monthly report. It has now been decided to take this step and the banks are, therefore, advised that this report need no longer be sent monthly to the Board's Committee on Economy and Efficiency, but that it should be submitted quarterly, the next report to be for the quarter ending June 30, 1923.

As a result of the recent survey it seems advisable to make a few changes in this report and in the detailed instructions relating to it. It is requested that these changes be reflected in the report for the full quarter ending June 30 next. These changes are as follows:

1. The "Receiving and Proving Checks" unit of the Check Collection Function included on page 18 of the report is to be eliminated. The survey indicates that the majority of the banks do not have their organizations divided in such a way as to make it possible to obtain accurate costs for this unit, and that the convenience of the majority will be better suited and more accurate figures obtained by including the cost of this operation as a part of the cost of handling the several classes of checks included in this function under their respective headings. You are, therefore, requested to cancel entirely the upper half of page B-39 in the manual of instructions for the distribution of expenses, which will result in the complete elimination of the "Receiving and Proving Checks" unit. The five operations formerly set up under the "Receiving and Proving Checks" unit, namely -

Receiving
 Fixing liability date
 Endorsing
 Sorting (first sort)
 Listing (proof of incoming cash letter)

or as many of them as are applicable, should then be added to each of the five other units making up the Check Collection Function, namely -

City checks (clearings)
 City checks (other than clearings)
 Government checks
 Country checks
 Return Items .

2. "Member Banks' Accounts" unit and "Reserve Deficiencies" unit appearing on page 22 of the report are to be combined, hereafter reporting the entire expense under the unit "Member Banks' Accounts". Similarly pages B-49 and B-50 of the manual of instructions for the distribution of expenses should be changed by adding to the operations listed under "Member Banks' Accounts" on page B-49, all operations now listed under "Reserve Deficiencies" on page B-50. This change is considered desirable for the reason that in most of the banks all or a considerable portion of the work formerly allocated to "Reserve Deficiencies" is performed by the same clerks who perform the operations allocated to "Member Banks' Accounts".

3. There is also to be a change in the measurement of the volume of work performed in "Recording Loans and Rediscounts" unit of the Loans, Rediscounts and Investments Function. To accomplish this result it is requested that there be added on page 33 of the report, to appear as the last item under "Recording Loans and Rediscounts" unit, the following -

Number of notes rebated.

It is then requested that the figure appearing as the total on the third line under this unit be the total of the following:

Number of notes rediscounted
Number of collateral notes discounted
Number of notes received as collateral to bills payable
Number of notes received as additional collateral to general line
Number of notes rebated.

In this way the total reported as "Volume" will include all notes actually handled. This change is made for the reason that there is very nearly as much work connected with notes rebated and notes received as collateral as in the case of notes actually discounted. A corresponding change should be made on page D-2 of the manual of instructions.

In the course of the recent survey it appeared that several of the bank representatives were unfamiliar with the functional expense exhibit now being prepared and distributed by the Board's Committee, and in some cases had had no previous opportunity of studying the comparisons

of the expense of the several banks for their particular functions. The Board's Committee is now furnishing to each bank two copies of this exhibit and will be glad to furnish more upon request. It is suggested that one copy of this report be split up and distributed so that each officer will receive that portion of the report in which he is particularly interested.

The Board's Committee wishes to express its appreciation of the work done by the officers of the several banks who were designated to represent their respective institutions in the conducting of the recent study of the four functions. With such cooperations between the banks as was manifested at these conferences it should be possible to accomplish much in the way of economy and efficiency of operation of the Reserve Banks.

Very truly yours,

A. C. Miller, Chairman
Committee on Economy and Efficiency

To Chairmen of all Federal Reserve Banks,
Copies to the Governors & Chairmen of Procedure Committees.