

X-1530

FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING JULY 7, 1923.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	<u>Capital</u>	<u>Surplus</u>	<u>Total Resources</u>
<u>DISTRICT NO. 2.</u>			
Federation Bank of New York, New York, N. Y.	\$250,000	\$250,000	\$962,424
<u>DISTRICT NO. 4.</u>			
Lake Erie Trust Co., Cleveland, Ohio.	1,000,000	250,000	1,253,972
<u>DISTRICT NO. 9.</u>			
Gold and Company State Bank, Big Stone City, S. Dak.	50,000	5,000	564,997
<u>DISTRICT NO. 10.</u>			
Security State Bank, Sallisaw, Okla.	30,000	5,000	264,926

CONVERTED INTO NATIONAL BANK:

Citizens Bank of Barnesville, Barnesville, Ga.
New Bedford Safe Deposit & Trust Co., New Bedford, Mass.

WITHDRAWALS:

Bank of Christiansburg, Christiansburg, Va.
San Francisco Savings & Loan Society, San Francisco, Cal.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

The First National Bank of Rockville, Conn.
The First National Bank of West Newton, Mass.
The First National Bank of St. Johnsbury, Vt.
National Bank of America in Paterson, N. J.
Safe Deposit National Bank, New Bedford, Mass.

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING JULY 13, 1923.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	<u>Capital</u>	<u>Surplus</u>	<u>Total Resources</u>
<u>DISTRICT NO. 12.</u>			

Security State Bank, Coulee City, Wash.	\$ 25,000	-	\$109,607
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CHANGE OF NAME:

Foreman Brothers Banking Co., Chicago, Ill., to The
Foreman Trust & Savings Bank.

Empire Bank & Trust Co., Lewistown, Mont., to Empire
and State Bank.

CONVERTED TO NATIONAL BANK:

The Bridgeport State Bank, Bridgeport, Texas.

INSOLVENT:

Ballantine State Bank, Ballantine, Mont.

WITHDRAWAL:

Iron Exchange Bank, Hurley, Wisconsin.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

Liberty National Bank in New York, New York, N. Y.

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING JULY 20, 1923.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	<u>Capital</u>	<u>Surplus</u>	<u>Total Resources</u>
<u>DISTRICT NO. 8.</u>			
Water Tower Bank, St. Louis, Mo.	\$200,000	\$50,000	\$1,557,460

INSOLVENT:

First Savings Bank, Sutherland, Iowa.
Yellowstone Valley Bank & Trust Co., Sidney, Mont.

ABSORBED BY NATIONAL BANK:

The Bankers Trust Company, Denver, Colo.

WITHDRAWAL:

Brule State Bank, Chamberlain, S. Dak.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

The First National Bank of Northampton, Mass.
The Second National Bank of Phillipsburg, N. J.
The Rye National Bank, Rye, New York.
The National Bank of Fayette County, Uniontown, Pa.

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING JULY 27, 1923.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

None admitted.

CLOSED:

Inverness State Bank, Inverness, Montana.

MERGER:

The Importers and Traders Bank of New York, N. Y., has merged with the Equitable Trust Company, New York, N. Y.

CONVERTED INTO NATIONAL BANK:

The Paradise State Bank, Paradise, Texas.

INSOLVENT:

First State Bank of Clyde Park, Clyde Park, Mont.

WITHDRAWALS:

Overlea Bank, Overlea, Maryland.
Avoca State Bank, Avoca, Iowa.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

The Peoples National Bank, Clarence, N. H.
The First National Bank, Hossick Falls, N. Y.
The Valley National Bank, Chambersburg, Pa.
The Atlantic National Bank, Jacksonville, Fla.

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING AUGUST 3, 1923

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	<u>Capital</u>	<u>Surplus</u>	<u>Total Resources</u>
<u>DISTRICT NO. 2.</u>			
Mutual Bank of Roseville, Newark, New Jersey.	\$200,000	\$160,000	\$2,446,487
The Battery Park Bank, New York, N. Y.	1,500,000	1,000,000	14,869,178
<u>DISTRICT NO. 3.</u>			
Jowell Bank, St. Louis, Mo.	200,000	50,000	3,258,841

ABSORBED BY NATIONAL BANK:

The Peoples Bank, New Bern, North Carolina.

CONVERTED INTO NATIONAL BANK:

The First State Bank of Streetman, Streetman, Texas.

SUCCEEDED BY STATE BANK:

The First State Savings Bank, Mount Carroll, Ill., whose charter has expired, has been succeeded by the First State Bank, Mount Carroll.

VOLUNTARY LIQUIDATION:

The Commercial Bank of Yakima, Yakima, Washington.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

The National Bank of America at Gary, Gary, Ind.
The First National Bank of Paragould, Paragould, Ark.
The First National Bank of Vevay, Vevay, Ind.
The First National Bank of Owensboro, Owensboro, Ky.

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING AUGUST 10, 1923.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	<u>Capital</u>	<u>Surplus</u>	<u>Total Resources</u>
<u>DISTRICT NO. 7</u>			
First State Bank of Mount Carroll, Illinois	\$100,000	- - -	\$1,406,824

WITHDRAWALS

Citizens Bank of Dyersburg, Tenn.
Bank of Arcadia, Arcadia, Wisconsin.

CONVERTED INTO NATIONAL BANK

First State Bank of Ferrin, Ferrin, Texas.

BANK REPORTED CLOSED.

State Bank of Garfield, Panguitch, Utah.

CHANGE OF TITLE

Deposit Bank of Winona, Winona, Minnesota
to
Deposit Bank and Trust Company, Winona, Minnesota.

PERMISSION GRANTED TO EXERCISE TRUST POWERS

The Central National Bank of Columbia, Columbia, Pennsylvania
The Waukesha National Bank, Waukesha, Wisconsin.
The First National Bank, Buffalo Center, Iowa.

FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING AUGUST 17, 1923.

ADMITTED TO THE FEDERAL RESERVE SYSTEM

N O N E

CHANGE OF TITLE

Union Savings Bank & Trust Company, Cincinnati, Ohio

to

The Union Trust Company, Cincinnati, Ohio.

PERMISSION GRANTED TO EXERCISE TRUST POWERS

The Kutztown National Bank, Kutztown, Pa.
The Fort Dodge National Bank, Fort Dodge, Iowa.
The First National Bank of Lead, South Dakota.
The Haskell National Bank, Haskell, Texas.

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING AUGUST 24, 1923.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	<u>Capital</u>	<u>SURPLUS</u>	<u>Total Resources</u>
<u>DISTRICT NO. 6.</u>			
Farmers Bank of Pelham, Pelham, Ga.	\$100,000	\$ 50,000	\$621,126
<u>DISTRICT NO. 12.</u>			
The American Bank, San Francisco, Cal.	2,000,000	400,000	26,260,787

INSOLVENT:

State Bank of Belt, Belt, Mont.

MERGER:

The Columbia Bank of New York, N. Y., has merged with the
Manufacturers Trust Company of New York.

WITHDRAWAL:

Clarkfield State Bank, Clarkfield, Minn.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

The Calcasieu National Bank of Southwest Louisiana, Lake Charles, La.
The Highland National Bank of Pittsburgh, Pittsburgh, Pa.

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING AUGUST 31, 1923.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	<u>Capital</u>	<u>Surplus</u>	<u>Total resources</u>
<u>DISTRICT NO. 8.</u>			
Peoples Exchange Bank, Russellville, Ark.	\$100,000	\$ 50,000	\$ 911,907

CLOSED:

Citizens' Bank & Trust Co., Rapid City, South Dakota.

WITHDRAWAL:

The Wells-Hine Trust Co., Savannah, Mo.

CONVERTED INTO NATIONAL BANK:

Bank of Commerce, El Dorado, Ark.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

The First National Bank, Pen Argyl, Pa.
The Midland National Bank, Billings, Mont,

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING SEPTEMBER 7, 1923.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	<u>Capital</u>	<u>Surplus</u>	<u>Total Resources</u>
<u>DISTRICT NO. 3.</u>			
East Petersburg State Bank, East Petersburg, Pa.	\$50,000	\$5,000	\$190,548

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

National Union Bank, Dover, New Jersey (supplemental).
Broadway National Bank, Denver, Colorado.

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING SEPTEMBER 14, 1923.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	<u>Capital</u>	<u>Surplus</u>	<u>Total Resources</u>
<u>DISTRICT NO. 3.</u>			
Atlantic Safe Deposit & Trust Co. Atlantic City, N. J.	\$300,000	\$350,000	\$6,714,654

DISTRICT NO. 6.

Rutherford County State Bank, Murfreesboro, Tenn.	50,000	25,000	75,000
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CONVERTED INTO NATIONAL BANK:

South Texas State Bank, Galveston, Texas.

INSOLVENT:

Eden State Bank, Eden, Idaho.

MERGER:

The Battery Park Bank, New York, N. Y., has merged with the Bank of America, New York, N. Y., a member bank.

SUCCEDED BY NATIONAL BANK:

The Farmers and Merchants Bank of Burbank, Calif., has been succeeded by the New First National Bank in Burbank.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

The First National Bank of McKeesport, McKeesport, Pa.
The Citizens National Bank of New Castle, New Castle, Pa.
The Farmers and Merchants National Bank of Reno, Reno, Nev.

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING SEPTEMBER 21, 1923.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

N O N E

MERGER:

The Security Bank & Trust Co., San Francisco, Cal., a member, has merged with the American Bank of San Francisco, also a member.

CONVERTED INTO A NATIONAL BANK:

The First State Bank, Graford, Texas.

AUTHORIZED TO ACCEPT DRAFTS AND BILLS OF EXCHANGE
UP TO 100 PER CENT OF CAPITAL AND SURPLUS:

The American Bank of San Francisco, Calif.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

The Scarsdale National Bank, Scarsdale, N. Y.
The First National Bank, Batavia, Ill.

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING SEPTEMBER 28, 1923.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	<u>Capital</u>	<u>Surplus</u>	<u>Total Resources</u>
<u>DISTRICT NO. 10.</u>			
Federal Trust Company, Kansas City, Mo.	\$200,000	\$40,000	\$495,356

SUCCEEDED BY NATIONAL BANK:

Fort Scott State Bank, Fort Scott, Kansas.

INSOLVENT:

Bank of Hansen, Hansen, Idaho.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

First National Bank, Roscoe, New York.
Columbia National Bank, Columbia, S. C.
Jackson State National Bank, Jackson, Miss.
First National Bank, Thornton, Iowa.
First National Bank, Wausau, Wis.
California National Bank, Long Beach, Calif.

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING OCTOBER 5, 1923.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

DISTRICT NO. 3.

The Ninth Bank and Trust Co., Philadelphia, Penna.

INSOLVENT:

State Bank of Garfield, Panguitch, Utah.

WITHDRAWAL:

First Utah Savings Bank, Ogden, Utah.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

The First National Bank of Sheffield, Sheffield, Iowa.

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING OCTOBER 12, 1923.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

N O N E

CHANGE OF TITLE:

The Falls Banking and Trust Company, Cuyahoga Falls, Ohio, has changed its title to "The Falls Banking Company".

VOLUNTARY LIQUIDATION:

Sioux Falls Savings Bank, Sioux Falls, S. Dak.
(Succeeded by Sioux Falls Trust & Savings Bank, non-member)

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

Home National Bank, Meriden, Conn. (Sup.)
Manufacturers National Bank, Lewiston, Maine (Sup.)
Security National Bank, Everett, Wash.

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING OCTOBER 19, 1923

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

<u>DISTRICT NO. 6.</u>	<u>Capital</u>	<u>Surplus</u>	<u>Total Resources</u>
Commercial Bank, Trust & Title Co., Miami, Florida.	\$300,000	\$150,000	\$1,395,246
<u>DISTRICT NO. 7.</u>			
First Iowa State Trust & Savings Bank, Burlington, Iowa.	200,000	300,000	6,043,575

CLOSED:

Discount and Deposit Bank, Kentland, Ind.

WITHDRAWN:

State Bank & Trust Co., Harrodsburg, Ky.

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING OCTOBER 26, 1923

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

N O N E

CLOSED:

The Farmers Bank of Crawford, Crawford, Ga.

WITHDRAWN:

Security State Bank, Neligh, Nebraska.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

Planters National Bank, Richmond, Va.
Colonial National Bank, Roanoke, Va.
Old National Bank, Evansville, Ind.
Union National Bank, Marquette, Mich.
First National Bank, Chippewa Falls, Wis.
Texas National Bank, Beaumont, Texas.
Republic National Bank, Dallas, Texas.
First National Bank, Galveston, Texas. (Sup.)

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING NOVEMBER 2, 1923.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	<u>Capital</u>	<u>Surplus</u>	<u>Total resources</u>
<u>DISTRICT NO. 3.</u>			
Lock Haven Trust Company, Lock Haven, Penna.	\$250,000	\$250,000	\$3,305,844
<u>DISTRICT NO. 7.</u>			
Webster County Trust and Savings Bank, Ft. Dodge, Ia.	100,000	16,000	391,467
<u>DISTRICT NO. 8.</u>			
Park Savings Trust Company, Richmond Heights, Mo.	50,000	10,000	60,000
Southwest Bank of St. Louis, St. Louis, Mo.	125,000	17,000	1,291,334

INSOLVENT:

Hardin State Bank, Hardin, Montana.
Citizens' Bank & Trust Co., Rapid City, S. Dak.

CLOSED:

Denton State Bank, Denton, Montana.

AUTHORIZED TO ACCEPT DRAFTS AND BILLS OF EXCHANGE
UP TO 100 PER CENT OF CAPITAL AND SURPLUS:

Albany Exchange National Bank, Albany, Georgia.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

First National Bank, Marquette, Mich.
First and Farmers National Bank, Montrose, Penna.
Second National Bank, Allentown, Penna.

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING NOVEMBER 9, 1923

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

N O N E

CLOSED:

Live Stock State Bank, Kansas City, Mo.
First State Bank, Fort Towson, Okla.

CONSOLIDATION:

The Peoples Trust Company and the Peoples Bank,
both of Philadelphia, Pa., have consolidated under
the title "Peoples Bank and Trust Company".

INSOLVENT:

Hardin State Bank, Hardin, Mont.
Inverness State Bank, Inverness, Mont.
Citizens Bank & Trust Co., Rapid City, S. Dak.
Fannin County Bank, Bonham, Texas.

WITHDRAWAL:

The Planters Bank, Wilson, N. C.

AUTHORIZED TO ACCEPT DRAFTS AND BILLS OF EXCHANGE
UP TO 100 PER CENT OF CAPITAL AND SURPLUS:

First National Bank, Montgomery, Alabama.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

First National Bank, Richfield Springs, N. Y.
Boonville National Bank, Boonville, Mo.
Southern National Bank, Memphis, Tenn.

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING NOVEMBER 16, 1923.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	<u>Capital</u>	<u>Surplus</u>	<u>Total Resources</u>
<u>DISTRICT NO. 2.</u>			
Carteret Trust Co., Carteret, N. J.	\$100,000	\$25,000	\$220,382
<u>DISTRICT NO. 4.</u>			
Central Trust Co., Cincinnati, Ohio	1,000,000	1,000,000	10,560,155

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

Sullivan County National Bank, Liberty, N. Y.

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING NOVEMBER 23, 1923

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	<u>Capital</u>	<u>Surplus</u>	<u>Total resources</u>
<u>DISTRICT NO. 3.</u>			
People's Trust Co., Frackville, Pa.	\$125,000	\$40,000	\$646,558
<u>DISTRICT NO. 12.</u>			
The Home Bank, Porterville, Calif.	100,000	15,000	310,281

CLOSED:

Willow Creek State Bank, Willow Creek, Mont.

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING NOVEMBER 30, 1923.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

N O N E

CLOSED:

Farmers State Bank, Spring Valley, Minn.
Stock Growers State Bank, Timber Lake, S. Dak.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

The National Bank of Norwalk, Norwalk, Conn. (Sup.)
First National Bank, Bound Brook, N. J. (Sup.)
National Bank of Commerce in New York, New York,
N. Y. (Sup.)

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING DECEMBER 7, 1923

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	<u>Capital</u>	<u>Surplus</u>	<u>Total resources</u>
<u>DISTRICT NO. 8.</u>			
Shaw State Bank, St. Louis, Mo.	\$120,000	\$12,000	\$388,018

WITHDRAWN FROM SYSTEM:

The Bank of Ocoee, Ocoee, Florida.

CLOSED:

Security State Bank, Wolf Point, Montana.
D. W. Standrod & Co., Blackfoot, Idaho.

CHANGE OF TITLE:

The Central Trust Company, Cincinnati, Ohio,
to
The Fourth and Central Trust Company
(having taken over the Fourth National Bank of Cincinnati).

Farmers and Merchants Bank of Burbank, California,
to
Farmers and Merchants Savings Bank.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

The First National Bank of Darby, Darby, Penna.
The Citizens National Bank of Casper, Casper, Wyo.

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING DECEMBER 14, 1923.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	<u>Capital</u>	<u>Surplus</u>	<u>Total resources</u>
<u>DISTRICT NO. 2.</u>			
State Bank of Pearl River, Pearl River, New York.	\$50,000	\$12,500	\$ 62,500
<u>DISTRICT NO. 3.</u>			
Farmers' Bank of Egypt, Egypt, Pennsylvania.	60,000	30,000	668,070
Schnecksville State Bank, Schnecksville, Pennsylvania.	25,000	2,500	56,643

CLOSED:

Bank of Commerce, Forsyth, Montana.
State Bank of Plentywood, Plentywood, Montana.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

Farmers National Bank, Princeton, Kentucky.

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING DECEMBER 21, 1923.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

N O N E.

CLOSED:

Crittenden County Bank & Trust Co., Marion, Ark.
Payson Exchange Savings Bank, Payson, Utah.

VOLUNTARY LIQUIDATION:

The Farmers State Bank, Sprague, Wash.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

The First National Bank, Brush, Colo.
The Easton National Bank, Easton, Md.
The Lewiston National Bank, Lewiston, Idaho.
The Annville National Bank, Annville, Penna.
The First National Bank, Wisconsin Rapids, Wis.
The Old First National Bank, Mount Vernon, Ind.
The Pacific National Bank, Nantucket, Mass.
The First National Bank, Frackville, Penna.

AUTHORIZED TO ACCEPT DRAFTS AND BILLS OF
EXCHANGE UP TO 100 PER CENT OF CAPITAL AND SURPLUS:

Illinois Merchants Trust Co., Chicago, Ill.

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING DECEMBER 28, 1923.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	<u>Capital</u>	<u>Surplus</u>	<u>Total resources</u>
<u>DISTRICT NO. 8.</u>			
Lindell Trust Company, St. Louis, Mo.	\$200,000	\$20,000	\$220,000
Franklin County Bank, Washington, Mo.	50,000	20,000	429,034

DISTRICT NO. 11.

Austwell State Bank, Austwell, Texas.	25,000	5,000	82,912
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VOLUNTARY LIQUIDATION:

The Farmers State Bank, Sprague, Washington.

MERGER:

The Citizens Trust Co., Buffalo, N. Y., has merged with the Marine Trust Co., Buffalo, N. Y.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

First National Bank, Lebanon, Ill.
South Texas National Bank, Galveston, Texas.

X-3767

To: Federal Reserve Board.

July 2, 1923.

From: Law Committee.

Subject: Report on New Regulation.

The Law Committee has carefully considered the proposed new edition of the Board's regulations, the proof of which is attached hereto, and recommends that it be approved and adopted by the Board, except as to two points in Regulation H, which are referred to the Board without recommendation.

There is given below a brief description of the changes which have been made in the regulations, in the order in which they appear.

REGULATION A-Discounts under Sections 13 and 13 (a).

Section I. General Statutory Provisions. This section contains only a summary or paraphrase of the general statutory provisions effecting the rediscount of notes, drafts and bills of exchange, and the only changes made are such as are necessary to make this section conform to the law as amended to date.

Section II. General Character of Notes, Drafts and Bills of Exchange eligible. Subdivision (a) has been amended by inserting in the first line thereof immediately before the word "note" the word "negotiable", in order to incorporate in the regulations the well established ruling of the Board that only negotiable notes, drafts and bills of exchange are eligible for rediscount. At the end of this subdivision there has also been inserted a requirement that "the name of the party to such transaction must appear upon it as maker, drawer, acceptor or endorser." The purpose of this change is to incorporate in the regulation the substance of the ruling published in the Federal Reserve Bulletin for September, 1921, which announced a rule which is merely a

corollary to the rule previously stated in subdivision (a).

Subdivision (c) of the old regulation contained a statement of two different rules, (1) that paper offered for rediscount must not be paper the proceeds of which have been or are to be used for investments of a purely speculative character and (2) it must not be paper the proceeds of which have been used for the purpose of lending to some other borrower. This subdivision has been split into two subdivisions in order that exceptions might be made to the latter rule to cover two classes of paper which have been made eligible by the Agricultural Credits Act even though the proceeds have been used for the purpose of making loans to other borrowers, - i.e., paper of cooperative marketing associations of the kinds described in Section VI (b) and factors' paper of the kind described in Section VIII. This part of old subdivision (c), and the exceptions to the rule have been incorporated in new subdivision (b), and the remaining part of old subdivision (c) has been re-designated as subdivision (d).

New subdivisions (c) and (a) are identically the same as old subdivisions (b) and (d), respectively.

Section III. Applications for Discount. The language of this section has been changed somewhat in order to clarify it, but the substance remains the same except that the latter part, which relates to the amount of paper bearing the signature or endorsement of any one borrower which may be rediscounted for any one member bank has been changed so as to conform to the provisions of Section 9 of the Federal Reserve Act as amended by the Act of July 1, 1922.

Section IV. Promissory Notes. The second paragraph of subdivision (b) has not been changed in substance, but the phraseology has been changed

somewhat for the purpose of clarifying what was formerly a very ambiguous provision.

Sub-paragraph (1) of Section IV (b) has also been amended in substance by inserting after the word "storage" the words "by a valid prior lien on live stock which is being marketed or fattened for market." The effect of this amendment is to waive financial statements as to makers of notes which are secured by such a lien on live stock. It was made at the suggestion of several of the Western Federal Reserve Banks who stated that it had long been their custom to waive financial statements as to notes secured by chattel mortgages on live stock.

Section VI. Agricultural Paper. Subdivision (a) which consists of a definition of agricultural paper has been re-drafted so as to clarify the definition and broaden it so as to incorporate the latest and most liberal principles adopted by the Board in determining what constitutes agricultural paper and especially the principle that the marketing of agricultural products or the carrying of agricultural products by the growers thereof pending orderly marketing constitutes an agricultural purpose. This definition has also been changed by the substitution of the new nine months' maturity clause in place of the old six months' maturity clause, to conform to an amendment contained in the Agricultural Credits Act.

Subdivision (b) is entirely new and was inserted for the purpose of incorporating the provisions contained in the Agricultural Credits Act which make certain classes of paper of cooperative marketing associations eligible for rediscount as agricultural paper. All of this subdivision except the last paragraph thereof is simply a paraphrase

or analysis of the law. The last paragraph is a corollary to the rule that paper the proceeds of which have been used for permanent or fixed investments or for any other capital purpose is ineligible for rediscount. It is inserted in this part of the regulation in order to obviate the necessity of answering many inquiries as to the eligibility of the class of paper described which clearly is ineligible even under the law as amended by the Agricultural Credits Act.

Subdivision (c) is exactly the same as the corresponding portion of the old regulation, except that the words "six months" which previously appeared immediately before the words "agricultural paper" have been stricken out.

Subdivision (d) is entirely new and covers the rediscount of agricultural paper for Federal Intermediate Credit Banks as permitted under the second paragraph of Section 13 (a) of the Federal Reserve Act as amended by the Agricultural Credits Act.

Section VII. Sight Drafts secured by Bills of Lading. This section is entirely new and was inserted for the purpose of covering a new provision inserted in Section 13 of the Federal Reserve Act by the Agricultural Credits Act. It is merely a paraphrase or analysis of the law except in one respect in which an interpretation of the law has been attempted, i.e., the law says that all such bills shall be forwarded promptly for collection and "demand for payment shall be made with reasonable promptness after the arrival of such staples at their destination." In the regulation this is interpreted to mean that all such bills of exchange shall be forwarded promptly for collection and demand for payment shall be made promptly, unless the drawer instructs

that they be held until arrival of car, in which event they must be presented for payment within a reasonable time after notice of arrival of such staples at their destination has been received. This is believed to be a correct and practical interpretation of the law and one which fairly carries out the intention of Congress.

Section VIII. Factors' Paper. This section is entirely new and is merely a paraphrase of the law, except that one ambiguous phrase has been interpreted. The law says that "notes, drafts and bills of exchange of factors issued as such making advances exclusively to producers of staple agricultural products in their raw state shall be eligible for such discount." This might be construed as making eligible only the paper of such factors as make advances exclusively to producers of agricultural products in their raw state, but such an interpretation would exclude the paper of all factors who make advances to any one else. It is believed that this is not what was intended, and the provision has been construed in the regulation to apply to the paper of all factors issued as such for the purpose of making advances exclusively to producers of agricultural products in their raw state. This is believed to be a fair interpretation of the law and one which carries out in good faith the real intent of Congress.

Section X. Eligibility. The first paragraph of this section has been changed by striking out the words "of not more than three months, exclusive of days of grace", and inserting in lieu thereof the words "not greater than that prescribed by Section XI (a)." The purpose of this is to make it possible to cover in a different section the amendment to the law making six months' acceptances eligible for rediscount

when drawn for an agricultural purpose and secured at the time of acceptance by warehouse receipts or other such documents conveying or securing title covering readily marketable staples.

Section (i) has been amended by adding at the end the words "or between dependencies or insular possessions and foreign countries." This amendment covers a class of acceptances which has always been eligible under the law, but which was overlooked in writing the old regulation. The remainder of this section is identically the same as the corresponding part of the old regulation.

Section XI. Maturities. Subdivision (a) is entirely new and was inserted for the purpose of covering acceptances drawn for an agricultural purpose and secured at the time of acceptance by a warehouse receipt or other such document conveying or securing title covering readily marketable staples, which acceptances were made eligible for rediscount with maturities up to six months by an amendment contained in the Agricultural Credits Act.

Subdivision (b) is identically the same as Section IX of the old regulation, except that the words "of not more than three months, exclusive of days of grace" have been stricken out and the words "not greater than that prescribed under (a)" have been inserted in lieu thereof.

The remainder of Regulation A is identically the same as the old regulation, except that wherever the word "rediscount" occurs in the old regulation it has been changed to "discount", in order to meet a suggestion as to phraseology made by the Governors of several of the Federal Reserve Banks.

REGULATION B. Open Market Purchases.

There has been no substantial change in this regulation except that the omission therefrom of subdivision (c) of Section II, which was inserted by an amendment adopted by the Board under date of December 19, 1922, making a certain restricted class of acceptances of cooperative marketing associations eligible for purchase in the open market with maturities upto six months. This provision has been completely superseded by the amendment contained in the Agricultural Credits Act which makes a much broader class of acceptances drawn for agricultural purposes eligible for rediscount with maturities up to six months. Inasmuch as the first paragraph of Section II of Regulation B in general terms makes eligible for purchase on the open market all bankers' acceptances which are eligible for rediscount under Regulation A if secured in the manner required by the Agricultural Credits Act, subdivision (c) of the old regulation is now entirely unnecessary and would only cause confusion if retained in the new regulation.

The first paragraph of Section II has been rewritten and clarified; but the substance of it has not been changed.

REGULATION C. Acceptances of member banks.

This regulation is identically the same as the old Regulation C, except for slight changes in phraseology which were made in order to describe accurately the statutory provision referred to in the first section thereof; and wherever the expression "per centum" occurred in the old regulation it has been changed to "per cent", in order to make the "style" uniform.

REGULATION D. Time Deposits and Savings Accounts.

This regulation has not been changed in substance, but section numbers have been inserted and certain inaccuracies in the quotation from Section 19 of the Federal Reserve Act have been corrected.

REGULATION E. Purchase of Warrants.

This regulation has been rearranged and the appendices heretofore published separately have been incorporated in the body of the regulation. No material change has been made in the substance of the regulation, however, except the elimination of the 10 per cent limitation on the amount of warrants of any municipality which might be purchased by a Federal Reserve Bank with the endorsement of a member bank. This limitation did not apply to the purchase of warrants with the endorsement of nonmember banks, and it was contended that it operated as a discrimination against member banks and in favor of nonmember banks. This matter was called to the attention of the Board by Governor Young and was discussed at the last Governors' Conference.

REGULATION F. Trust Powers.

No change has been made in this regulation.

REGULATION G. Loans on Farm Land and Other Real Estate.

This regulation has been changed in only one respect. Paragraph (g) thereof has been changed so as not to require notes representing real estate loans to be cancelled at maturity and new notes taken in their places. It now permits an expiring note to be renewed or extended for an additional period. The important safeguard that the bank must not obligate itself in advance to make such a renewal is retained, and the only thing changed is the manner of making a renewal.

REGULATION H. Membership of State Banks.

This regulation has been changed materially so as to conform to the amendments to Section 9 of the Federal Reserve Act contained in the Agricultural Credits Act of 1923, which make a State bank with a capital equal to not less than 60 per cent of the amount required for the organization of a national bank eligible for admission to membership under certain terms and conditions. Section 9 thus amended, provides that the Federal Reserve Board shall prescribe rules and regulations fixing the time within which and the methods by which the unimpaired capital of such banks shall be increased out of net income to the amount required to entitle it to become a national banking association in the place where it is situated under the National Bank Act, "Provided, That every such rule or regulation shall require the applying bank to set aside annually not less than 20 per centum of its net income of the preceding year as a fund exclusively applicable to such capital increase." Such rules and regulations have been incorporated in subdivision 2, of Section I of the new regulation.

There is one point to which the Committee desires to call the Board's especial attention: The time within which such banks shall increase their capital. In the regulation as now drafted 10 years is named, but this is such a vital point that the Committee hesitates to name this time except tentatively. The time originally suggested was five years; but it was feared that it would be absolutely impossible for many of the smaller banks to increase their capital in the required amount (66-2/3 per cent) "out of net income" as required by the Act within five years. It probably would be equally impossible, however,

for many of the smaller banks to increase their capital such an amount out of net income in fifty years. The Committee has suggested ten years as a reasonable time limit and one which does not postpone the date of such increase so far in the future as to practically nullify the requirement that the capital must be increased.

There has also been inserted in Section IV of the regulation a new paragraph (numbered 4) specifically providing that all banks admitted to membership shall comply at all times with any and all conditions of membership prescribed by the Federal Reserve Board at the time of the admission of such member bank to the Federal Reserve System. This has been inserted because there is a technical difference between the Board's power to prescribe "conditions" of membership and its power to prescribe "regulations" governing state member banks, and Section 9 authorizes the Board to expel state banks from the System for failure to comply with the Board's regulations but does not authorize it to expel them for failure to comply with conditions of membership.

There is another matter in this regulation which the Committee desires to call to the Board's attention. The latter half of the second paragraph of Section V expressly authorizes the examiners of the Federal Reserve Banks to cooperate with the State examiners in examining State member banks. This is inconsistent with the rulings recently made on the subject and probably is not in accordance with the law, since Section 9 apparently contemplates that the examinations of a State member bank shall be either State examinations or Federal examinations. It provides that the expenses of Federal examinations shall be assessed against the bank examined but that the expenses of a State examination

shall not be assessed by the Federal Reserve Bank against the bank examined. The express mention of State examinations and Federal examinations impliedly exclude joint examinations, which are not mentioned in the Act at all, and the General Counsel is of the opinion that joint examinations are not authorized. For this reason he recommends that all but the first three lines of this paragraph be stricken from the regulation. This provision has been in the regulation for many years, however, and the Committee hesitated to strike it out without first submitting the matter to the Board.

REGULATION I. Increase or Decrease of Capital Stock.

Section I (a) has been amended so as to conform to the practice agreed upon between the Board and the Comptroller's Office in the fall of 1921 with reference to applications by newly organized national banks for membership in the Federal Reserve System.

Section II (b) and II (c) have also been amended so as to require the receivers of insolvent member banks and the liquidating agents of member banks in voluntary liquidation to apply for the surrender and cancellation of the Federal Reserve Bank stock held by such banks within six months after their appointment.

REGULATION J. Check Clearing and Collection.

This regulation has been rewritten and brought up to date. It has not only been amended by the addition of the two new paragraphs recently adopted by the Board, but it has also been entirely rearranged and reworded so as to conform to present practices and to the uniform check collection circular recently adopted by all the Federal Reserve Banks.

Each section of the new regulation will be discussed briefly in order.

Sections I and II are identically the same as the first three paragraphs of the old regulation.

Section III. Subdivision (a) is identically the same as condition (1) of the old regulation, except that the words "in acceptable funds" have been inserted.

Subdivision (b) is the same as condition (2) of the old regulation except that the words "in other Federal Reserve Districts authorized to route direct", have been substituted for the words "regardless of their location" and the words "which agree to remit at par in acceptable funds" have been substituted for the words "whose checks are collected at par by the Federal Reserve Bank."

Subdivisions (c) and (d) are the two new provisions recently adopted by the Board.

Section IV. The first sentence is substantially the same as the last paragraph of condition (7) of the old regulation. The remainder of the section correctly describes the present practice of the Federal Reserve Banks and supersedes condition (3) of the old regulation, which is obsolete.

Section V. correctly describes the present practice of Federal Reserve Banks in collecting checks and contains the limitation of liability and other safeguards against liability on the part of the Federal Reserve Bank which are contained in the old regulation and in the uniform check collection circular recently adopted by all the Federal Reserve Banks. It takes the place of condition (4) and the first four lines of condition (8) of the old regulation. It also permits Federal Reserve Banks to guarantee prior endorsements, a suggestion submitted

by the Collection Committee, made a topic of discussion at the last Governors' Conference and referred to the Federal Reserve Board for action. This matter was referred to the Board's General Counsel who has suggested that it be covered by this amendment to Regulation J. As a practical matter, it is necessary for Federal Reserve Banks to guarantee prior endorsements if they are to handle checks for collection and most of them have been doing it, though it probably constituted a technical violation of the old Regulation J.

Section VI. Subsections (a) and (b) are substantially the same as the first two paragraphs of condition (6) of the old regulations. Subsections (c) and (d) take the place of the third paragraph of condition (6) of the old regulation, but differ from it sufficiently to fit the present practice of the Federal Reserve Banks.

Section VII. Is identically the same as the last five lines of the old regulation.

REGULATION K. Edge Corporations.

There is no change in this regulation.

REGULATION L. Clayton Act.

This regulation is the same as the old regulation with the following exceptions:

1. The definition of the term "national bank" has been broadened so as to include all banking institutions organized or operating under the laws of the United States, and corresponding changes have been made elsewhere.

2. The words "such State bank has" have been stricken out of

subdivisions 7 and 8 of Section III and the words "either or both of such banks have" have been inserted in their place.

3. There has been inserted in Section IV under the sub-head "Substantial Competition" the statement of general principles adopted by the Board for its guidance in determining whether two or more banks are in substantial competition.

The Law Committee

C. S. Hamlin

Edmund Platt

Walter Wyatt, Secretary

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-3768

Dear Sir:

This will acknowledge receipt of your letter expressing your approval of the par clearance system.

Your letter will be brought to the attention of the Board and will have due consideration.

You are advised that there is opposition by the smaller banks of the country to the par clearance of checks, and they are threatening to take the matter to Congress with the purpose of having the Federal Reserve Act amended or repealed.

The question of legislation amending or repealing the Federal Reserve Act is one for Congress, and not, as I take it, for the Federal Reserve Board. If Congress is to be importuned to either amend or repeal the Federal Reserve Act, the result will depend largely upon the business men of the country, if they desire the perpetuation of the Federal Reserve System and the par clearance of checks.

The Board in attempting to follow the rules laid down by the Supreme Court of the United States, and even those rules are now being questioned, so it would seem there is to be some further agitation, and possibly litigation, pertaining to the whole subject.

You will understand that the Board is an administrative body, and only attempts to enforce such laws as may be enacted by Congress, and as construed by the courts.

Very truly yours,

Governor.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARDX-3769
July 6, 1923.

SUBJECT: Edge Act Corporations;
Report of Condition as at the Close of Business,
June 30, 1923.

Dear Sir:

Under the provisions of the Board's Regulation K, Series of 1920, governing banking corporations authorized to do foreign banking business under the terms of Section 25 (a) of the Federal Reserve Act, you are hereby respectfully requested to furnish the Board with a report of condition, as at the close of business June 30, 1923, giving in detail all assets and liabilities of your corporation and the data asked for in the accompanying memorandum.

Kindly acknowledge receipt.

Very truly yours,

Governor.

(Enclosure)

TO EDGE ACT CORPORATIONS.

X-3769a

REPORT OF CONDITION TO FEDERAL RE-
SERVE BOARD.

The following information is desired in connection with the report of condition to be made as at close of business June 30, 1923.

HEAD OFFICE AND DOMESTIC BRANCHES COMBINED

1. Detailed balance sheet showing all assets and liabilities, including contingent liabilities. It is requested that the items for which detailed schedules are requested below be shown as separate accounts on the balance sheet.
2. Amount of loans and discounts, divided: Secured - Unsecured
 - (a) Demand
 - (b) Time
 - (c) Overdrafts and other advancesTotal
3. Detailed list of investments (including stock of affiliated institutions) showing:
 - (a) Issuing Government or corporation
 - (b) Interest rate
 - (c) Maturity
 - (d) Par value
 - (e) Book value
 - (f) Approximate market value
4. Ownership of stock of affiliated institutions:
 - (a) Per cent owned by yourselves
 - (b) Per cent owned by foreign Governments
 - (c) Per cent owned by individuals and corporations
5. List of banks, branches, etc. having balances due to your corporation with amount for each bank separately:
 - (a) Government bank
 - (b) Domestic banks
 - (c) Foreign banks
 - (d) Foreign branches, agencies and affiliated institutions
6. List of banks, branches, etc. having balances due from your corporation with amount for each bank separately:
 - (a) Domestic banks
 - (b) Foreign banks
 - (c) Foreign branches, agencies and affiliated institutions

- (c) List of drawers of drafts accepted, with total aggregate liability in excess of 10 per cent of subscribed capital and surplus showing:

<u>Name</u>	<u>Address</u>	<u>Business</u>	<u>Aggregate Liability</u>	<u>Security* or Guaranty</u>
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- (d) Amount of acceptances outstanding drawn for the purpose of furnishing dollar exchange.
- (e) Reserve against outstanding acceptances:
- 1-Required: 15% against all acceptances outstanding which mature in 30 days or less: \$ _____
- 3% against all acceptances outstanding which mature in more than 30 days: \$ _____
- Total reserve required against acceptance liability \$ _____
- 2-Held: Cash and Bank balances (**) \$ _____
- Bankers acceptances \$ _____
- Securities approved by Federal Reserve Board (List in detail) \$ _____
- Total reserve held \$ _____

12. General limitations:

Per cent deposits and acceptances outstanding to subscribed capital and surplus _____

13. List of officers and directors.
14. List of stockholders, showing number of shares owned by each.
15. List of branches, sub-branches, agencies, offices and affiliated institutions - date of opening of each and the location.
16. Date of last examination or audit - by whom made.

(*) If security, state what the security consists of, giving quantity and approximate value; if a bank guaranty, give name and location of bank.

(**) Excess amount as shown in 10-(g) not required for reserve against deposit liability.

NOTE: Where a schedule does not refer to your corporation, please indicate this by inserting the word "None".

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARDX-3770
July 6, 1923.

SUBJECT: Foreign and International Banking Institutions;
Report of Condition as at the Close of Business,
June 30, 1923.

Dear Sir:

Under authority of the agreement entered into by your corporation with the Federal Reserve Board, you are hereby respectfully requested to furnish the Board with a report of condition, as at the close of business June 30, 1923, giving in detail all assets and liabilities of your corporation and the data asked for in the accompanying memorandum.

Kindly arrange to file the report of your Head Office and domestic branches combined as soon as possible. Separate reports of foreign branches and affiliated banks should be sent as soon as they are received by you. It will be appreciated if, after the reports have been received from all of your foreign branches and affiliated banks, you will have prepared a consolidated statement of your corporation to be sent to the Board.

While the Board has ruled that no specific reserve has to be carried by foreign branches or affiliated institutions of American banking corporations against deposits abroad, it, nevertheless, wishes to be advised as to the average reserve carried by all such branches and affiliated institutions or corporations which are operating under agreement with the Federal Reserve Board. You are, therefore, requested to have each of your foreign branches, agencies, offices and subsidiary banks furnish you, for transmission to the Board, a report of the average reserve carried during the month of June, 1923, against deposit liabilities in the form shown in the accompanying memorandum.

Kindly acknowledge receipt.

Very truly yours,

Governor

(Enclosure)

X-3770a

REPORT OF CONDITION TO FEDERAL RE-
SERVE BOARD.

The following information is desired in connection with the report of condition to be made as at close of business June 30, 1923.

HEAD OFFICE AND DOMESTIC BRANCHES COMBINED

1. Detailed balance sheet showing all assets and liabilities, including contingent liabilities. It is requested that the items for which detailed schedules are requested below be shown as separate accounts on the balance sheet.
2. Amount of loans and discounts, divided: Secured - Unsecured
 - (a) Demand
 - (b) Time
 - (c) Overdrafts and other advancesTotal
3. Detailed list of investments (including stock of affiliated institutions) showing:
 - (a) Issuing Government or corporation
 - (b) Interest rate
 - (c) Maturity
 - (d) Par value
 - (e) Book value
 - (f) Approximate market value
4. Ownership of stock of affiliated institutions:
 - (a) Per cent owned by yourselves
 - (b) Per cent owned by foreign Governments
 - (c) Per cent owned by individuals and corporations
5. List of banks, branches, etc. having balances due to your corporation with amount for each bank separately:
 - (a) Government bank
 - (b) Domestic banks
 - (c) Foreign banks
 - (d) Foreign branches, agencies and affiliated institutions
6. List of banks, branches, etc. having balances due from your corporation with amount for each bank separately:
 - (a) Domestic banks
 - (b) Foreign banks
 - (c) Foreign branches, agencies and affiliated institutions

7. Bills payable: (Primary obligations of reporting corporation representing money borrowed)
- (a) Payable to:
 - (b) Amount
 - (c) Interest rate
 - (d) Maturity
 - (e) Collateral - give list
8. Rediscounts (other than acceptances sold with endorsement):
- (a) Amount
 - (b) Maturity
 - (c) Rate
 - (d) With whom
 - (e) Secured or unsecured - if secured, give detailed information regarding security.
9. Total liability for acceptances sold with endorsement:
10. Deposits in the United States:
- (a) Net demand deposits (after deducting uncollected demand items payable within United States - exchanges)
\$ _____ Reserve Required \$ _____
 - (b) Time Deposits \$ _____ Reserve Required \$ _____
 - (c) Total Reserve required against deposit liability \$ _____
- Reserve held:
- (d) Cash on hand \$ _____
 - (e) Bank balances \$ _____
 - (f) Total cash reserve held \$ _____
 - (g) Excess or deficit of cash reserve held over reserve required \$ _____
11. Acceptances:
- (a) Acceptances outstanding:

1. Maturing in 30 days or less	\$ _____
2. Maturing after 30 days	\$ _____
Total outstanding acceptances	\$ _____
 - (b) Subscribed capital and surplus

Excess <u>a</u> over <u>b</u>	\$ _____
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- Acceptances secured \$ _____
- Acceptances unsecured \$ _____
- Amount required to be secured under agreement with Federal Reserve Board \$ _____
(Give list of security held as required above giving description and approximate amount)

(c) List of drawers of drafts accepted, with total aggregate liability in excess of 10 per cent of subscribed capital and surplus showing:

<u>Name</u>	<u>Address</u>	<u>Business</u>	<u>Aggregate Liability</u>	<u>Security* or Guaranty</u>
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(d) Amount of acceptances outstanding drawn for the purpose of furnishing dollar exchange.

(e) Reserve against outstanding acceptances:

1-Required: 15% against all acceptances outstanding which mature in 30 days or less: \$ _____

3% against all acceptances outstanding which mature in more than 30 days: \$ _____

Total reserve required against acceptance liability \$ _____

2-Held: Cash and Bank balances (**): \$ _____

Bankers acceptances \$ _____

Securities approved by Federal Reserve Board (List in detail) \$ _____

Total reserve held \$ _____

12. General limitations:

Per cent deposits and acceptances outstanding to subscribed capital and surplus _____

13. List of officers and directors.

14. List of stockholders, showing number of shares owned by each.

15. List of branches, sub-branches, agencies, offices and affiliated institutions - date of opening of each and the location.

16. Date of last examination or audit - by whom made.

(*) If security, state what the security consists of, giving quantity and approximate value; if a bank guaranty, give name and location of bank.

(**) Excess amount as shown in 10-(g) not required for reserve against deposit liability.

B. FOREIGN BRANCHES, AGENCIES AND SUBSIDIARY BANKS AND CORPORATIONS.

1. Balance sheet to be furnished by each, showing in detail all assets and liabilities, including contingent liabilities. It is requested that the items for which detailed schedules are requested below be shown as separate accounts on the balance sheet.
2. Amount of loans and discounts, showing: Secured - Unsecured
 - (a) Demand
 - (b) Time
 - (c) Overdrafts and other advances
3. Detailed list of investments, showing:
 - (a) Issuing Government or corporation
 - (b) Interest rate
 - (c) Maturity
 - (d) Par value
 - (e) Book value
 - (f) Approximate market value
4. List of banks having balances due to your branch with amount for each bank separately:
 - (a) Government bank
 - (b) Banks and bankers
 - (c) Head Office
 - (d) Other branches, agencies and affiliated institutions
5. List of banks having balances due from your branch with amount for each bank separately:
 - (a) Banks and bankers
 - (b) Head Office
 - (c) Other branches, agencies and affiliated institutions
6. Bills payable: (Primary obligations of reporting corporation representing borrowed money)
 - (a) Payable to
 - (b) Amount
 - (c) Interest rate
 - (d) Maturity
 - (e) Collateral (Give detailed list)
7. Rediscounts:
 - (a) Amount
 - (b) Maturity
 - (c) With whom
 - (d) Rate
 - (e) Secured or unsecured - if secured, give detailed data

-2-

X-3770a

8. Deposits.

	Dollar Equivi- lent
(a) Government deposits (if secured give list of collateral)	
1. Demand	
2. Time	
Other deposits	
3. Demand	
4. Time _____	
Total	
(b) Deposits - how payable	
1. Local Currency	
2. Dollar	
3. Sterling	
4. Otherwise _____	
Total	

9. Special Reserve Statement - average for month of December, 1922.

(a) Net deposits:		
1. Payable in local currency		
2. Payable in dollars		
3. Payable in sterling		
4. Payable Otherwise _____		
Total		
(b) Reserve:		
1. Amount, if any, and composition required by local laws.		
2. Amount held:		
	<u>Amount</u>	Per cent to
		<u>net deposits</u>
(a) Gold and Silver\$		%
(b) Local currency		
(c) Other cash		
(d) Balance in local ... Govt. bank		
(e) Other reserve funds _____		
Total		

10. Date of last examination or audit - by whom made.

- NOTE: 1. Where a schedule does not refer to your corporation, please indicate this by inserting the word "None".
2. Reports for foreign branches, agencies, etc., should be in terms of United States dollars, stating the rate of exchange at which they were converted.

FEDERAL RESERVE BOARD

WASHINGTON

X-3772
July 6, 1923.

SUBJECT: Financing the Marketing of Agricultural Products.

Dear Sir:

The Federal Reserve Board wishes to call attention to the importance of the Federal Reserve System functioning effectively in providing adequate financing for the orderly marketing of agricultural products.

Your attention is called specifically to the near approach of the American wheat harvest. The movement of this commodity to the world markets will soon be on and will require financing, as well as expert handling, to insure an orderly marketing movement and avoid periodical congestion at terminal market points, which is very much to the disadvantage of the producer in that it permits a combined buying arrangement on the part of foreign countries.

The Board is advised that the agricultural situation in many sections of the country has materially improved over what it was in the three previous crop seasons. There are, however, some weak spots that require studied attention with a view of assisting the producer in obtaining full advantage emanating from orderly marketing.

The Board would like to suggest that officials of all of the Federal Reserve Banks, including branches, inform themselves fully regarding the added facilities for agricultural financing made possible through legislation enacted during the last Congress. This done, the Federal Reserve Banks should give the information to the public, especially to the member banks, cooperative marketing agencies, and producers and buyers of agricultural products.

The Board feels that any activity on the part of the Federal Reserve Banks will give added assurance to the producer and his marketing agency that added credit facilities are available and will also be helpful in promoting mutual confidence which should be instrumental in pointing out any additional steps that can be properly taken in the process of orderly marketing of agricultural products.

By order of the Federal Reserve Board.

Very truly yours,

Wm. W. Hoxton,
Secretary.

TO ALL FEDERAL RESERVE AGENTS

FEDERAL RESERVE BOARD

X-3773

STATEMENT FOR THE PRESS

For Release in Morning Papers,
Saturday, July 7, 1923.

The following is a copy of a letter addressed to all Federal Reserve Agents today:

"The Federal Reserve Board wishes to call attention to the importance of the Federal Reserve System functioning effectively in providing adequate financing for the orderly marketing of agricultural products.

"Your attention is called specifically to the near approach of the American wheat harvest. The movement of this commodity to the world markets will soon be on and will require financing, as well as expert handling, to insure an orderly marketing movement and avoid periodical congestion at terminal market points, which is very much to the disadvantage of the producer in that it permits a combined buying arrangement on the part of foreign countries.

"The Board is advised that the agricultural situation in many sections of the country has materially improved over what it was in the three previous crop seasons. There are, however, some weak spots that require studied attention with a view of assisting the producer in obtaining full advantage emanating from orderly marketing.

"The Board would like to suggest that officials of all of the Federal Reserve Banks, including branches, inform themselves fully regarding the added facilities for agricultural financing made possible through legislation enacted during the last Congress. This done, the Federal Reserve Banks should give the information to the public, especially to the member banks, cooperative marketing agencies, and producers and buyers of agricultural products.

"The Board feels that any activity on the part of the Federal Reserve Banks will give added assurance to the producer and his marketing agency that added credit facilities are available and will also be helpful in promoting mutual confidence which should be instrumental in pointing out any additional steps that can be properly taken in the process of orderly marketing of agricultural products."

OFFICE CORRESPONDENCE

X-3775

July 7, 1923.

TO The Federal Reserve Board
FROM Edgar W. Freeman-Assistant Counsel.

SUBJECT: Further discussion as to
Havana Agencies.

An informal meeting was held on July 6, attended by Governor Crissinger, Mr. Hamlin, Mr. Eddy, Mr. Bullen from Boston, Mr. Adelson of Atlanta, and myself, at which a number of points were discussed concerning the proposed operation of the two agencies in Havana under the Board's resolution of June 27. This memorandum contains a brief outline of what took place at the meeting and is merely for the information of the Board members who were not present.

The first question discussed was whether or not under the Board's resolution Boston was required to pay for all bills purchased by it in Federal Reserve notes of Atlanta. Mr. Adelson apparently was of the opinion that so long as Atlanta notes were available for use Boston would have to use them in the purchase of bills. Mr. Hamlin referred to the concluding sentence in paragraph 3 of the resolution and advised Mr. Adelson that this clearly contemplated the right of Boston to use any form of currency it saw fit, except Federal Reserve notes, in the purchase of bills. In this connection, Mr. Bullen stated that Boston did not plan to increase the supply of other currency in Cuba, but would make use primarily of Atlanta notes in purchasing bills.

The question of the exchange of fit for unfit Atlanta notes was discussed at considerable length. Mr. Bullen argued that the primary purpose of the establishment of these agencies in Cuba was the purchase and sale of bills as provided in Section 14 (e), and that while it was also contemplated that Cuba should be supplied with clean currency, the new money should come in only through the purchase and sale operations provided for by the resolution. Mr. Adelson contended, on the other hand, that the Atlanta agency might exchange fit Atlanta notes for unfit Atlanta notes, whether or not the paying out of new notes was connected with a purchase or sale transaction; in other words, that the Atlanta agency could function purely as an agency to supply new notes in place of old notes. It was the opinion of the Board members present that, even conceding that there was no objection under the terms of the law to Mr. Adelson's proposition, the resolution contemplated that new currency should be furnished in Cuba solely through the banking operations to be carried on by the Boston agency. It was argued that if the Atlanta agency could call in its unfit notes and replace them by new notes without limitation, this would prevent the Boston bank from transacting the bulk of its anticipated business, that is, the sale of cable transfers, and the Boston bank would accordingly be deprived of its normal profit. Mr. Hamlin stated his view that under the Board's resolution it is contemplated that Atlanta should engage in the business of furnishing its notes and maintaining its circulation, that Boston should engage in the business of buying and selling bills, and that Atlanta should not encroach upon Boston's business by supplying new notes free of charge and without reference to Boston's operations. It was brought out that while any bank in the United States might deposit money in the Atlanta

head office, or its Jacksonville or New Orleans branches, and receive new Atlanta notes in the United States, it could not, upon such a deposit, properly receive new Atlanta notes in Havana, except through a transaction with the Boston Bank, because this would amount to a cable transfer which, under the terms of the resolution, only the Boston bank may negotiate.

Some discussion was had as to whether or not the Atlanta bank might increase the circulation of Atlanta notes in Cuba without limitation, as for example, by purchasing all the other currency which circulates in Cuba and replacing it by its own notes, or by sending its own notes to Cuba against deposits received by its head office or branches in the United States. The Board members stated emphatically that the Atlanta agency could not do this under the resolution, because it was contemplated that Atlanta should merely maintain its circulation, subject to reasonable increase, but that such increase should result only from the purchase and selling operations of the Boston agency.

Mr. Adelson further argued on behalf of the Atlanta bank that the Atlanta agency alone should maintain a currency department in Havana. His proposition was that all money which the Boston agency might receive in exchange for bills sold should be turned over to the Atlanta agency, where it would be counted and sorted and, for all Atlanta notes and other currency, Boston would receive credit through the Gold Settlement Fund. With respect to notes of other Federal Reserve Banks, the Atlanta agency would pack and ship them to the several Federal Reserve Banks or to Washington for redemption for the account of the Boston agency. Mr. Bullen stated that the Boston bank would not agree to this proposition, but that on the contrary the Boston bank expected that its agency would have a currency department of its own and itself handle all money received in payment for bills sold. He agreed, however, that if Atlanta desired, the Boston agency would be willing to turn over to the Atlanta agency all Atlanta notes received by the Boston agency in payment for bills. It was the sense of the Board members that the Boston agency should maintain its own currency department to handle money received in payment for bills. Mr. Adelson seemed very much disappointed at this expression of the Board's opinion, stating his understanding of the agreement to be that the Atlanta agency would alone maintain a currency department and would have entire charge of the handling of all moneys received by either agency. He stated very strongly that if Atlanta did not have the sole currency department, the Atlanta agency would entirely lose its identity and would be no more than an automaton merely to hand out new Atlanta notes whenever the Boston agency required them. Mr. Adelson anticipated that the Atlanta bank would have practically no business in buying or selling bills originating in its own Federal Reserve District, and for this reason, he urged that the Atlanta agency have sole charge of all currency operations.

It does appear that under the resolution, as thus interpreted, the Atlanta agency will have little more than a mechanical existence and its functions will be largely limited to paying out its own notes in connection

with operations carried on by the Boston agency and, as Mr. Adelson intimated, there is a possibility that the Atlanta bank may not care to proceed with the arrangements under these terms.

Mr. Bullen stated that he would submit to the Board early next week the Boston plan of operation and forward a copy to Mr. Adelson. The latter plans to discuss the situation with the directors of the Atlanta bank and make a report later. It does not appear, therefore, that any immediate action is required on the Board's part. This memorandum may, however, be helpful as a reference in further constructions of the Board's resolution, as indicating the attitude of the Board and of the Boston and Atlanta representatives.

Respectfully,

(signed) Edgar W. Freeman

Assistant Counsel.

FEDERAL RESERVE BOARD

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WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-3776
July 10, 1923.

SUBJECT: EXPENSE MAIN LINE, LEASED WIRE SYSTEM, JUNE, 1923.

Dear Sir:

Enclosed herewith you will find two mimeograph statements, X-3776a and X-3776b, covering in detail operations of the main line, Leased Wire System, during the month of June, 1923.

Please credit the amount payable by your bank in the general account, Treasurer, U. S., on your books, and issue C/D Form 1, National Banks, for account of "Salaries and Expenses, Federal Reserve Board, Special Fund", Leased Wire System, sending duplicate C/D to Federal Reserve Board.

Very truly yours,

Fiscal Agent.

(Enclosure)

TO GOVERNORS OF ALL BANKS EXCEPT CHICAGO.

X-3776a

REPORT SHOWING CLASSIFICATION AND NUMBER OF WORDS
TRANSMITTED OVER MAIN LINE OF THE FEDERAL RESERVE
LEASED WIRE SYSTEM FOR THE MONTH OF JUNE, 1923.

From	Bank Business	Percent of Total Bank Business(*)	Treasury Dept. Business	War Finance Corp. Business	Total
Boston	38,522	3.39	8,010	-	46,532
New York	226,104	19.88	20,862	-	246,966
Philadelphia	61,756	5.43	9,512	-	71,268
Cleveland	93,709	8.24	12,004	-	105,713
Richmond	71,641	6.30	8,092	-	79,733
Atlanta	67,073	5.90	10,335	-	77,408
Chicago	151,524	13.32	14,211	-	165,735
St. Louis	93,606	8.23	12,318	-	105,924
Minneapolis	45,388	3.99	7,183	-	52,571
Kansas City	79,597	7.00	10,354	-	89,951
Dallas	65,664	5.77	6,318	-	71,982
San Francisco	142,731	12.55	21,460	78	164,269
Total					
F. R. Banks	1,137,315		140,659	78	1,278,052
Washington	<u>296,406</u>	<u>100.00%</u>	<u>183,136</u>	<u>402</u>	<u>479,944</u>
Grand Total	1,433,721		323,795	480	1,757,996
Percent of Total	81.55%		18.42%	.03%	
Bank Business	1,433,721 words	or 81.58%			
Treasury	<u>323,795</u> " "	<u>18.42%</u>			
TOTAL	1,757,516	100.00%			

(*) These percentages used in calculating the pro rata share of leased wire expenses as shown on the accompanying statement (X-3776b)

FEDERAL RESERVE BOARD,
WASHINGTON, D. C.
July 10, 1923.

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REPORT OF EXPENSE
 MAIN LINE
 FEDERAL RESERVE LEASED WIRE SYSTEM JUNE, 1923.

X-3776b

Name of Bank	Operators' Salaries	Operators' Overtime	Wire Rental	Total Expense	Pro rata Share of Total Expense	Credits	Payable to Federal Reserve Board
Boston	\$ 250.00	\$ -	\$ -	\$ 250.00	\$ 781.67	\$ 250.00	\$ 531.67
New York	1,453.14	-	-	1,453.14	4,583.95	1,453.14	3,130.81
Philadelphia	190.83	-	-	190.83	1,252.05	190.83	1,061.22
Cleveland	366.00	-	-	366.00	1,899.99	366.00	1,533.99
Richmond	315.00	-	-	315.00	1,452.66	315.00	1,137.66
Atlanta	240.00	-	-	240.00	1,360.43	240.00	1,120.43
Chicago	(#)4,852.49	2.00	-	4,854.49	3,071.34	4,854.49	(*)1,783.15
St. Louis	301.63	-	-	301.63	1,897.68	301.63	1,596.05
Minneapolis	278.38	-	-	278.38	920.02	278.38	641.64
Kansas City	336.64	-	-	336.64	1,614.06	336.64	1,277.42
Dallas	251.00	-	-	251.00	1,330.45	251.00	1,079.45
San Francisco	395.00	-	-	395.00	2,893.79	395.00	2,498.79
Fed. Res. Board			16,937.11	16,937.11			
TOTAL	\$9,230.11	\$ 2.00	\$16,937.11	\$26,169.22 (a)3,111.13 \$23,058.09	\$23,058.09	\$9,232.11	\$15,609.13 (&)1,783.15 \$13,825.98

- (#) Includes salaries of Washington operators.
- (&) Amount reimbursable to Chicago.
- (*) Credit.
- (a) Received \$11.13 from War Finance Corporation and \$3,100.00 from Treasury Dept. covering business for month of June, 1923.

FEDERAL RESERVE BOARD,
 WASHINGTON, D. C.
 JULY 10, 1923.

FEDERAL RESERVE BOARD

WASHINGTON

July 12, 1923.

X-3777

SUBJECT: Currency Shipments.

Dear Sir:

The Board recently requested the Committee on Economy and Efficiency to consider the subject of insurance. Closely related to this subject is that of rates charged by the express companies for the transportation of currency and securities. At the present time it is understood that all such shipments are made either by registered mail with outside insurance provided under the so-called registered mail insurance policies, or by express at rates which include insurance for safe-carriage, the choice of method being determined by cost.

About a year ago the express rates for such shipments were increased 35% or 40%, which has increased materially the expense to the Reserve Banks for the making of these shipments. A study of the express rates now in effect discloses certain inconsistencies which it is felt may afford a basis for securing a revision downward. One of the important questions is the cost of insurance on these shipments. Steps are being taken to find out the premium rates in the various districts through Messrs. DeLanoy & DeLanoy, brokers for all the banks. The determination of the legality and reasonableness of rates charged by the express companies lies, in the first instance, with the Interstate Commerce Commission. The whole question has already been taken up informally with the Commission and there are some reasons for feeling that a reduction in costs may be obtained on one or more of the following grounds:

1. That the rates at present charged by the American Railway Express Company on shipments of currency, which rates are based upon value, are unauthorized and in conflict with the terms of the statute.

2. That the rates generally are excessive and entirely out of proportion to the cost of the service rendered.
3. That the rates should be graduated so as to provide smaller charges for each succeeding thousand dollar unit of value after the first.

While it is still too early to indicate what, if any, actual reductions may be obtained, negotiations have now reached the point where it is necessary to present the matter formally to the Interstate Commerce Commission, and in this connection it is desired to obtain from each of the Reserve Banks certain information with respect to its shipments. Will you, therefore, please forward as promptly as possible the information requested in the attached memorandum concerning shipments now being made by your bank.

Very truly yours,

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

TO BE SENT TO ALL GOVERNOR.

FEDERAL RESERVE BANK OF _____
Including Branches if any.

Information requested in Board's letter X-3777 concerning currency shipments by mail and express.

(The word "Currency" wherever used refers to both paper money and coin.)

1. State total amount of express charges paid for shipments made during the six months' period ending June 30, 1923, if possible classifying the amount as follows:
 - a. Express charges on outgoing paper money shipments \$ _____
 - b. Express charges on incoming paper money shipments _____
 - c. Express charges on outgoing coin shipments _____
 - d. Express charges on incoming coin shipments _____

TOTAL _____
2. What classes of currency shipments are now being forwarded or received by your bank routed by express?
3. What classes of currency shipments, both incoming and outgoing, are now routed by registered mail at fourth class postage rates insured?
4. What classes of currency shipments, both incoming and outgoing are now routed by registered mail at first class letter postage rates insured?
5. If there have been any increases in rates charged by express companies in your territory within the last two years, give dates of increases and approximate percent of such increases.
6. Submit comparison of costs of shipping paper money by mail with cost by express in form similar to the attached.
7. How do you ship gold coin at the present time? Show comparison of costs by mail and by express.
8. How do you ship minor coin (pennies and nickels)?
State rate basis and shipping charges per standard bag.
9. How do you ship silver coin (10¢, 25¢, 50¢ and \$1.)?
State rate basis and shipping charges per standard bag.

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TABLE SHOWING COST OF SHIPPING PAPER MONEY BY MAIL IN COMPARISON WITH COST OF SHIPPING BY EXPRESS.

Denom.	No. of Bills in Package	Value	Cost of Mail Shipments					Cost of Express Shipments		
			Insurance Premium	Reg. Fee	4th Class Postage P.P.Zones 1 & 2	Total Cost Zones 1 & 2	4th Class Postage P.P.Zone 3	Total Cost Zone 3	To Points Taking Minimum Rate	To Points Taking Next Highest Rate
Fourth Class Mail Ship.										
\$1.	1,000	\$1,000								
	2,000	2,000								
	3,000	3,000								
	4,000	4,000								
2.	1,000	2,000								
	2,000	4,000								
	3,000	6,000								
	4,000	8,000								
5.	1,000	5,000								
	2,000	10,000								
	3,000	15,000								
	4,000	20,000								
			Insurance Premium	Reg. Fee	1st Class Postage	Total Cost as 1st Class Mail				

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Denom.	No. of Bills in Package	Value.	Cost of Mail Shipments				Cost of Express Shipments			
			Insurance Premium	Reg. Fee	4th Class Postage P.P.Zones 1 & 2	Total Cost Zones 1 & 2	4th Class Postage P.P.Zone 3	Total Cost Zone 3	To Points Taking Minimum Rate	To Points Taking Next Highest Rate
First Class Mail Ship.										
\$1.	1,000	\$1,000					X	X		
2.	1,000	2,000					X	X		
5.	1,000	5,000					X	X		
10.	1,000	10,000					X	X		
20.	1,000	20,000					X	X		
50.	1,000	50,000					X	X		
100.	1,000	100,000					X	X		
Approximate percentage of mail shipments made to points within each parcel post zone.					___%		___%			
Approximate percentage of shipments that would be made to points within each express rate zone assuming all paper money shipments were to be made by express.							___%	___%	___%	

Note: Provide additional columns for zones 4 & 5 if necessary to cover all points in your district.

X-3779

RESOLUTION ADOPTED BY FEDERAL RESERVE BOARD
AT MEETING ON
JUNE 27, 1923.

SUBJECT: CUBAN AGENCIES

WHEREAS, the United States Government, by virtue of the so-called Platt amendment has entered into relations with Cuba which it does not have with any other foreign country, especially in matters of finance and currency, the currency of the United States having been made legal tender by Cuba;

WHEREAS, the Federal Reserve Board is of the opinion that the establishment of an agency in Cuba is desirable as a means of stabilizing banking conditions and furnishing an adequate supply of clean currency;

WHEREAS, the President of the United States and the State Department have advised this Board that it is important that such an agency should be established;

WHEREAS, the Federal Reserve Bank of Atlanta and the Federal Reserve Bank of Boston have each petitioned the Federal Reserve Board for authority to establish an agency in Havana, Cuba, for the purpose of conducting operations permitted under Section 14 of the Federal Reserve Act;

WHEREAS, the Federal Reserve Bank of Boston desires to establish such an agency primarily for the purpose of buying and selling cable transfers and buying, selling and collecting bankers' acceptances and bills of exchange bearing satisfactory bank endorsements;

WHEREAS, a substantial portion of the currency now in circulation in Cuba consists of Federal Reserve notes of the Federal Reserve Bank of Atlanta; and it is feared that the establishment of an agency of another Federal Reserve Bank in Cuba might result in the retirement of such notes from circulation; and the Federal Reserve Bank of Atlanta desires to establish an agency in Cuba primarily in order that it may maintain the circulation of its Federal Reserve notes in Cuba;

WHEREAS, the Federal Reserve Bank of Boston does not desire to put its Federal Reserve notes in circulation in Cuba but is willing, if authorized to establish such an agency, to preserve as far as possible the circulation in Cuba of Federal Reserve notes issued through the Federal Reserve Bank of Atlanta;

BE IT RESOLVED BY THE FEDERAL RESERVE BOARD, that the applications of the Federal Reserve Bank of Atlanta and the Federal Reserve Bank of Boston for permission to establish such agencies are hereby granted on the following terms and conditions:

- (1) The Federal Reserve Bank of Atlanta and the Federal Reserve Bank

of Boston are each authorized to establish an agency in Havana, Cuba, and through such agency to buy and sell cable transfers; buy, sell and collect prime bankers' acceptances and prime bills of exchange, which acceptances and bills are payable in dollars, arise out of actual import or export transactions, bear the signatures of two or more responsible parties, bear a satisfactory bank endorsement, have not more than 90 days to run, exclusive of days of grace, and are secured at the time of purchase by shipping documents evidencing the actual import or export and the actual sale of goods and conveying or securing title to such goods; and to exercise only such incidental powers as shall be necessary to the exercise of the above powers. The term "bills" as hereinafter used shall mean cable transfers, bankers' acceptances and bills of exchange of the kinds described in this paragraph.

(2) The Federal Reserve Bank of Atlanta SHALL NOT BUY OR SELL ANY CABLE TRANSFERS EXCEPT AT THE REQUEST OF THE FEDERAL RESERVE BANK OF BOSTON AS PROVIDED IN PARAGRAPH 3 HEREOF, AND shall not purchase, sell or collect any bills in Cuba except such as originate in or are drawn upon banks or other drawees, in the Sixth Federal Reserve District and such other bills as it shall be necessary to purchase in order to maintain the circulation of its Federal Reserve notes in Cuba; and before purchasing in Cuba any bills not originating in, or drawn upon banks or other drawees in the Sixth Federal Reserve District it shall first offer to purchase for the Federal Reserve Bank of Boston bills to be selected by the Federal Reserve Bank of Boston.

(3) The Federal Reserve Bank of Boston shall not pay out its own Federal Reserve notes in Cuba, except as hereinafter provided, and whenever bills OR CABLE TRANSFERS are offered for sale to its Havana Agency and the sellers request payment in Federal Reserve notes, the Federal Reserve Bank of Boston shall request the Federal Reserve Bank of Atlanta to purchase such bills OR CABLE TRANSFERS for it and immediately pay for them with Federal Reserve notes issued through the Federal Reserve Bank of Atlanta. The Federal Reserve Bank of Atlanta may at its option comply with such request or decline to do so, but if it purchases such bills or CABLE TRANSFERS it shall pay for them only with its own Federal Reserve notes AND SUCH CASH AS MAY BE NECESSARY INCIDENTALY TO COMPLETE THE PURCHASE and shall immediately resell them to the Federal Reserve Bank of Boston at cost and without recourse, If the Federal Reserve Bank of Atlanta shall fail or refuse to purchase such bills promptly for the Federal Reserve Bank of Boston or shall not have available in Havana a sufficient supply of its own Federal Reserve notes, the Federal Reserve Bank of Boston may itself purchase such bills and pay for them with its own Federal Reserve notes or in any other form of money or currency which it may have available except Federal Reserve notes issued through other Federal Reserve Banks. Nothing in this paragraph shall be construed as qualifying or limiting in any way the right of the Federal Reserve Bank of Boston to purchase bills through such agency and pay for them with bank drafts, cable transfers, book credits, or in any other manner except with Federal Reserve notes.

(4) The establishment and operation of such agencies, and the exercise of all the above powers through such agencies, shall be subject to such changes and such further rules and regulations as the Federal Reserve Board may prescribe from time to time.

(5) The Federal Reserve Board expressly reserves the right to revoke its consent at any time to the continuance of such agencies, to require the discontinuance of such agencies OR TO AUTHORIZE THE ESTABLISHMENT OF NEW AGENCIES whenever in its discretion it considers it desirable to do so.

FEDERAL RESERVE BOARD

WASHINGTON

X-3780
July 17, 1923.

SUBJECT: Code Words to be used in connection with transfers to 5% Redemption Fund accounts of National Banks.

Dear Sir:

In order to reduce the phraseology in a large number of telegrams from the National Bank Redemption Agency to Federal Reserve Banks and Branches, it has been suggested to the Board by the Superintendent of the National Bank Redemption Agency that additional code words supplied from the Federal Reserve Telegraphic Code, be designated to cover telegrams between the Agency and the Banks and Branches, which have reference to corrections and adjustments in the 5% Redemption Fund accounts of National Banks on deposit with the Treasurer of the United States.

This suggestion meets with the approval of the Board, and you are advised that, commencing with August 1, 1923, the following code word will be used by the National Bank Redemption Agency in its telegrams to the Federal Reserve Banks and Branches:

DUPMAN: Verify item \$ _____ for credit of (name of bank) reported in your schedule (date) of deposits for 5% Redemption Fund of National Banks.

The following code word will be used by the National Bank Redemption Agency in its telegrams to the Federal Reserve Banks:

DURATE: Complying with wire (head office or Branch) (date) your Gold Redemption Fund account has been credited \$ _____ to adjust 5% deposit reported by you for credit of (name of bank).

It is also requested that the code words DUPMAN and DURATE, indicated in this letter, be added to the bottom of page 80 of the new code book, to follow the supplemental code word DUSKY.

Yours very truly,

Walter L. Eddy,
Assistant Secretary.

TO GOVERNORS OF F. R. BANKS

X-3781

TREASURY DEPARTMENT
Office of the Secretary
WASHINGTON

July 12, 1923.

The Governor
Federal Reserve Board.

Sir:

You are hereby advised that the Department has referred to the Disbursing Clerk, Treasury Department, for payment, the account of the Bureau of Engraving and Printing for preparing Federal Reserve notes during the period from June 21, to June 30, 1923, amounting to \$42,806.58, as follows:-

<u>Federal Reserve Notes, 1914</u>					
	<u>\$5</u>	<u>\$10</u>	<u>\$20</u>	<u>\$50</u>	<u>Total</u>
New York.....	263,000	208,000	---	---	471,000
Philadelphia.....	99,000	70,000	12,000	8,000	189,000
Cleveland.....	---	---	---	13,000	13,000
Atlanta.....	---	1,000	1,000	---	2,000
Chicago.....	---	101,000	14,000	12,000	127,000
Minneapolis.....	---	44,000	---	---	44,000
San Francisco....	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>	---	<u>3,000</u>
	363,000	425,000	28,000	33,000	849,000

849,000 sheets at \$50.42 per M\$42,806.58

The charges against the several Federal Reserve Banks are as follows:

	<u>Sheets</u>	<u>Compen- sation</u>	<u>Plate Printing</u>	<u>Materials</u>	<u>Inc. Com- pensation</u>	<u>Total</u>
New York.....	471,000	\$7,950.48	\$7,512.45	\$5,986.41	\$2,298.48	\$23,747.82
Philadelphia....	189,000	3,190.32	3,014.55	2,402.19	922.32	9,529.38
Cleveland.....	13,000	219.44	207.35	165.23	63.44	655.46
Atlanta.....	2,000	33.76	31.90	25.42	9.76	100.84
Chicago.....	127,000	2,143.76	2,025.65	1,614.17	619.76	6,405.34
Minneapolis....	44,000	742.72	701.80	559.24	214.72	2,218.48
San Francisco...	<u>3,000</u>	<u>50.64</u>	<u>47.85</u>	<u>38.15</u>	<u>14.64</u>	<u>151.26</u>
	849,000	14,331.12	13,541.55	10,790.79	4,143.12	42,806.58

The Bureau appropriations will be reimbursed in the above amount from the indefinite appropriation "Preparation and Issue of Federal Reserve Notes, Reimbursable", and it is requested that your board cause such indefinite appropriation to be reimbursed in like amount.

Respectfully,
(Signed) S. R. Jacobs,
Deputy Commissioner.

X-3781

TREASURY DEPARTMENT
Office of the Secretary
WASHINGTON

July 12, 1923.

The Governor
Federal Reserve Board.

Sir:

You are hereby advised that the Department has referred to the Disbursing Clerk, Treasury Department, for payment, the account of the Bureau of Engraving and Printing for preparing Federal Reserve notes on June 28, 1923, amounting to \$55.46, as follows:-

Federal Reserve Notes, 1918.

	<u>\$500</u>	<u>\$1000</u>	<u>Total</u>
New York.....	600	500	1100

1100 sheets at \$50.42 per M.....\$55.46

The charges against the Federal Reserve Bank of New York are as follows:-

<u>Sheets</u>	<u>Compen- sation</u>	<u>Plate Printing</u>	<u>Materials</u>	<u>Inc. Com- pensation</u>	<u>Total</u>
1100	\$18.57	\$17.55	\$13.98	\$5.36	\$55.46

The Bureau appropriations will be reimbursed in the above amount from the indefinite appropriation "Preparation and Issue of Federal Reserve Notes, Reimbursable", and it is requested that your board cause such indefinite appropriation to be reimbursed in like amount.

Respectfully,

(Signed) S. R. Jacobs

Deputy Commissioner.

FEDERAL RESERVE BOARD

WASHINGTON

X-3783
July 20, 1923.

SUBJECT: Recommendations of Committee on Economy and Efficiency.

Dear Sir:

In a letter dated May 29, 1923, X-3726, all banks were advised of the recent progress of the work of the Board's Committee on Economy and Efficiency in studying and making a comparison of the methods and expenses of the banks in the four principal functions. Since that time the auxiliary committee of this Committee, representing the banks, has given considerable time to a study of the reports and data submitted by the banks and has made a number of recommendations to the Board's Committee on Economy and Efficiency which have been approved.

The attached memorandum, in which the several recommendations are discussed in detail, is now furnished to all banks for their information and guidance. While the present practice at every bank conforms to a number of the recommendations made, there is at present no bank in the System following every recommendation.

The Board's Committee realizes that there may possibly be some special cases where these recommendations may not be fully practicable, yet it believes that in the great majority of cases their adoption will result in greater economy and efficiency of operation. It is requested, therefore, that your bank carefully consider the recommendations made and advise the Committee of your conclusions with respect to each recommendation.

Very truly yours,

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

(Enclosures)

TO GOVERNORS OF F. R. BANKS.

RECOMMENDATIONS PRESENTED TO THE BOARD'S
COMMITTEE ON ECONOMY AND EFFICIENCY BY
THE AUXILIARY COMMITTEE FOLLOWING THE
FUNCTIONAL GROUP MEETINGS.

CURRENCY AND COIN.

1. CONDITION AS TO SORT OF CURRENCY RECEIVED BY FEDERAL RESERVE BANKS FROM MEMBERS.

Nine banks require that all deposits be sorted as to denomination, while three banks receive from country members unsorted. It is the view of the Committee that it is reasonable and consistent with good banking practice to require that all money deposited be sorted as to denomination, and it is

RECOMMENDED that all banks arrange to receive all currency sorted as to denomination.

2. METHOD OF COUNT.

The method of sorting and counting currency is found to be nearly uniform with the exception that one of the banks receiving currency unsorted as to denomination makes it a practice to thumb count and also to verify before sorting. It was the view of the Committee that this extra operation is unnecessary and it

RECOMMENDS that this bank consider handling its money on the same basis as the other banks in the System.

3. SORTING OF FIT MONEY AS TO KIND.

It was found that one bank has made it a regular practice not to sort its fit money as to kind. Several of the banks occasionally follow the same practice when exceptionally busy, while a number of the banks have always sorted as to kind regardless of conditions. It is apparent that a considerable saving of time can be effected

by packaging fit money without assortment as to kind, and it is therefore

RECOMMENDED that fit money be put up, without assortment as to kind, with discretion, care being exercised not to permit a vault accumulation of unsorted currency.

(NOTE: The Board's Committee on Economy and Efficiency sees no objection to this practice, provided a vault accumulation of unsorted currency of not more than two days turnover is permitted.)

4. ACCUMULATION OF ONES AND TWOS FOR COUNTING IN DULL SEASONS.

About half of the banks now permit bills of the one and two dollar denomination to accumulate during the period when money is being received in large quantities for later handling during the dull seasons. The principal objection to this practice is the accumulation and practical retirement from circulation of a considerable quantity of bills of these denominations. There is, however, an obvious economy in the practice of permitting one and two dollar bills to accumulate during peak movements for subsequent handling by experienced money counters, and it is the opinion of the Board's Committee that all the banks should follow this course whenever practicable.

5. METHOD OF DETERMINING PROPORTION OF NEW MONEY PAID OUT.

Two or three of the banks have adopted a more or less elaborate plan for making an equitable distribution of new currency, while several have no particular plan, the proportion of new money being determined largely by the amount of fit currency on hand. It is apparent that the plans now in effect at many of the banks do not result in an

equitable distribution of new currency and in some respects may be costly to the banks through the duplication of shipping charges and handling. It is also apparent that the plan for the distribution of currency approved by the Treasury no longer obtains to any extent.

It is therefore RECOMMENDED that the Federal Reserve Board take such action, preferably through a committee representing the banks, as will result in the formulation and adoption of an equitable plan for the distribution of currency which will prove satisfactory to all the banks and also to the Treasury.

(NOTE: The Board's Committee on Economy and Efficiency has already requested the Federal Reserve Board to take action.)

6. SORTING OF FIT NOTES RECEIVED FROM OTHER FEDERAL RESERVE BANKS.

There is a wide variation in the practice among the Federal Reserve Banks in handling fit Federal Reserve notes received from other Federal Reserve Banks. In some cases, this currency is resorted and in other cases it is paid out as received. It is apparent that the resorting and counting of this currency is an entirely unnecessary and unwarranted operation, and it is

RECOMMENDED that the practice be discontinued.

The only apparent excuse for this operation results from a difference in the standard of fitness adopted by the different banks and it is apparent that a uniform standard should be adopted.

It is therefore RECOMMENDED that the committee, the designation of which was recommended under the preceding heading, shall also be requested to determine upon a standard of fitness satisfactory to all the banks and to the Treasury.

(NOTE: The Board's Committee on Economy and Efficiency has already requested the Federal Reserve Board to take action.)

7. VERIFICATION OF NEW MONEY RECEIVED FROM TREASURY BY F. R. AGENT.

Several banks make it a practice to slit the outer wrapper of original packages of currency in such a way as to permit of an inspection of the straps to determine that the money is of the denomination indicated by the outside wrapper.

It is RECOMMENDED that, as a matter of safety, all banks adopt this or some similar method for determining the denomination of the money received from the Treasury Department, in view of the fact that this money is sometimes held in storage for a long time.

8. MERIT PLAN FOR COMPENSATION OF MONEY COUNTERS.

Two of the banks have worked out rather elaborate plans for the compensation of money counters on a sliding scale based upon output. Most of the banks maintain more or less complete records of the work of money counters, but do not base compensation entirely upon these records. It was the view of the Committee that probably the time had not yet arrived when all reserve banks could profitably put this operation upon a piece work basis.

It is, however, RECOMMENDED that all banks maintain a record of the work of each individual money counter and that these records be made known to the counters to encourage a spirit of competition.

Following the conference with the Chairman, one of the medium sized banks of the System adopted a method of grading its money counters, which resulted in very greatly increasing its output. The method adopted and the results are explained in detail in the attached memorandum

"Exhibit A" which is submitted for the information of all banks.

(NOTE: The Board's Committee on Economy and Efficiency believes that if this plan is intelligently followed, marked results will be obtained,)

9. CHECKING OF POST OFFICE REGISTRY RECEIPTS FOR CURRENCY SHIPMENTS.

Some banks continue the practice of obtaining and checking the return registry receipt cards furnished by the Post Office for all shipments made, in addition to checking the receipts received from the consignees. It was the view of the committee that these postal receipts are of no benefit to the banks and that the work of checking and tracing them is unnecessary and unwarranted, and it is therefore RECOMMENDED that their use be discontinued.

10. USE BY MEMBER BANKS OF A STANDARD FORM OF ADVICE OF CURRENCY SHIPMENTS.

Several of the banks are furnishing members with a standard form of advice, including a request for the effecting of insurance, to be used in all cases where shipments are made to reserve banks. It was the view of the Committee that the use of such a form is sound in principle and is good practice, inasmuch as it can be more promptly routed to the proper department for the effecting of insurance and checking of the arrival of shipments.

It is SUGGESTED that those banks not now using such forms give the matter consideration.

11. FORMS FOR USE AS RECEIPT FOR AND RECORD OF SHIPMENTS AND FOR EFFECTING INSURANCE.

Several of the banks are using more or less similar forms prepared in triplicate or quadruplicate with which at one writing there is

prepared a complete record of registered mail shipments including a receipt for the use of the Post Office, a notice to the registered mail insurance underwriters, and a record for the use of the auditing department, if desired. A few of the banks are not using such a form, but are making up two separate records of all such shipments, one for the purpose of effecting insurance, and one for the purpose of securing a receipt from the Post Office. It was the view of the Committee that the use of a form of this character is very much to be desired, not only because of the economy in the preparation of the records, but from the standpoint of safety in the effecting of insurance. A similar form is also adaptable for the purpose of securing a record of and receipt for express shipments.

There is a wide variation in the style of forms in use by those banks which are following this plan. The Committee considered the form adopted by the Federal Reserve Bank of Dallas, a sample of which is attached (Exhibit B), as the most economical of any of those submitted.

It is RECOMMENDED that those banks not now using similar forms adopt this plan, and that those banks now using more expensive forms for this purpose revise them with a view to reducing the cost of printing.

12. COIN.

With two exceptions the banks do not handle wrapped coin. It was the view of the Committee that the requirement of most of the banks that all coin be deposited in bulk causes an economic waste in the breaking down of a large amount of coin already wrapped. It was also the view of the Committee that the banks should not attempt to supply

wrapped coin in cases where it is necessary for it to be wrapped at their own expense.

It is therefore RECOMMENDED that all banks receive wrapped coin of the one, five and ten cent denominations and pay out such coin as far as it will go without rewrapping and that the banks should not furnish wrapped coin except such as is received in that form.

13. COST OF SUPPLIES.

While all banks are using substantially the same supplies in the handling of currency and coin, there is a very considerable variation in the quality and also in the cost of the supplies used.

It is therefore RECOMMENDED that a plan of standardization of supplies and, if necessary, central purchasing, be considered in order that all banks may secure these supplies at the lowest possible price.

(NOTE: The Board's Committee on Economy and Efficiency is now giving this matter attention, and the banks will be advised of the results as promptly as possible.

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TRANSIT AND COLLECTIONS.

14. DESCRIPTION OF ITEMS ON CASH LETTERS.

There is considerable variation in the method of the banks in describing cash items on outgoing transit letters. Three banks describe every item by batch or block number; two banks describe every item by ABA number; two banks describe even amounts by ABA number; five banks do not describe any items.

It is the view of the Committee that a description of other than items of even amounts from, say, \$500 and up, is unnecessary and involves an unwarranted expense, and it is, therefore,

RECOMMENDED that all banks discontinue describing cash items on transit letters addressed to the drawee bank except in cases of even amounts of above \$500.

15. NOTIFYING BANKS OF THEIR FAILURE TO WIRE NON-PAYMENT OR TO PROTEST ACCORDING TO INSTRUCTIONS.

It is the practice of several banks to send a formal notice to all banks failing to wire non-payment or failing to protest, while several of the banks do not send such notices. It is understood that several of the banks have been informed by Counsel that the sending of these notices does not afford any additional protection.

It is therefore RECOMMENDED that the banks consult with their Counsel with respect to this matter with a view to discontinuing these notices, wherever practicable.

16. RECEIPTS FOR RETURNED ITEMS CHARGED BACK.

The banks are about equally divided between those that do obtain receipts for returned items and those that do not. It is the view of the

Committee that with the frequent reconciling of accounts it is not necessary to obtain receipts for these items and because of the considerable expense incurred by checking and tracing receipts, it is

RECOMMENDED that all banks discontinue the practice of requiring receipts for returned items.

17. CONTROL OF NON-CASH COLLECTION ITEMS.

Several of the banks are maintaining a control on non-cash collection items in process of collection. It is the view of the Committee that the cost of maintaining this control is entirely out of proportion to any benefits that can be derived therefrom.

It is therefore RECOMMENDED that all banks having such a control discontinue it so far as it applies to collection items. The banks will probably find it advisable to continue any control they now have with respect to negotiable securities handled in connection with these collections.

18. REDEMPTION OF RETURNED ITEMS.

There is considerable variation in the practice of redeeming returned items. In most cities there is a so-called "returned item clearing", but in addition to this, at nearly all points, items are also redeemed over the counter, the general practice being to issue so-called redemption or teller's checks which are cleared the following day.

One of the banks furnishes a duplicate form for use with all items returned. This form being presented with the items, one copy being stamped and returned to the messenger as a receipt and the other copy serving as a credit ticket to the returning member's account.

This method saves considerable clerical labor and makes unnecessary the issue of redemption checks. It is the view of the Committee that banks that are now using redemption checks for this purpose would find this method more economical and efficient.

It is therefore RECOMMENDED that banks now using redemption checks consider the adoption of the duplicate ticket method. Sample copy of the ticket used by the bank in question is attached (Exhibit C).

19. CLEARING HOUSE MEMBERSHIP.

The basis upon which the Federal Reserve Banks have clearing house membership varies considerably in the different cities. In some cases the membership is on the same basis as that of commercial banks; assessments being based upon items taken to the clearing house, which results in a progressive increase from year to year in amounts paid by the reserve banks; in other cases membership is obtained upon the payment of a flat fee; and in still others it is complimentary. It was the view of the Committee that the service rendered by the reserve banks in connection with the operation of the clearing houses should in most cases warrant the clearing houses giving complimentary membership to reserve banks or at least in reducing the membership fee to a nominal amount.

It is RECOMMENDED that banks now paying more than a nominal fee give this matter consideration.

20. PAYMENT OF GOVERNMENT COUPONS.

In two or three cases the banks, while giving immediate credit for Government coupons, are accumulating them over the peak periods rather than supplying the necessary help to make prompt shipment and

charges to the account of the Treasurer, U. S. It is the view of the Committee that this practice is unwarranted and that all coupons should be charged to the Treasurer's account the same day credit is given. To make this possible, it is

RECOMMENDED that the banks give consideration to combining the work of paying Government coupons with the work of counting money, so that the money counters could be more effectively employed in the handling of coupons over the peak periods.

21. LISTING CLEARING HOUSE CHECKS.

A number of banks sort all clearing house items before proving incoming letters, after which the block sheet is prepared in duplicate, one copy being stripped up to accompany the checks to the clearing house rack, thus avoiding an additional listing. It is the view of the Committee that while the application of this method will depend in considerable measure on the number of banks in the clearing house and the distribution of items among the banks, that this plan will nevertheless prove very efficient in all cases where it can be adopted.

It is RECOMMENDED that all banks not now using it consider this plan of handling clearing house items.

22. NON-CASH COUNTRY COLLECTIONS.

Some banks give credit for non-cash collection items as of the date payment is received by the collecting reserve bank, even though advice of payment is not received and actual credit given until several days later.

It is the view of the Committee that this method, as a regular practice, is unnecessary, and it is

RECOMMENDED that credit should not be given as of a previous date except in unusual cases where the amount is sufficient to warrant the work.

ACCOUNTING:23. PREPARATION OF STATEMENTS AND REPORTS.

There is a wide variation in the practice of the banks with reference to the preparation of statements and reports, some banks apparently considering it necessary to prepare a much larger number than others. It was the view of the Committee that the preparation of statements and reports involves considerable expense and that only those statements and reports found by experience to be absolutely necessary should be prepared.

It is therefore RECOMMENDED that every bank give careful consideration to its statements and reports with a view to reducing the number and also simplifying the form of those that are prepared.

24. MEMBER BANKS ACCOUNTS:

The methods of bookkeeping were found to be reasonably comparable at most of the banks. Nine banks are now furnishing members with a daily statement, five mailing statements on the day of date, and four on the following day. Two banks are furnishing semi-monthly statements, one furnishes all banks desiring it (2 (about 25%) with a daily statement. The twelfth bank furnishes weekly statements to all banks. Four banks are furnishing statements including a full description of all items, and eight banks are furnishing statements prepared on a Burroughs machine, indicating the character of entries by symbol.

One bank has perfected a method of bookkeeping under which it writes both the statement and the ledger at a single operation, the statement also including the deferred items. This plan has worked well in the bank in which it is in operation, and it is the view of the Committee that some of the other banks in the System would find this plan equally efficient. There is attached a memorandum ("Exhibit D") outlining this plan in detail.

Three of the banks have discontinued the operation of the deferred or so-called float ledgers, resulting in considerable economy in operation. There is attached a memorandum ("Exhibit E") outlining the plan of one of these banks in accomplishing this result. It is the view of the Committee that the maintaining of a deferred ledger and posting in detail of all deferred items is unnecessary.

It is RECOMMENDED,

- (1) that the operation of the deferred credit ledgers be discontinued by all banks, and it is suggested that all banks give consideration to combining the preparation of ledgers and statements in a single operation;
- (2) that advising be reduced to the lowest possible minimum. In cases where daily statements are mailed on the same date it should be possible to eliminate all advising except for deferred credits and for loan transactions, and if daily statement includes a statement of deferred items, the advising of such credits could also be eliminated;
- (3) that the practice of furnishing postal card acknowledgments to direct sending banks of other districts for all letters received be discontinued and no acknowledgments sent except in cases where self-addressed and stamped cards are received with the letters.

25. RESERVE DEFICIENCIES:

There is considerable variation in the amount of work performed in connection with this operation. With a few exceptions all of the banks are checking for clerical accuracy the reports received from the member banks indicating their demand and time deposits as the basis for computing reserve requirements. It was the view of the Committee that these reports should be completely checked.

Most of the banks have been checking the Comptroller's call statements with the reports made by member banks. In some cases, this checking has been done once each year, in other cases more frequently, and in some cases not at all. It was the view of the Committee that this checking should be done by all banks, at least once each year, and that with the exception of member banks known to be careless in this respect, it should not be done more than twice each year.

A few banks have made it a practice to check all deferred items as to the accuracy of the deferred availability date in connection with this work. It is the view of the Committee that this is unnecessary.

It is RECOMMENDED,

- (1) That all banks check for clerical accuracy all reports received from members.
- (2) That all banks check the figures shown on Comptroller's call statements at least once and not exceeding twice each year with the reports received from the member banks.
- (3) That those banks now checking the availability date on deferred items in connection with this work discontinue the practice.

26. FEDERAL RESERVE BANK ACCOUNTS:

One of two methods of checking the accounts with the other Federal Reserve Banks has been adopted by nearly all of the banks.

One method provides for the charging of all items regardless of availability to an "uncollected items" account and the handling of the account on a remittance basis.

Under the other method all items are charged to a "deferred debits" account and later transferred on the date of availability to a "collected items" or "due from" account.

While both methods have appeared to be satisfactory to the banks using them, it is more difficult to analyze the float in connection with transit items under the first method than under the second, and as several of the banks are doing considerable extra work in connection with the analysis of the float, it is the view of the Committee that in such cases the second method would prove more economical, inasmuch as the transfer of items from the "deferred debits" account is practically automatic and involves a minimum of labor.

It is therefore SUGGESTED that the banks give consideration to the respective merits of the two plans with a view to adopting that which will prove most economical in operation.

27. TRANSFER OF FUNDS:

The methods in use in the different banks for the handling of this work do not vary greatly. The principal difference is in the extent to which the banks have adopted multiple forms for the preparation of advices and entries. The extent to which any bank

may profitably use such forms will depend in a considerable measure on the volume of its work.

Several of the banks continue to prepare and to forward to other reserve banks copies of telegrams and typewritten advice forms covering transfers made and in some cases with reference to transfers received as well. It was the view of the Committee that the use of confirmation and advice forms is unnecessary.

It is therefore RECOMMENDED, that all banks discontinue the forwarding of advices of any kind whatsoever to other reserve banks in connection with transfers, either received or sent, the only advice needed in such cases being the original telegram and the regular daily statement of credits.

It is the practice of some banks to wire out-of-town members advices of credits, in some cases such wires are sent only for transfers received from other banks.

IT is RECOMMENDED,

- (1) that the banks consider whether wiring of advices is necessary, and if it is, whether such advices which are solely for the benefit of the member banks may not properly be sent collect;
- (2) that those banks not now using duplicating forms for the preparation of entries and advices to members consider whether or not the volume of their business is such that economy can be effected by the use of such forms.

28. APPROVAL OF EXPENDITURES:

There is considerable variation among the banks with respect to the authorities granted for approval of expenditures, in some cases all expenditures require the approval of a designated officer, and in other cases the approval of any officer of the bank is sufficient.

It was the view of the Committee that it is desirable to limit as closely as possible the authority for approval of expenditures and it is

RECOMMENDED, that the authority for the approval of expenses be vested in designated officers and also that such authority should be exercised in connection with the issue of the requisition in advance of the actual occurring of the obligation.

(Note. The Board's Committee on Economy and Efficiency believes that through a careful wise and control of requisitions considerable economy can be effected.)

29. CAPITAL STOCK:

It was found that several of the banks pay the semi-annual dividends to stockholders by the use of cashier's or officer's checks while in a few instances payment is made by credit to the reserve account of the member. It was the view of the Committee that the latter method is not only more satisfactory to stockholders, but is less expensive in its operations. It is therefore

RECOMMENDED, that all banks arrange to pay dividends by credit.

LOANS, REDISCOUNTS AND INVESTMENTS.30. WIRING ADVICE OF CREDITS.

It is the practice of some banks to wire advice of credits only when requested, while at least one bank wires advice on all items.

It is the view of the Committee that, as this represents a service to the member banks, it should be unnecessary to wire except upon request and it is

RECOMMENDED that advices of credits be wired only upon request and then at the expense of the requesting bank.

31. PREPARATION OF REPORTS AND STATEMENTS.

A study of the material submitted indicates a wide variation in the extent to which different banks have considered it necessary to go in preparing data when presenting loans for approval and in the preparation of statements and reports for internal use. It would appear that a number of banks are preparing statements which are of questionable value and it is believed that a very considerable part of the difference in the cost of handling this function at the several banks is due to this one factor.

It is therefore RECOMMENDED that every bank give careful consideration to the reports and statements that are being prepared with a view to eliminating those which do not serve a useful purpose commensurate with their cost.

(NOTE: The Board's Committee on Economy and Efficiency believes that this matter should be given careful and constant attention, and that very considerable economies will thereby be effected.)

32. SECURING CREDIT INFORMATION.

There was found to be a wide variation in the policy of the several banks with respect to the extent that it is necessary to go in the securing of credit information. As an illustration, the cost of the various outside reporting services for the System is approximately \$17,000 per annum. The cost of the individual banks varies from \$5,100 to \$300. Three of the banks do a considerable amount of outside investigating work while the other nine banks do none at all. In the cases of two banks there appears to be a large amount of duplication at the main office in connection with work originating at the branches.

While it is not the purpose of this Committee to determine the policy of each bank in this respect, it is the view of the Committee that there is nevertheless an undue variation in the policies of the several banks with respect to this matter.

It is RECOMMENDED that each bank be requested to submit a brief outline of its policy and of the work performed in securing credit information, together with an estimate of its cost for the current year.

(NOTE: The Board's Committee on Economy and Efficiency requests that this information be furnished.)

EXHIBIT A.

X-3782a

Outline of Plan Used by One of the
Banks to Measure the Efficiency of
its Money Counters.

Machinery has been set up:

- (a) To make a real comparison each day of the volume of work performed by each money counter.
- (b) To utilize this comparison so as to speed up the drones.

You will probably say that there is nothing new here, that all of the Federal Reserve Banks are already doing this very thing. The fact is, probably, that all of the banks are measuring their money counters' output on the basis of the number of pieces handled. This was our former method. Under it, we would discover that a certain money counter had a low average. We would inquire the reason and we would be given any or all of the following excuses:

That the particular counter had more rags than the others,
That the counter had hard luck looking for differences,
That the counter waited half an hour to make exchanges,

and so on. Always there were excuses, therefore we set out to remove the grounds on which they were based.

It had been our practice to verify all currency on the day it was sorted. We had adopted this plan so as not to carry errors overnight, and also to give the money counters a variety of work to do with the idea of lessening its monotony. We had accomplished these things but no fair comparison of work performed was possible, because all of the counters were engaged in doing two kinds of work in varying proportions.

To straighten this out, we set up a separate verification unit. In doing this, we incorporated two features with a view of lessening the monotony of steady recount work.

Each morning a bulletin is posted in the verification unit under the caption, "Errors to be found", showing the differences carried overnight from the previous day's sort. Before commencing work, the counters gather around this bulletin and take down a list of initials and amounts to look for during the day. When a verifier has found one of the differences, we have her sign her initials in the proper place on the bulletin. A seemingly unimportant detail, but it has had a very desirable effect on the morale of the verifiers.

Sitting at a desk for six or seven hours, however, is irksome at best. To counteract this, we have the verifiers themselves carry their fit money to the sealing machine to be sealed and their unfit money to the canceling

machine to be canceled. Units of 40 straps are given to them so that they make these little trips about once an hour. We find that this helps to make the work of verifying less monotonous.

With the establishing of a separate verifying unit, the sorting units, of course, continued breaking down all day, where formerly they had switched to recount about two or three o'clock in the afternoon. Under the old system, we had maintained an exchange desk in each unit to enable the counters to make up even straps. These exchanges could not be made simultaneously, however, and it was found that each money counter began to make up her exchanges about 30 minutes before closing time and then waited her turn at the exchange desk. Accordingly, we cut out the exchange desks and required each sorter to break down up to five minutes of closing time and then make up her odds. The re-handling of the extra amount of odds is about ten percent of the extra work performed.

Formerly, when a sorter did not come out right in her proofs, she would search for the difference herself and perhaps consume an hour's time finding it. Now, sorters are not allowed to look for their own differences, but these are carried through to the verifying unit and posted on the morning bulletin.

All of these preliminaries were necessary before we could get down to any actual comparison of the volume of work performed. Previous comparisons or attempted comparisons had been made on the basis of number of pieces handled. But it takes longer to break down 1000 pieces than it does to verify them, and it takes longer to recount and paste 1000 rags than it does to verify 1000 fit bills. To make any real comparison, therefore, it seemed necessary to arrive at some common denominator. To this end, I have made use of a term which I will call "Minutes' work performed".

To arrive at this, we timed and averaged six of our better money counters working at average speed through one cycle of their routine in verifying 40 straps of fit money:

Count	34 min.	20 sec.
Exchange		45 "
Check		54 "
Sealing	2 "	48 "
Delivery		28 "
Returning		35 "
Total	4) 39 min.	50 sec.
	9 min.	58 sec.

We also timed and averaged the same six counters through one cycle of their routine in handling 40 straps of unfit money:

Count	34 min.	30 sec.
Exchange	1 "	
Pasting	13 "	
Canceling	3 "	
Delivery		30 "
Return		30 "
	<u>4)52 min.</u>	<u>30 sec.</u>
	13 min.	8 sec.

From the foregoing, it was apparent that a good average money counter required nine minutes and fifty-eight seconds to verify, check, seal, deliver and restock 1000 fit notes. For convenience, we call this an even ten minutes. It was also apparent that a good average money counter required thirteen minutes and eight seconds to verify, paste, cancel, deliver and restock 1000 rags. For convenience, we call this an even thirteen minutes.

A record is kept of the number of fit notes and the number of rags that each verifier recounts. The multipliers given in the previous paragraph are applied to these amounts and the result is "Minutes' work performed" by each counter. In a six-hour day, which is what we are working at present, there are 360 minutes. Arbitrarily, we figured that an average money counter might waste thirty minutes a day. Therefore, any counter whose "Minutes' work performed" equals or exceeds 330 is called good. A list of such verifiers is posted each morning on a bulletin board in the verifiers' unit under the caption "330 Batters".

Figures of some of the slow ones reduced to "Minutes' work performed" were amazing. We had several counters, for example, who were only performing 200 minutes' work out of the 360. Especially bad cases were talked to or disposed with, but we have found that the lure of making the "330 Batters" list exercises an even more potent influence towards speeding up than any bawling out by the department manager. I have in mind one case of a girl who had been spoken to repeatedly and who, on the first day, showed 212 "Minutes' work performed". Last Friday the same girl showed 334 "Minutes' work performed".

A similar principle has been applied to the breakdown. The result of timing a cycle in this work showed that a good average money sorter would break down and make up 1000 bills in twenty-two minutes. Here again, when reduced to "Minutes' work performed", some of the slow counters were found to be even slower than we thought they were. We post separately a "330 Batters" list for the money sorters. There were five or six on this list the first day and something like 30 last Friday.

Aside from the desirable effect it has on the money handlers, this plan works to the advantage of the department manager and his assistants in that it enables them to visualize the loss in minutes on each lazy and inefficient employee. They regard it as the fairest and most effective plan we have tried out.

The following figures will indicate the improvement which we have been able to bring about:

	<u>April 2</u>	<u>May 1</u>	<u>May 23</u>
No. of Counters	78.4	79.1	69
Total no. of pieces	537,099	718,204	703,348
Average per counter	6,851	9,080	10,193
Average per hour	1,246	1,513	1,699

The hourly average is the real measure of efficiency. With respect to this figure, our change in methods has resulted in an increase of over 36%. If we apply this ratio to a total force of about ninety people, receiving an annual salary of about \$100,000, it will effect a saving decidedly worth while.

EXHIBIT "D"OUTLINE OF METHOD OF ONE BANK FOR POSTING OF LEDGER
AND STATEMENT AT A SINGLE OPERATION.

Member Banks' Reserve Ledgers are in the form of a Daily Statement, the carbon copy of which constitutes the permanent ledger record. The original copy is mailed to the member bank addressed. All posting is done with the Burroughs Bookkeeping Machine.

The operation of transferring balances, posting and proving is exactly the same as though separate ledgers and statements were typed except that both are prepared at the single operation.

The combined ledger and statement form used also allows sufficient space at the foot of the sheet to show in detail all entries to the "Deferred Credit" account.

No credit ticket is prepared and no advice, other than the daily statement, is sent for deferred items, the posting of deferred items to the combined ledger and statement being done directly from the original cash letter. The deferred credits are also posted to a small control ticket, a separate control ticket being prepared for each bank and each availability date. These tickets are cumulative and upon the availability date are used as the posting medium to the reserve account to which each cash letter total is separately posted. The debit entry to the "Deferred Credit" account being the total of the control ticket and including all items available that day.

NOTE: Any bank desiring samples of the forms used, or other information concerning the above operation, will please communicate with the Committee.

EXHIBIT "E"

X-3782c

Outline of Method of Handling Deferred Credits
Without Posting to Ledger Accounts.

1. All deferred Cash Letters received are routed to one point where where they are sorted:
 - (a) According to availability date;
 - (b) According to banks.
2. After sorting as above, tickets are prepared in duplicate, the original being sent to the bank as an advice, and the duplicate being retained for subsequent use as an entry ticket. So far as possible all cash letters of the same availability date are included in the same ticket, a total being shown for each ticket.
3. Adding machine lists are made of these tickets, with a separate total for each availability date, the grand total agreeing with the total of all deferred cash letters received.
4. One entry is made for the total of the day, crediting the general ledger control account "Deferred Credits"; after which the individual tickets are filed in packages as already sorted, according to availability dates.
5. A record is maintained of the total placed in the file for each availability date, so that upon removal the tickets becoming available each day are proved to this record.
6. On availability date all tickets are removed from the file and used as credit entries to the member banks' reserve accounts, the total being offset by one debit entry to the general ledger account "Deferred Credits".
7. The tickets remaining in the file may be easily proved at any time, each day's availability separately and in grand total, to the general ledger control account.

Under the above method the posting of entries, first crediting and later debiting individual deferred account, is avoided, with a large saving of labor and printed forms. This method has been in use more than a year in one of the larger banks and no difficulty has been experienced either in maintaining the proof or in obtaining any desired information.

FEDERAL RESERVE BOARD

WASHINGTON

X-3784
July 18, 1923.

SUBJECT: Rediscounts for Nonmember Banks.

Dear Sir:

During the emergency of 1921, the Federal Reserve Board granted to member banks the privilege of acting as the media or agents of nonmember banks in rediscounting paper with Federal Reserve Banks. (Circular letter X-3176, July 27, 1921: Federal Reserve Bulletin, August, 1921, page 963). That privilege, however, was granted only as a temporary emergency measure and, the emergency having passed, it was revoked by the Federal Reserve Board under date of June 26, 1923. In advising you of the withdrawal of such privilege the Board announced that all previous rulings on this subject were rescinded, and that announcement has led to a number of inquiries as to the proper application of the Board's ruling. The Board has deemed it advisable, therefore, to announce the following rules for the guidance of the Federal Reserve Banks and the member banks:

1. The ruling published on page 963 of the August, 1921, Bulletin, which gave member banks general authority to apply to their respective Federal Reserve Banks for discounts of eligible paper acquired from nonmember banks, and the ruling published on page 213 of the August, 1915, Bulletin are rescinded in toto. The rulings published on page 520 of the June, 1918, Bulletin and on page 745 of the August, 1918, Bulletin are rescinded in so far as they apply to the rediscount of paper bearing the signature or endorsement of nonmember banks or acquired from nonmember banks.
2. Except with the Board's permission, no Federal Reserve Bank shall discount any paper acquired by a member bank from a nonmember bank or bearing the signature or endorsement of a nonmember bank: Provided, however, That Federal Reserve Banks may discount bankers' acceptances and other eligible paper bearing the signature or endorsement of a nonmember bank, if such paper was bought by the offering bank in good faith on the open market from some party other than the nonmember bank.
3. Applications for permission to rediscount paper acquired from nonmember banks shall be made by the member bank which desires to offer such paper for rediscount and shall state fully the facts which give rise to each application and the reasons why the applying member bank feels justified in seeking such permission.

4. As a general rule, the Federal Reserve Board will not permit member banks to discount paper for nonmember banks which are eligible for membership, because such banks should join the Federal Reserve System if they desire to participate in its benefits. The Board will make exceptions to this rule, however, in some cases in order to assist such banks in emergencies for a limited time; but such exceptions will be made only with the understanding that they will not be continued beyond the period when the bank concerned can qualify for admission to membership in the Federal Reserve System.

By order of the Federal Reserve Board.

Wm. W. Hoxton,
Secretary.

TO GOVERNORS OF F. R. BANKS

FEDERAL RESERVE BOARD

WASHINGTON

X-3785
July 20, 1923.

SUBJECT: Check Collection - Procedure under Regulation J,
Series of 1923.

Dear Sir:

As you have been advised previously the Federal Reserve Board has amended Regulation J, effective August 15, 1923, by adding the following new conditions:

"No Federal Reserve Bank shall receive on deposit or for collection any check drawn on any nonmember bank which refuses to remit at par in acceptable funds.

"Whenever a Federal Reserve Bank receives on deposit or for collection a check drawn by, indorsed by, or emanating from, any nonmember bank which refuses to remit at par in acceptable funds, it shall make a charge for the service of collecting such check of one-tenth of 1 per cent, the minimum charge to be 10 cents for each item."

At the request of the Board, the Federal Reserve Banks' Standing Committee on Collections was called, by the Acting Chairman of the Governors' Conference, to meet in Chicago on July 9, 1923, for the purpose of considering the methods and procedure in Federal Reserve Banks necessary to put into practical effect and operation on August 15, 1923, the provisions of the recent amendments to the Board's Regulation J. The Committee met, duly considered the subject and submitted a report, which was in part approved by the Federal Reserve Board, and this circular is designed to give force and effect to such portions of the report as the Board desires formally to adopt.

There is attached hereto draft of a uniform circular, based upon the amendments to Regulation J, which each Federal Reserve Bank should immediately issue as a supplement to its present check collection circular and which should be incorporated in its complete check collection circular whenever it becomes necessary to reissue it. There is attached also a photostat copy of a uniform advice of service charge.

The successful administration of these two new conditions of Regulation J depends very largely upon the observance and application of certain principles and practices uniformly by all Federal Reserve Banks. These essentials are as follows:

- (1) The full and complete cooperation of each Federal Reserve Bank

in carefully and consistently applying the charge against member and nonmember clearing banks on all checks received from them which are drawn by, indorsed by, or which emanate from any nonmember bank in the United States, which will not remit at par in acceptable funds; and in furnishing other Federal Reserve Banks (through the medium of the Federal Reserve Board) with the names of all such nonmember banks in its respective district .

(2) Inasmuch as a charge on such checks will be made by a Federal Reserve Bank against member and nonmember clearing banks from which such checks are received, it is reasonable to expect that member and nonmember clearing banks will not route to the Federal Reserve Banks any of such checks which can be disposed of through other collection channels. It may therefore be anticipated that circuitous routing will be practiced and that banks coming into possession of such checks will route them, whenever possible, to other correspondents, in which event such of these checks as are finally sent to a Federal Reserve Bank are likely to bear the indorsements of several banks (par as well as non-par) in other districts. The charge on such checks should be made only and retained by the Federal Reserve Bank which first receives such checks into the Federal Reserve collection system, regardless of where such checks originated or the location of prior indorsers. Therefore, it will not be necessary for one Federal Reserve Bank to examine checks payable in its district when received from another Federal Reserve Bank, it being understood that the Federal Reserve Bank which first receives the items applies the charge to those checks which are drawn by, indorsed by, or which emanate from any nonmember bank, wherever located, which will not remit at par in acceptable funds.

(3) It will be essential for a Federal Reserve Bank to examine all checks received from member and nonmember clearing banks to determine whether any of them were drawn by, indorsed by, or emanated from nonmember non-par banks in other Federal Reserve districts as well as in its own district, and therefore each Federal Reserve Bank must be in possession of a complete list of all nonmember banks in the United States which will not remit at par in acceptable funds for checks drawn on them. Upon receipt of this letter each Federal Reserve Bank will submit to the Board a list of those nonmember banks in its district by states which refuse to remit at par in acceptable funds for checks drawn on them. Upon receipt of this information from the Federal Reserve Banks the Board will make up a composite list covering all districts and send copies to each Federal Reserve Bank for use only in the transit departments of the Federal Reserve Banks. It is not thought advisable to publish a list of the names of those nonmember banks which refuse to remit at par nor for the Federal Reserve Banks to furnish this information to their member banks. Member Banks and clearing nonmember banks will be able to determine whether or not items drawn on other banks are collectible at par by consulting the Board's so-called "par list" as it will be issued in the future. If it is not clearly indicated by the par list that a particular bank will remit at par, the member bank consulting the list will thereby be on notice that the bank with whose item it is concerned refuses to remit at par in acceptable exchange and that the item is subject to a collection charge if routed through a Federal Reserve Bank.

In addition to sending to the Board a list of all banks in its district which refuse to remit at par, the Federal Reserve Board requests each Federal Reserve Bank to prepare and send to it a list of all banks in its district by states which are willing to remit at par. It is desired that both lists mentioned herein be prepared and transmitted to the Board promptly on receipt of this letter, and not later than July 31 the Federal Reserve Banks may wire to the Board any corrections they may have to make in either of the lists. The Board will continue to issue monthly supplements to the par list, based on information which the banks will wire to it once a month as in the past, stating additions and withdrawals.

(4) Each member and nonmember clearing bank may be required in the discretion of its Federal Reserve Bank to list in a separate or special cash letter all such items sent by it to its Federal Reserve Bank, as are drawn by, indorsed by, or emanate from any nonmember bank which will not remit at par in acceptable funds; and may be required to indicate on the letter (by rubber stamp or otherwise) that such checks are subject to a charge. This arrangement would make it possible for the Federal Reserve Banks to apply the charge to specific cash letters without delay and with the possibility of differences reduced to a minimum. The Federal Reserve Banks, nevertheless, are required to examine all checks received in other cash letters to see that no checks drawn by, indorsed by, or emanating from such nonmember non-par banks are included therein.

(5) Each Federal Reserve Bank will be required to advise its member and nonmember clearing banks daily the total amount of the charge on each cash letter containing such items together with the date and the total of the letter. This rule shall also apply to letters received by Federal Reserve Banks direct from member and nonmember clearing banks in other Federal Reserve districts. All Federal Reserve Banks will be required to use the appended forms in advising member and nonmember clearing banks of other Federal Reserve districts of the amount of service charges on each cash letter containing such items received direct from them. One of these forms may also be used by Federal Reserve Banks in advising their own member and nonmember clearing banks of such service charges. Inasmuch as such charges are for the service of handling such items, no such charge should be returned or rebated in case any such item is not paid.

(6) If a Federal Reserve Bank should receive a check drawn on a nonmember bank which will not remit at par in acceptable funds, it will use the following wording in stating the reason for returning such check:

"Not collectible through a Federal Reserve Bank under the Regulations of the Federal Reserve Board."

The Board requires that the above wording shall be used uniformly by all Federal Reserve Banks.

(7) Official checks and drafts of the Federal Reserve Banks are in payment of their own obligations or the obligations of the United States Government in Fiscal Agency operations; checks and warrants drawn on the Treasurer of the United States are likewise in discharge of obligations of the United States Government; the reserves of member banks

must be deposited with the Federal Reserve Banks and may be checked against under the Act, and since they are at liberty to issue such checks to whom they choose, the charge should, of course, not apply to such items. This matter is covered in the uniform circular attached.

The Board will in due course transmit to the Governor of each Federal Reserve Bank not represented upon the Standing Committee on Collections, for his information, a copy of the full report made by the Committee.

By direction of the Federal Reserve Board.

Very truly yours,

W. W. Hoxton,
Secretary.

(Enclosures)

TO GOVERNORS OF ALL F. R. BANKS

UNIFORM CIRCULAR BASED UPON AMENDMENTS TO REGULATION J

COLLECTION OF CHECKS DRAWN BY, ENDORSED BY
OR EMANATING FROM NON-MEMBER BANKS WHICH
WILL NOT REMIT AT PAR IN ACCEPTABLE FUNDS.

(1) The Federal Reserve Board's Regulation J, Series of 1923,

Section III, provides that:

"No Federal Reserve Bank shall receive on deposit or for collection any check drawn on a non-member bank which refuses to remit at par in acceptable funds.

"Whenever a Federal Reserve Bank receives on deposit or for collection a check drawn by, endorsed by or emanating from any non-member bank which refuses to remit at par in acceptable funds, it shall make a charge, for the service of collecting such check, of one-tenth of one per cent, the minimum charge to be ten cents for each item."

(NOTE - The following are optional paragraphs (2), that is, one or the other must be used by each Federal Reserve Bank according to whether or not such Federal Reserve Bank will require its member and non-member clearing banks to list such items in separate cash letters, provided in "Fourth" paragraph of the report.)

(If separate cash letters are not required by a certain Federal Reserve Bank, that bank should use the following paragraph:)

(2) Pursuant to the foregoing regulation, the Federal Reserve Bank of _____ will make a charge of one-tenth of one per cent for the service of collecting each of such checks, the minimum charge to be ten cents for each item, and in order that this charge may be applied with the least possible confusion and delay and without occasion for differences, it is suggested that member and non-member clearing banks send such checks to the Federal Reserve Bank listed in separate cash letters and indicate on each such letter that such items included therein are "subject to charge." In other respects such cash letters should be prepared in the same manner as cash letters containing checks which are

not subject to the charge. Such service charges will be made against the reserve accounts of member banks or against the clearing accounts of non-member clearing banks, and appropriate advice or advices of such charges will be sent to member and non-member clearing banks daily, showing the total amount of the charge on each cash letter containing such items together with the date and total of the letter. Inasmuch as such charges are for the service of handling such items, no such charge will be returned or rebated in case any such item is not paid.

(If separate cash letters are required by a certain Federal Reserve Bank, that bank should use the following paragraph:)

(2) Pursuant to the foregoing regulation, the Federal Reserve Bank of _____ will make a charge of one-tenth of one per cent for the service of collecting each of such checks, the minimum charge to be ten cents for each item, and in order that this charge may be applied with the least possible confusion and delay and without occasion for differences, member and non-member clearing banks are required to send such checks to the Federal Reserve Bank listed in separate cash letters and to indicate on each such letter that such items included therein are "subject to charge." In other respects such cash letters should be prepared in the same manner as cash letters containing checks which are not subject to the charge. Such service charges will be made against the reserve accounts of member banks or against the clearing accounts of non-member clearing banks, and appropriate advice or advices of such charges will be sent to member and non-member clearing banks daily, showing the total amount of the charge on each cash letter containing such items together with the date and total of the letter. Inasmuch as such charges are for the service of handling such items, no such charge will be returned or

rebated in case any such item is not paid.

(3) Official checks and drafts of the Federal Reserve Banks, checks and warrants drawn upon the Treasurer of the United States, and checks and drafts drawn by member banks on their respective Federal Reserve Banks are not subject to such charge, even when such items are endorsed by or emanate from a non-member bank which will not remit at par in acceptable funds, and consequently such checks and drafts under all circumstances may be included in cash letters along with items not subject to the service charge.

(4) Member banks and non-member clearing banks may readily determine whether or not a particular item is subject to charge, if routed through a Federal Reserve Bank, by consulting the Federal Reserve Board's par list. When items drawn on all banks in any given town or city are collectible at par, opposite the name of such town in the par list will appear the words "All Banks". When there are several banks in any given town, one or more of which will not remit at par, opposite the name of the town in question will appear the words "All National Banks", if any, and thereunder the name of each state institution, member or non-member, which will remit at par in acceptable funds. Distribution of the Federal Reserve par list will be made as in the past.

(NOTE - The following paragraph should be used by Federal Reserve banks which will require member and non-member clearing banks to list such items in separate cash letters. It should not be used by those Federal Reserve Banks which will not require that such items be listed in separate cash letters)

(5) Member banks and non-member clearing banks must very carefully assort their items before sending them to the Federal Reserve Bank of _____ exercising care not to include any item, drawn by,

endorsed by or emanating from any non-member bank which will not remit at par in acceptable funds, in any letter containing checks which are not subject to the service charge of one-tenth of one per cent, since it would be difficult and confusing for the Federal Reserve Bank upon examination of all checks to apply the service charge against any such checks which are included with checks not subject to the service charge.

The Federal Reserve Bank of _____ will examine all cash letters received from member and non-member clearing banks, and if any items subject to the service charge are included in regular cash letters with items not subject to the service charge, the Federal Reserve Bank reserves the right to defer credit for such letter one business day longer, in order that it may have time to make thorough examination of all endorsements on all items included in such letter and separate and properly apply the service charge to those items contained in such letter which are drawn by, endorsed by, or which emanate from any such non-member non-par bank.

FEDERAL RESERVE BOARD
WASHINGTON

July 19, 1923.

X-3786

SUBJECT: Items for Collection. Resolution of
Illinois Bankers' Association.

Dear Sir:

For your information I attach copy of a
resolution, which was adopted at the Thirty-Third
Annual Convention of the Illinois Bankers' Associa-
tion held at Rockford, Illinois, on June 26-27, 1923.

By order of the Federal Reserve Board.

Very truly yours,

W. W. Hoxton,
Secretary.

Enclosure.

TO BE SENT TO ALL GOVERNORS.

X*3786(a)

I L L I N O I S B A N K E R S A S S O C I A T I O N

WHEREAS, The Federal Reserve Banks and their branches are now authorized by the Federal Reserve Board to collect notes and negotiable instruments other than cash items, and

WHEREAS, These items are generally known as "Collection Items" and not "Cash Items" and

WHEREAS, The said Federal Reserve Banks and their branches do not make any collection charge for handling these items commonly known as "Collection Items" and

WHEREAS, We do not believe it was the intention of Congress in establishing the Federal Reserve System that the several Federal Reserve Banks and their branches should go into active competition with the members of the system in handling what are known as "Collection Items" and

WHEREAS, The member banks handling "Collection Items" make collection charges, and

WHEREAS, The member banks of the Federal Reserve System furnish the capital of the Federal Reserve Banks and the dividends the member banks may receive on their stock in the Federal Reserve Banks are limited, and

WHEREAS, The Federal Reserve Banks and their branches in handling "Collection Items" without making the usual collection charge and at a pecuniary loss to themselves, are giving unfair and unjust competition to the member banks of the system and are thereby curtailing their rightful and just profits without benefit to the Federal Reserve Banks or the system, now therefore be it

RESOLVED, That the Illinois Bankers Association is unalterably opposed to the Federal Reserve Banks doing a collection business as set forth above and urges the Federal Reserve Board to give to the members of the system the relief that is justly due them in prohibiting the Federal Reserve Banks and their branches from handling what are generally known as "Collection Items".

FEDERAL RESERVE BOARD

WASHINGTON

X-3788
July 20, 1923.

SUBJECT: Deposits of Securities for Safe Keeping.

Dear Sir:

By direction of Governor Crissinger, I transmit herewith certain correspondence with reference to deposits of securities for safe keeping by Government officers and agencies with Federal Reserve Banks.

Very truly yours,

Wm. W. Hoxton,
Secretary.

(Enclosures)

TO GOVERNORS OF ALL F. R. BANKS

(COPY)

X-3788b

July 2, 1923.

Dear Mr. Secretary:

There is enclosed herewith copy of a letter received from the Federal Reserve Bank of Cleveland, which is self-explanatory. On at least one other occasion the Board has received an inquiry from a Federal reserve bank regarding authority for the acceptance by Federal reserve banks from Government officers and agents of Government securities for safekeeping. I should be glad to have you suggest a form of reply to be made to the Federal Reserve Bank of Cleveland in this instance, copies of which might, if you deem it advisable, be sent to the other Federal reserve banks for their information.

Very truly yours,

(signed) D. R. Crissinger

Governor.

Hon. S. P. Gilbert, Jr.,
Under Secretary of the Treasury.

(COPY)

X-3788c

TREASURY DEPARTMENT
WASHINGTON

Dear Governór Crissinger:

July 17, 1923.

I received your letter of July 2, 1923, with which was transmitted copy of letter of June 11, 1923, from the Federal Reserve Bank of Cleveland, inquiring as to authority to accept a deposit of securities from the United States District Court, and further, whether the Treasury has compiled all of the laws and regulations to date on deposits of securities for safekeeping by Government officers and agencies with the Federal Reserve Banks. The specific case referred to in the letter in question is covered in Department Circular No. 154, as amended May 15, 1922. Under Section 13 of the Treasury's confidential instructions of October 19, 1920, with respect to the exchange and redemption of United States coin and other functions formerly performed by the subtreasuries, the Treasury expects the Federal Reserve Banks, as fiscal agents of the United States, to receive for safekeeping such stocks, bonds, and other securities as may by direction of the Secretary of the Treasury be deposited therewith from time to time. Specific directions are given for deposit of securities in certain cases, of which the Federal Reserve Banks are advised, while in other classes of cases there are general instructions, in Department circulars like No. 154, or otherwise, under which securities are deposited with the Federal Reserve Banks. Securities tendered by Treasury officers may be taken to be in the course of their official duties, under general instructions from the Treasury, and the Federal Reserve Banks are accordingly expected to receive such securities for safekeeping, advising the Secretary of the Treasury thereof immediately, through the office of the Commissioner of Accounts and Deposits.

I should be glad to have you advise the Federal Reserve Bank of Cleveland accordingly, and have no objection to copies of this letter being forwarded to the other Federal Reserve Banks or branches for their information.

Very truly yours,

(signed) S. P. Gilbert, Jr.

S. P. GILBERT, Jr.,
Under Secretary.Honorable D. R. Crissinger,
Governor, Federal Reserve Board,
Washington, D. C.

(COPY)

X-3788d

July 20, 1923.

Federal Reserve Bank,

Cleveland, Ohio.

Attention of Mr. J. C. Nevin.

Gentlemen:

Answering your letter of June 11th, I beg to advise you that the inquiry made by you as to deposits of securities for safe-keeping by Government officers and agencies with Federal Reserve Banks, was submitted to the Under Secretary of the Treasury, and he has handed me a letter, the enclosed of which is a copy, covering the subject matter.

This letter is for your information, and, of course, you will have to be governed accordingly.

Yours truly,

(signed) D. R. Crissinger

Governor.

FEDERAL RESERVE BOARD
WASHINGTON

X-3789
July 25, 1923.

SUBJECT: Official Advice of Removal of Old Restrictions
Against Silver Payments.

Dear Sir:

For your information there is enclosed a copy of a letter from the Under Secretary of the Treasury, dated July 20, 1923, with reference to the removal of old restrictions against silver payments.

By order of the Federal Reserve Board.

Very truly yours,

Wm. W. Hoxton,
Secretary.

(Enclosure)

TO GOVERNORS OF F. R. BANKS

(COPY)

X-3789a

THE UNDERSECRETARY OF THE TREASURY
WASHINGTON

July 20, 1923.

My dear Governor:

In going over the Treasury's records about silver I have noticed that the letter of January 7, 1921, from the Secretary of the Treasury to the Federal Reserve Board, suggesting the discontinuance of the arrangement of December 6, 1919, for supplying standard silver dollars through the Division of Foreign Exchange of the Federal Reserve Board, included at the end a reservation keeping in force the restriction against the payment of standard silver dollars against other forms of money than silver certificates. I think it is reasonably clear from subsequent instructions to the Federal Reserve Banks and correspondence with the Federal Reserve Board that this restriction no longer remains in force, but I am writing you definitely to that effect in order that there may be no possible misunderstanding as to payments of standard silver dollars. With the completion of purchases under the Pittman Act and the recoinage of silver bullion into standard silver dollars the Treasury's stocks of silver are entirely adequate and there is no longer any reason for keeping in effect any of the old restrictions against silver payments.

Very truly yours,

(signed) S.P. GILBERT, Jr.
Under Secretary.Hon. D. R. Crissinger,
Governor, Federal Reserve Board,
Washington, D. C.

F E D E R A L R E S E R V E B O A R D

STATEMENT FOR THE PRESS

X-3790

For Release in Morning Papers,
Friday, July 27, 1923.

The following is a summary of general business and financial conditions throughout the several Federal Reserve Districts, based upon statistics for the months of June and July, as contained in the forthcoming issue of the Federal Reserve Bulletin.

Production of basic commodities declined in June but employment was maintained at last month's high level, freight shipments were exceptionally large, and the volume of wholesale and retail trade continued heavy. Wholesale prices showed a further decrease.

PRODUCTION:

The Federal Reserve Board's index of production in basic industries, which makes allowance for seasonal variations, was four per cent lower in June than in May, and stood at about the level of the late winter. Mill consumption of cotton, steel ingot output, and sugar meltings showed particularly large reductions. The value of permits for new buildings and of contracts awarded declined in June more than is usual at that season.

The Department of Agriculture forecasts on the basis of July 1 condition a large increase in the cotton crop, a slight reduction in the corn crop, a winter wheat crop of about the ^{same} size as last year, and a spring wheat crop which will possibly be about forty million bushels below 1922.

The number of factory employees at work in June in the country as a whole was about as large as in May, though a reduction is reported by New England establishments. The proportion of factories reporting

full time operations decreased and consequently average earnings per employee were smaller. Wage advances continued to be reported in June, but they were not nearly so numerous as in April or May.

TRADE:

Distribution of commodities, as measured by railroad freight shipments, was active throughout June. The number of cars loaded exceeded one million in each of four successive weeks, and in the week ended June 30 was the largest on record.

The volume of wholesale and retail trade in June was about the same as in May and continued to be substantially larger than in 1922. Sales of groceries and dry goods were much larger in June and this increase was reflected in an advance of 4 per cent in the Federal Reserve Board's index of wholesale trade. This index, which makes no allowance for seasonal changes, was 9 per cent above the June, 1922 level. Department store and mail order sales were smaller, as is usual at this season, while sales of reporting chain stores were at about the same high level as in May. Stocks of merchandise at department stores were reduced about 6 per cent.

WHOLESALE PRICES:

The decline in commodity prices, which began late in April, continued during June and the first two weeks of July and the index of the Bureau of Labor Statistics for June was 2 per cent less than for May. The largest decline amounting to 4 per cent occurred in the prices of building materials, and decreases were shown also for all the other commodity groups, except house furnishings which remained unchanged. During the first half of July price declines were shown for wheat, sugar,

petroleum, and lead, while the price of corn and hides advanced.

BANK CREDIT.

Banking developments between the middle of June and the middle of July largely reflected the payment of income taxes on June 15, dividend and interest payments at the turn of the half year, the demand for additional currency for the July 4 holiday, and the return flow of currency after that date. At the end of the period the volume of member bank and Federal Reserve Bank credit in use was approximately at the same level as a month earlier. At the Federal Reserve Banks the amount of discounts for member banks on July 18 was about \$100,000,000 larger than on June 13, but this increase was practically balanced by a decline in holdings of acceptances and Government securities.

During the month of June gold and gold certificates in circulation increased by over \$40,000,000, and this increase is reflected in an equivalent decline of gold held by the Federal Reserve Banks.

Money rates were slightly firmer as is usual at this season of the year.

FEDERAL RESERVE BANK
OF CLEVELAND

July 23, 1923.

Hon. D. R. Crissinger, Governor,
Federal Reserve Board,
Washington, D.C.

Dear Governor Crissinger:

I have been considering the practical effect of the Amendments to Regulation "J" which are to go into operation on the 15th prox. In this connection certain questions have arisen in my mind which did not occur to me, or apparently to the other Governors, at the time of the recent Conference in Washington. The importance of these questions is of such moment that I feel I should bring them to your attention.

You will recall that the Amendments to Regulation "J" in effect divide banks into two classes, namely, those which have agreed to remit at par and those which have refused to do so. The refusal to handle checks for collection and the imposition of the collection service charge will under the revision of the Regulation be made in all cases where the bank which has refused to remit at par, is involved. As you know, there are a considerable number of banks which have not formally agreed to remit at par, but the number of banks, on which the Federal Reserve Banks have difficulty in collecting checks at par without expense, is small.

In the Fourth District we have been collecting without difficulty at par checks drawn upon 275 banks which have not formally agreed to remit at par. The checks on these banks have all been collected at par through member or non-member banks and accounted for to us without cost.

Peculiar considerations enter into some of these arrangements which do not involve hostility to the par clearance system. For example, the financial condition of certain of these banks is such that we prefer to collect checks drawn upon them through a banking institution in the same community which is familiar with the condition of the drawee bank, rather than to send these checks directly to the banks on which drawn.

In other instances the arrangement is one of convenience to the collecting and paying bank, in that settlement between them is made at intervals which they arrange to conform to local conditions thereby simplifying their own operations. A typical instance where the convenience of the collecting and paying bank is served

by such an arrangement occurs where the paying bank accumulates currency and the collecting bank accumulates exchange. In such cases it is a real service to the bank making the collection to have the paying bank settle with it in currency.

In some cases which have come to my attention the importance of this arrangement is such that it would engender hard feeling if the bank making collection for us was deprived of adjusting its currency and exchange balances. In fact we have a number of member banks who are very insistent that checks drawn on the non-member banks in their communities be sent to them for remittance to the Federal Reserve Bank. In most of these instances I believe the failure of the paying bank to agree to remit at par has not been due to hostility to the par collection system, but merely to the fact that the arrangement worked out best serves the convenience of the paying, as well as, the collecting bank.

Another phase of this indirect collection at par without expense arises through the operation of the Clearing House Associations. We are collecting checks drawn upon 80 non-member banks in the Fourth District which have not formally agreed to remit at par, through members of the various Clearing House Associations in the District. In most of these instances the paying bank is not a member of the Clearing House Association but its checks are cleared through a member.

In this connection I wish to call your attention to the fact that in the published statement of the Board made with reference to the revision of Regulation "J" it is stated that the collection system is now in operation between banks which in number are about 92% of all banking institutions and which have approximately 98% of the total banking resources of the country. This statement, it seems to me, is subject to question in that it appears to be predicated upon a computation which includes the banks on which the Federal Reserve Banks are collecting checks indirectly through member and non-member banks as outlined above. It has occurred to me that the critics of the par clearance system may seize upon this statement as constituting a claim by the Federal Reserve Board which is not justified by the facts.

Upon reflection I feel that the difficulties which it seems to me must be met if the revision of Regulation "J", already published goes into effect on the 15th prox., might be avoided by an Amendment thereof in the following form:

"No Federal Reserve Bank shall receive on deposit or for collection any check drawn on any non-member bank which refuses to remit at par in acceptable funds to the Federal Reserve Bank, or to make payment at par to its collecting bank.

"Whenever a Federal Reserve Bank receives on deposit or for collection a check drawn by, endorsed by, or emanating from any non-member bank which refuses to remit at par in acceptable funds to the Federal Reserve Bank, or to make payment at par to its collecting bank, it shall make a charge for the service of collecting such check of one tenth of 1%, the minimum charge to be 10 cents for each item."

Under this suggested revision of the Amendments to Regulation "J" it seems to me that the number of banks to which it would be applicable would be reduced to the banks which have shown active hostility to the par clearance system and would not involve disturbance of the existing satisfactory arrangement for collection of checks drawn upon the large number of banks which, although they have not agreed to remit at par, are paying their checks at par in a manner which is entirely satisfactory from the point of view of the Federal Reserve System. It would also obviate the necessity of causing dissatisfaction of many member banks which are collecting these checks at the present time.

I understand that in the Seventh District the number of banks which have not agreed to remit at par is approximately 306, but only six of these banks are actively opposing the collection of their checks at par. In our district the figures are 277 banks which have not formally agreed to remit at par including only two banks which will not remit except upon presentation of their checks by this bank through an Agent. In one of these instances the checks are not handled by reason of pending litigation.

I am advised that the Dallas bank has in its District 123 non-member banks on which checks are collected by it at par without expense through other banks in the same communities, but I do not know the number of banks which are actively opposing par clearance in that district.

I assume that the figures given above are typical of conditions in the other Federal Reserve Districts with the possible exception of Boston.

To my mind they emphasize the fact that if the present revision of Regulation "J" goes into effect on the 15th prox., the result thereof will be to create a great deal of avoidable criticism of the Federal Reserve Collection System. My own thought is that in the last analysis the only banks at which the revision of Regulation "J" was aimed, were those which are now seeking to break down the par clearance system by compelling the Federal Reserve Banks to make collection of their checks, if at all, by the expensive and burdensome method of

employing an agent to present them at their respective counters. The revision of Regulation "J" made for this purpose, now appears to be broader in its scope than is necessary or advisable.

If it be suggested that the Regulation as now revised might be construed by the banks to relate only to those banks which require presentment of their checks by agents of the respective Federal Reserve Banks, I feel that this is not a practice which should be adopted because it will afford the opponents of par clearance ground for claiming that the Regulation purports to be uniform in its operation as to all banks which have not agreed to remit at par, but the Federal Reserve Banks are construing it in violation of its express terms to be applicable only to the small number of banks which are actively hostile to the par clearance system. This, it seems to me, would be a criticism which could not be answered.

I trust that you will pardon the length at which I have written in this connection, but in view of the importance of the matter I have felt that I could not adequately express my views briefly.

Yours very truly,

(Sgd) E. R. Fancher,
Governor.

F.N.m

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F E D E R A L R E S E R V E B O A R D

X-3793

For release in Afternoon Papers,
Tuesday, July 31, 1923.

CONDITION OF ACCEPTANCE MARKET

JUNE 15 TO JULY 15, 1923.

The acceptance market was generally quiet during the 30-day period ending July 15. The supply of bills was limited in June, but increased somewhat in the early part of July, while the demand though light was generally sufficient to absorb offerings and dealers' portfolios were kept fairly liquid. Bills with short maturities were in the best demand and were sold freely in the early part of the period but after the first of July bills of 60 to 90-day maturities were preferred. Rates remained unchanged at $4 \frac{1}{8}$ to $4 \frac{1}{4}$ bid and 4 to $4 \frac{1}{8}$ offered. The principal commodities against which bills were drawn were sugar, grain, cotton, silk, leather, wool, and merchandise.

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F E D E R A L R E S E R V E B O A R D X-3794

STATEMENT FOR THE PRESS

For release in Morning Papers,
Wednesday, August 1, 1923.

The following is the Review of the Month as
contained in the forthcoming issue of the
Federal Reserve Bulletin.

AGRICULTURAL OUTLOOK. During the months of July and August the general harvesting of crops begins, Government forecasts of the volume of crop production become available, and plans are made for marketing and financing the crops. Harvesting of winter wheat is already under way, its movement to the world markets will soon begin, and during the next few months as other crops are harvested the banks will be engaged in providing the credit incident to an orderly marketing movement. The use of credit ordinarily reaches a seasonal peak at crop-moving time when the credit machinery is carrying the load of both domestic marketing and export financing. The present strength and liquidity of the banks and the added facilities for agricultural financing assure a supply of credit adequate to meet this year's seasonal requirements.

In view of their bearing upon prospective returns to the farmer and therefore upon the general business situation, especial interest attaches to the recent forecasts of crop production and prevailing farm prices, shown in the table. These afford the best basis now available for making an estimate of the present agricultural outlook compared with that of a year ago.

	Unit.	PRODUCTION		Price at the farm.	
		1922 final estimates	1923, July forecast	July 1, 1922.	July 1, 1923.
Corn.....	Bushel	2,890,712,000	2,877,437,000	\$0.622	\$0.865
Wheat, total.	do	862,091,000	820,628,000	1.026	.951
Winter..	do	586,204,000	585,889,000
Spring..	do	275,887,000	234,739,000
Cotton.....	Bale	9,762,000	11,412,000	* .204	* .262

* Price per pound.

The July 1 forecast of winter wheat indicates a crop of about the same size as last year, while the spring wheat forecast, which at this time of the year is much less definite, shows an expected reduction of about 40,000,000 bushels. A slight reduction in the corn crop and a large increase in the cotton crop are also forecast. While farm prices on July 1 can not be taken as indicative of the prices the farmer will receive for this year's crops, they constitute a basis for comparison of current conditions with those prevailing a year ago. Corn and cotton prices are much higher than at this time last year, while the price of wheat is lower. The aggregate value of this year's wheat crop at July 1 farm prices would be in round numbers \$800,000,000, compared with \$900,000,000 for last year's crop at prices prevailing in July, 1922. The aggregate value of the cotton crop on the same basis, on the other hand, was \$1,500,000,000 this year, compared with \$1,000,000,000 last year, an increase of 50 per cent over last year.

The agricultural outlook is conditioned by the world supply of leading farm products and the buying power of consumers, both domestic and foreign, during

the coming year. Competition fixes substantially the same price in all countries for those agricultural staples which are sold in world markets, and this continues to be true even under the existing disorganized currency conditions. The return to the American farmer, is, therefore, the outcome of world supply and world demand, of which the domestic production and demand constitute only a part. While foreign demand is more important in the marketing of some agricultural products than of others, in the aggregate the domestic market consumes much the larger proportion of our agricultural products. The domestic demand for farm products during the past year has increased as a result of the larger buying power of industrial workers arising from fuller employment and wage advances. During the first five months of 1923 the sale of groceries at wholesale exceeded that of the same period of the previous year by 14 per cent and the sale of meat by 20 per cent, the domestic consumption of pork being unusually large. These large food purchases, however, were made at relatively low prices, though these were not due to any limitation in the buying power of domestic consumers, but to the conditions of the world supply and the limited buying power of foreign consumers. In fact, it is hardly likely that the total food consumption in the United States would have been much reduced even if prices had been higher. With the present relatively large earnings of workers the effect of a rise in food prices on the family budget would have been to increase the expenditure for food rather than to reduce consumption. For the ultimate consumer in the United States the chief result of relatively low food prices, therefore, has been to increase the margin available for the purchase of other commodities and for savings. For the farmer this has meant that the selling price of his products has been out of line with the prices of the things he buys. In this respect there has been a better adjustment during the past year, taken as a whole, though latterly

agricultural prices have shared in the decline in the general level of wholesale prices, the fall in the prices of wheat and hogs attracting particular attention. Price movements in the sensitive, highly organized produce markets at this season of the year are apt to reflect the attitude of the speculative dealer and are not invariably indicative of the prices that will be realized by the American farmer during his crop marketing period. With reference to the present situation this is particularly true in view of the many uncertain factors which must be taken into account in estimating at this time the market outlook for agricultural products.

FOREIGN DEMAND

In the sale of his products the American farmer is confronted with world conditions, and the price which these products will bring in the international markets depends chiefly upon the extent of European demand and the supply available from other food exporting countries besides the United States. From present estimates it appears probable that a larger proportion of European consumption requirements than in recent years will be met by European crops and that consequently European imports of food products this year are likely to be smaller. Agricultural production in leading food exporting countries, largely stimulated by conditions prevailing during the war, is still considerably above the prewar level, and the exported product of the American farmer has to meet in the European market the competition of this enlarged world production. The ability of Europe to pay for imports is still much less than before the war, though there has been some increase in its buying power during the past year arising out of industrial revival. A large share of the reduced buying power of these foreign countries during 1923 has been used in the purchase of food; the imports of food into Great Britain, for example, during the first five months of this year were 50 per cent

greater than during the same period of last year and constituted a larger percent of her total imports. On the Continent, particularly in those countries where ability to make foreign purchases has been limited by their depreciated currencies, there has been a shift from the more expensive imported foods, such as wheat, to the cheaper domestic foods, particularly potatoes and rye. Food exports from the United States, which were greatly enlarged during the war and the years immediately following, have during the past year continued well above the pre-war level.

Cotton exports on the other hand, have been much lower. The quantity of European purchases in the American market in view of Europe's limited buying power depends both on the prices prevailing in this country and on the level of exchange rates, with the result that Europe has bought larger quantities of such commodities as pork and lard and of the cheaper grains.

Changes in the volume and character of European purchases of American farm products have been accompanied by an important change in the seasonal distribution of these purchases and in the size of the stocks carried in Europe. In recent years European buyers of American cotton and wheat have distributed their purchases more evenly throughout the year. Under the practice that prevailed before the war the bulk of cotton exports took place during the five months following the harvesting season.* Since the war, however, exports have been more closely related to the immediate consumption requirements, and stocks carried in Europe are relatively smaller. A similar change in practice has affected the seasonal distribution of wheat exports. Stocks now carried in Europe are materially below the amounts carried in the years preceding the war. The change in practice began during the war, when supplies were short, and this hand-to-mouth policy has con-

* See article on cotton financing, FEDERAL RESERVE BULLETIN, May, 1923, p. 566.

tinued to the present time. Moreover, the holder of stocks in Europe is exposed to unusual hazards arising from wide fluctuations in prices and exchange rates. Also the cost of storage and handling at the docks has increased, and this has tended to reduce stocks carried in warehouses and to increase the direct movement from the ship to the mill. The reduction of these European stocks has increased the amounts of agricultural staples that had to be carried in the United States and lengthened the period for marketing the exportable surplus. This change of practice has affected particularly the size of the American carry over of wheat and must be recognized both by farmers and bankers as a factor in the marketing and financing of the American crop.

ORDERLY MARKETING.

Since the harvesting of the American crops takes place during the summer and autumn months, while their consumption is distributed over an entire year, the marketing must be adjusted to the flow of products from other exporting areas and to the requirements of the consumer. In this respect there is a distinction between the marketing of such crops as cotton and tobacco, in which world supply is primarily dependent upon American production, and the marketing of wheat, which is produced in all parts of the world and marketed throughout the year.

The function of credit in the marketing of farm products is to finance the flow of products from the producer to the consumer in an orderly manner over the entire period of consumption. Products not immediately consumed are necessarily carried and financed at some point in the distributing process, and consequently require the use of storage and credit facilities. Credit can not create a market where none exists, but it can assist in

adjusting the movement of products into the market at any given moment to the actual state of the demand, and thereby insure to the producer in so far as conditions will at all permit of it a more settled price situation than he would face if his products were dumped upon the market as soon as harvested. It is worth noting that this is also the chief end aimed at by producers in organizing themselves into cooperative marketing associations. But these associations also work within the limits of consumptive demand, and their chief service to their members is to provide more adequate financing and better marketing arrangements.

In a letter to the Federal Reserve agents the Federal Reserve Board recently called attention to the added facilities for agricultural financing made possible through legislation enacted during the last Congress and through the board's regulations putting into effect the amendments to the Federal reserve act. Facilities available to farmers for securing credit to carry their crops in the process of orderly marketing were considerably enlarged by the agricultural credits act of 1923. This act, in addition to creating new machinery for granting longer term credits to farmers, contained a number of amendments to the Federal reserve act. With the view to increasing the services that the reserve banks can render farmers in financing their current short-term operations, the act extended the maximum maturity of agricultural paper eligible for discount with the reserve banks from six to nine months. It also extended the maturity of bankers' acceptances eligible for discount or purchase by the Federal reserve bank from three to six months, provided these acceptances are drawn for agricultural purposes and are secured by warehouse receipts for agricultural products. Other changes affecting the length of period for which agricultural paper is eligible for discount were

provisions that certain classes of paper of cooperative marketing associations were to be construed as agricultural paper rather than as commercial paper, thereby making them eligible for discount for nine months instead of 90 days, and that certain agricultural drafts without definite maturity (sight and demand drafts) might be discounted by the reserve banks. The act also admitted to discount paper of cooperative marketing associations, the proceeds of which are to be lent to members to finance their agricultural operations, and factors' paper issued for the purpose of making advances to producers of staple agricultural products. A nontechnical summary of the facilities for agricultural credit provided by the Federal Reserve act as amended is published elsewhere in the BULLETIN.

In surveying the agricultural situation, it is still too early to estimate even with approximate accuracy the proceeds to the farmer from the approaching harvest. Neither the volume of production nor the prices through the period of marketing can now be definitely known. It is evident, however, that with the improved credit facilities and the strong position of the banks the credit available is adequate to provide for the needs of orderly marketing.

R E S O L U T I O N
ADOPTED BY
FEDERAL RESERVE BOARD
AT MEETING JULY 30, 1923
(Amending action of June 27, 1923.)

SUBJECT: C U B A N A G E N C I E S

WHEREAS, the United States Government, by virtue of the so-called Platt amendment has entered into relations with Cuba which it does not have with any other foreign country, especially in matters of finance and currency, the currency of the United States having been made legal tender by Cuba;

WHEREAS, the Federal Reserve Board is of the opinion that the establishment of an agency in Cuba is desirable as a means of stabilizing banking conditions and furnishing an adequate supply of clean currency;

WHEREAS, the President of the United States and the State Department have advised this Board that it is important that such an agency should be established;

WHEREAS, the Federal Reserve Bank of Atlanta and the Federal Reserve Bank of Boston have each petitioned the Federal Reserve Board for authority to establish an agency in Havana, Cuba, for the purpose of conducting operations permitted under Section 14 of the Federal Reserve Act;

WHEREAS, the Federal Reserve Bank of Boston desires to establish such an agency primarily for the purpose of buying and selling cable transfers and buying, selling and collecting bankers' acceptances and bills of exchange bearing satisfactory bank endorsements;

WHEREAS, a substantial portion of the currency now in circulation in Cuba consists of Federal Reserve notes of the Federal Reserve Bank of Atlanta; and it is feared that the establishment of an agency of another Federal Reserve Bank in Cuba might result in the retirement of such notes from circulation; and the Federal Reserve Bank of Atlanta desires to establish an agency in Cuba primarily in order that it may maintain the circulation of its Federal Reserve notes in Cuba;

WHEREAS, the Federal Reserve Bank of Boston does not desire to put its Federal Reserve notes in circulation in Cuba but is willing, if authorized to establish such an agency, to preserve as far as possible the circulation in Cuba of Federal Reserve notes issued through the Federal Reserve Bank of Atlanta;

BE IT RESOLVED BY THE FEDERAL RESERVE BOARD, that the applications of the Federal Reserve Bank of Atlanta and the Federal Reserve Bank of Boston for permission to establish such agencies are hereby granted on

the following terms and conditions:

(1) The Federal Reserve Bank of Atlanta and the Federal Reserve Bank of Boston are each authorized to establish an agency in Havana, Cuba, and through such agency to buy and sell cable transfers; buy, sell and collect prime bankers' acceptances and prime bills of exchange, which acceptances and bills are payable in dollars, arise out of actual import or export transactions, bear the signatures of two or more responsible parties, bear a satisfactory bank endorsement, have not more than 90 days to run, exclusive of days of grace, and are secured at the time of purchase by shipping documents evidencing the actual import or export and the actual sale of goods and conveying or securing title to such goods; and to exercise only such incidental powers as shall be necessary to the exercise of the above powers. The term "bills" as hereinafter used shall mean cable transfers, bankers' acceptances and bills of exchange of the kinds described in this paragraph.

(2) The Federal Reserve Bank of Atlanta SHALL NOT BUY OR SELL ANY CABLE TRANSFERS EXCEPT AT THE REQUEST OF THE FEDERAL RESERVE BANK OF BOSTON AS PROVIDED IN PARAGRAPH 3 HEREOF, AND shall not purchase, sell or collect any bills in Cuba except such as originate in or are drawn upon banks or other drawees, in the Sixth Federal Reserve District; and shall purchase no other bills nor purchase or sell any cable transfers, except upon the request of, and for the account of, the Federal Reserve Bank of Boston.

(3) The Federal Reserve Bank of Boston shall not pay out any currency in Cuba, except as hereinafter provided, and whenever bills or CABLE TRANSFERS are offered for sale to its Havana Agency and the sellers request payment in Federal Reserve notes or other currency, the Federal Reserve Bank of Boston shall request the Federal Reserve Bank of Atlanta to purchase such bills or CABLE TRANSFERS for it and immediately pay for them with Federal Reserve notes issued through the Federal Reserve Bank of Atlanta or other currency. The Federal Reserve Bank of Atlanta shall comply with all such requests and shall make immediate payment, and shall immediately resell such cable transfers or bills to the Federal Reserve Bank of Boston at cost and without recourse. If the Federal Reserve Bank of Atlanta shall fail to purchase such bills or cable transfers promptly for the Federal Reserve Bank of Boston or shall not have available in Havana a sufficient supply of currency, the Federal Reserve Bank of Boston may itself purchase such bills and pay for them with its own Federal Reserve notes. In making sales of cable transfers and bills of exchange where currency is tendered in payment, the Federal Reserve Bank of Boston shall require the purchasing banks to make the currency payments to the agency of the Federal Reserve Bank of Atlanta for credit to its account. All settlements between the agencies shall be made at the request of the creditor bank by the head offices through the Gold Settlement Fund. Neither bank shall make any direct exchanges of currency in Cuba.

(4) The establishment and operation of such agencies, and the exercise

of all the above powers through such agencies, shall be subject to such changes and such further rules and regulations as the Federal Reserve Board may prescribe from time to time.

(5) The Federal Reserve Board expressly reserves the right to revoke its consent at any time to the continuance of such agencies, to require the discontinuance of such agencies OR TO AUTHORIZE THE ESTABLISHMENT OF NEW AGENCIES whenever in its discretion it considers it desirable to do so.

X-3796

July 31, 1923.

To: Federal Reserve Board
From: Mr. Wyatt, General Counsel
C O N F I D E N T I A L

Subject: Past policy of Board in acting upon applications of State member banks for additional branches.

I have been requested to make a study of the Board's records and to report as to what has been its policy in the past in acting upon applications of State member banks for its permission to establish additional branches. This information I have had to seek from the minutes of the Board (which frequently state merely the Board's action without giving any reasons therefor) and in the correspondence on this subject, (which is filed in several different places, is incomplete, and is not analyzed or indexed in any way). I have made as thorough an investigation as is possible under these circumstances and in the limited time allowed me; and, so far as I have been able to ascertain, the Board has never had any definite, comprehensive policy on this subject, though from time to time it has adopted or approved policies covering certain specific points.

It has been suggested that a comprehensive policy should be developed gradually like the common law^{by} deciding each case on its merits as it arises; but if such a method is to result in a definite policy it is necessary (as in the development of the common law) to decide each case in accordance with precedents previously established, if there are any precedents in point and in the absence of precedents in point to decide each case in accordance with the general principles that have been announced in connection with previous cases. So far as I have been able to ascertain, no well defined comprehensive policy has yet been developed in this way.

Numerous different considerations of policy have been suggested or acted upon, however, from time to time as a basis for the Board's decisions

in various cases, and it is believed that a statement of these various considerations will throw considerable light upon this subject and will be of some assistance in formulating a policy for the future. After a careful investigation of all the Board's records on this subject, I have prepared the following statement which I believe describes most, if not all of the various considerations of policy which have influenced the Board at different times in acting upon applications for permission to establish additional branches or which have been suggested as possible bases for such action.

POLICIES FAIRLY WELL ESTABLISHED.

Assimilation of Banks Taken Over:-

The Board seems to have adopted the principle that a bank should not be permitted to establish additional branches through the absorption of existing banks at a rate out of proportion to its power to assimilate the business taken over by the banks absorbed. (Letter, Harding to Perrin, Sept. 24, 1921, Bank of Italy File No. 22). Thus, in acting upon the application of the Bank of Italy for permission to take over and operate as branches the eight banks in the so-called "Bakersfield" and "Marysville" Groups, the Board permitted it to take over only four of such banks at a time, with the understanding that the other four should not be admitted until after the Board was satisfied that the first group had been properly organized and was properly functioning as branches of the Bank of Italy. (Letter, Harding to Perrin, January 18, 1922.)

Branches in Same City as Head Office:-

The Board apparently has been disposed to grant any California State member bank in good condition authority to establish additional branches

or agencies in the same city as the head office whenever the public convenience would be served. In the case of the Pacific Southwest Trust & Savings Bank of Los Angeles, and the Mercantile Trust Company of San Francisco, these additional offices have been for the most part so-called "receiving and paying stations". (Letter, Perrin to Board, February 21, 1922, re establishment of additional branches in Los Angeles by the Bank of Italy).

Receiving and Paying Stations Distinguished from Branches:-

The Board has taken the position that there is quite a distinction between the establishment of a branch bank and the establishment of a mere office or receiving station at which no discounting of any consequence is carried on and the funds of which are sent to the main office each day, and it has expressed the opinion that it is not a matter of primary concern with the Federal Reserve Board how many such stations member banks establish, unless the expense threatens the impairment of their working capital. The Board, however, has expressly reserved the right to interfere if such stations should develop into full fledged branches and has notified the banks concerned that if they desire to operate full fledged branches they must obtain the Board's approval. The Board has not issued a general ruling on this subject giving blanket to all member banks, but has adopted the policy of making its approval of such receiving stations under such circumstances and conditions as those which obtain in the City of Los Angeles a more or less proforma matter. (Letter to Perrin, May 15, 1922). In this connection, it is to be noted that the Board gave the Southwest Trust & Savings Bank of Los Angeles blanket permission to establish twenty-five such additional offices in Los Angeles and gave the Mercantile Trust

Company of San Francisco blanket authority to establish thirty such offices in and about San Francisco. The Board has also taken the position that the mere fact that such stations make loans in amounts not exceeding \$500 does not bring them within the designation of "branches" and that, so long as the managers are not vested with discretionary power to make larger loans, the Board is not disposed to consider them as actual branches. (Letter, Platt to Perrin, January 4, 1923.)

Effect on Examination Problem:-

In a number of cases the Board has expressed concern about the extension of branches in so far as such extension tends to make it impossible to have simultaneous examinations of the head office and all branches. (Letter Platt to Perrin, March 14, 1923). After a careful study of the situation in California and numerous conferences with the various parties concerned Messrs. Miller and Mitchell also reached the conclusion that the ability to supervise and examine banks having a large number of branches should govern the number of branches to be permitted. (Report to Board April, 1922, page 12). And in this connection the Board has taken the position that, for examination purposes and general administrative purposes, there is no difference between a full fledged branch and a mere additional office or receiving station. (Telegram, Hoxton to Perrin, March 10, 1923). The Board has also expressed the belief that the inability of the State authorities to make proper examinations is a vital matter and the difficulty of conducting an examination of a bank with a large number of branches offers adequate justification for limiting branch expansion. The Board, of course, is reluctant to have the Federal Reserve Bank assume the responsibility in such case which should be borne primarily by the State authorities. (Telegram, Hoxton to Perrin, March 10, 1923). In a report

submitted to the Board as early as December 22, 1921, by a Committee composed of Messrs. Crissinger and Mitchell, the conclusion was reached that the Bank of Italy already had more branches than the Federal Reserve Bank had machinery to properly supervise and examine and that any request for additional branches should be refused.

Considerations Influencing Board's Decision in Particular Cases:-

The following is a statement of the various considerations which have influenced the Board's action on applications of member banks to establish branches in particular cases and which it is believed contain suggestions which may be of assistance in formulating a general policy:

Understanding with Giannini re Admission of Bank of Italy:-

In the letter addressed by Dr. Miller to Mr. Giannini, President of the Bank of Italy, under date of September 26, 1917, and ratified by the Board in a telegram addressed by Governor Harding to Mr. Perrin, under date of October 20, 1917, it is stated that on the question of the Bank of Italy taking on additional branches the sole concern of the Federal Reserve Board would be to satisfy itself that any proposed extension will not impair the general safety and strength of the institution. Since that statement was made, however, the method of the Bank of Italy in acquiring additional branches has changed materially, and the entire problem has taken on new aspects which would justify the Board in taking other matters into consideration. Furthermore, the Bank of Italy did not join the Federal Reserve System upon receiving these letters but waited until 1919, over two years later, and at the time of its admission its method of developing branch banks was under serious criticism by the Superintendent of Banks, and the Board admitted it only after it promised to comply with all the

requirements of the Superintendent of Banks and agreed specifically that it would not establish any additional branches without first securing the approval of the Federal Reserve Board. (Letter, Supt. of Banks to Perrin December 15, 1919, Bank of Italy File 13). This would seem to supersede completely any understanding based on Dr. Miller's letter of September 26, 1917. At the time of the admission of the Bank of Italy, the Superintendent of Banks and Mr. Perrin agreed that the Bank of Italy should not go forward with the expansion of its branch system unless and until its organization, policy, management, both practical and theoretical, could demonstrate a full control abreast of its problems. (See also letter Perrin to Board, December 18, 1919, Bank of Italy file 14).

Condition, Organization, and Management of Parent Bank:-

It is obvious that the condition, organization and management of the parent bank necessarily must be given important consideration in determining whether the establishment of additional branches will affect its soundness, liquidity or solvency. This element has always been considered in acting upon applications of the Bank of Italy for permission to establish branches, and the Board clearly has been influenced by the criticisms of Mr. Perrin and the State Superintendent of Banks on the ground that it is expanding too fast, is suffering from lack of proper coordination between the branches and the head office, from lack of head office control and supervision, from lack of trained bankers among the senior officers of the head office, and from lack of independence on the part of the directors of the home office, and also on the ground that its affiliation with other corporations such as the Bancitaly Corporation of New York, The Stockholders' Auxiliary Corporation, the Liberty Bank of San Francisco, and California Joint Stock Land Bank, the East River National Bank of New

York, the Commercial Trust Company of New York, and two banks in Italy, constitute an element of danger.

Criticism of Routine Operations:-

In approving certain applications of the Bank of Italy for permission to establish branches the Board did so on condition that the Bank submit "evidence that the matters criticised by the State Banking Department in connection with the last report of condition of the Bank of Italy had been adjusted to the entire satisfaction of the Superintendent of Banks." (Letter, Governor Harding, June 29, 1922, which is not in file but is quoted in memorandum, Hoxton to Board, December 12, 1922). Mr. McAdoo, Counsel for the Bank of Italy, questioned the propriety of this condition on the ground that "it concerned matters wholly unrelated to the merits of its application for the acquisition of additional branches." (Letter to Harding July 21, 1922). Governor Harding replied under date of July 21, 1922, that the Board had particularly in mind, however, criticism relating to routine operations of a bank and felt that where so large an institution was subject to criticism in respect to its routine operations the matters complained of should be adjusted before the Board should become a party to permitting the bank to still further enlarge the scope of its operations.

Effect on standard Required as Condition to Membership:-

Naturally, the Board must take into consideration the effect which the establishment of additional branches will have on the standard required of such bank as a condition of membership, and quite frequently this question and the question of local convenience have been the only points discussed in Mr. Perrin's recommendations. (See memoranda Inlay to Board September 29, 1920, and February 24, 1921, re applications of

Pacific Southwest Trust & Savings Bank, and correspondence attached).

Ratio of Capital to Deposits:-

In approving the application of the Bank of Italy for permission to take over the eight banks in the so-called Bakersfield and Marysville Groups, as explained above, the Board indicated that its approval was based largely on the fact that the Bank of Italy had recently increased its capital and surplus saying, "The Board places great importance upon the proper relation of capital and surplus of the Bank to its deposit liabilities". (Letter Harding to Perrin, January 18, 1922). This is very important in connection with a rapidly expanding branch system, because the continued absorption of going banks with their existing deposit liabilities will soon reduce the ratio of the capital of the parent bank to the aggregate deposit liabilities, unless the capital is increased correspondingly.

Laxity of Management:-

Mr. Perrin refused to recommend the establishment of a branch at Fresno by the Sacramento-San Joaquin Bank (now United Bank and Trust Company of California), because of the laxity of its management, saying, "If unable to manage acceptably the present complex situation, it was not clear how matters would be improved by increasing the complexity with the addition of another branch." Upon being advised of this fact, the Board said that Mr. Perrin's position was well taken. (Letter Perrin to Harding July 9, 1921, and Harding's reply July 16, 1921).

Monopolistic Tendencies and Bludgeon Methods:-

Another factor which has made the Board hesitate to approve applications of the Bank of Italy for permission to establish additional branches has been the so-called "bludgeon methods" of that bank in acquiring other

branches for the purpose of converting them into branches, and the tendency to compel such banks to sell out rather than face the competition of the Bank of Italy. This, of course, tends to destroy the independent system of banking upon which the Federal Reserve System is based and is in my opinion a perfectly valid legal and moral ground for declining to permit the establishment of additional branches. (See telegram First National Bank of Yuba City to Crissinger, January 16, 1923).

It is especially important to consider the effect of this tendency on the existence of independent national banks, which constitute the real "back bone" of the Federal Reserve System since their membership in the System is compulsory. It has been suggested that a continuation of the present tendencies in California would eventually result in the complete elimination of the national banks from the State. This would place the Federal Reserve Bank of San Francisco largely at the mercy of the large State banks, because they could practically take California out of the Federal Reserve System on six months' written notice. They have already indicated a tendency to attempt to coerce the Federal Reserve Bank and even the Federal Reserve Board by threats of withdrawal from the System.

Branches Outside Home City:-

The board's disapproval of the application of the Bank of Italy for permission to establish a branch de novo at Sacramento was based upon a recommendation of Mr. Perrin and upon the policy of the State Banking Department not to permit more than one branch to be established by any bank in a city or locality other than that in which its principal place of business is located, nor to permit any bank to establish branches de novo in any town or city other than that in which its head office is located, unless the

Superintendent of Banks in his discretion shall find that the public convenience and advantage require it. (Letter, Crissinger to McAdoo, June 1, 1923).

Local Convenience:-

The Board's disapproval of the establishment by the Bank of Italy of a branch at Yuba City was based primarily upon a finding of fact by Mr. Perrin, its local representative at San Francisco, to the effect that the banking needs of Yuba City were already adequately served and that there was no apparent public demand for additional banking facilities in the community. The Board also had before it a suggestion from Mr. Perrin that, as a matter of general policy, it is not desirable to permit the establishment of branches de novo in towns or cities other than that in which the head office is located, if there already are community banks located in such towns or cities whose existence may be threatened. Furthermore, the Board was advised that the Bank of Italy already had substantial representation in the banking field in that locality. (Letter, Crissinger to McAdoo, June 1, 1923).

In this connection, I consider it my duty to advise the Board that in my opinion it took an unnecessarily weak position when it based its disapproval of the application of the Bank of Italy to establish a branch at Yuba City on the ground that the banking needs of Yuba City were already adequately served and that there was no apparent public demand for additional banking facilities in the community. As a practical matter, it is very difficult for the Board to determine whether or not a small community in California needs or desires additional banking facilities, and it cannot always depend upon its local representative to decide such

questions. This is demonstrated by the fact that Mr. Perrin first advised the Board that no additional banking facilities were needed in Yuba City and has since reversed that finding. Furthermore, for the Board to undertake to determine local questions of this character contrary to the findings of the local authorities would be likely to have a very bad effect on public opinion if the matter should be made the subject of a test case or public controversy, because it is apparently inconsistent with one of the fundamental principles of our Government, namely, that local questions should be decided by the local authorities rather than by the Federal Government. If Mr. McAdoo chooses to make a test case of the Board's action in the Yuba City case, he undoubtedly will make a lot of capital of this point, which will have its effect on the public mind. It may even have its effect (subconsciously at least) on the court, just as the idea that the Federal Reserve Banks were oppressing the small State banks recently influenced the Supreme Court of the United States to make a decision in the North Carolina par clearance case which was entirely out of line with its decisions for the past fifty years on questions involving State interference with the corporate powers of Federal corporations.

In my opinion, there are many other grounds upon which the Board could have based its refusal to permit the Bank of Italy to establish a branch at Yuba City and which could have been defended much more easily. Thus, it could have placed it squarely on the ground suggested by Mr. Perrin that, as a matter of general policy, it is not desirable to permit the establishment of branches de novo in towns or cities other than that in which the head office is located if there already are community banks located in

such towns or cities whose existence may be threatened; or it could have placed it on the ground that the Bank of Italy already has too many branches, is expanding too rapidly, has not properly coordinated the branches which it has already acquired, or on many of the broad grounds which have been considered in other connections. On any of those grounds, its action could be sustained before a court or before the bar of public opinion with comparatively little trouble, and it is doubtful that the Bank of Italy would dare to make a test case if the Board has based its action on such grounds.

I do not presume or intend to criticise the Board's action in this matter; but I do consider it my duty to point this out, in order to suggest that it would be advisable for the Board to base its action in such cases on broader grounds in order that its position may be as strong as possible if it is ever drawn into a test case or into a public controversy. In this connection, it should be remembered that if a test case is brought it probably will be brought by the Bank of Italy, and the attorneys for that Bank naturally will select the case in which they think the Board has taken the weakest position.

POLICIES SUGGESTED BUT APPARENTLY NOT ADOPTED.

The following are several suggestions that have been made from time to time but apparently have not been adopted by the Board. It is believed that a statement of them will be helpful in connection with the formulation of a general policy on this subject;-

Liquidity of Parent Bank and Coordination of Branches.

At a conference held in San Francisco, April 11, 1922, attended by Messrs. Mitchell and Miller of the Federal Reserve Board, the Superintendent of Banks of California, Mr. Oliver, his attorney, and by Mr. Perrin, Governor Calkins and other officers of the Federal Reserve Bank of San Francisco, the following was agreed to as a basis upon which the State Banking Department and the Federal Reserve Board should treat branch banking problems:

1. That a bank should not add a branch or branches unless examination discloses that it has in cash, due from nonaffiliated banks, United States Government bonds and paper eligible and acceptable for rediscount by the Federal Reserve Bank, a total of not less than fifty per cent of its demand deposits and fifteen per cent of its time and savings deposits.

2. And in the case of a bank already operating branches that it should not establish an additional branch or branches unless a survey discloses in addition that its existing branches are well coordinated under Head Office control and direction both in accounting and in extension of credit.

These conclusions were approved unanimously by the directors of the San Francisco Federal Reserve Bank, but the State bankers were unwilling to accept such a basis. (Report of Messrs. Miller and Mitchell

to Federal Reserve Board, April 1922, pages 5 to 8). The Board apparently took no formal action on this suggestion, but at times has followed a policy somewhat similar to the second point stated above.

Branches within Reasonable Radius of Parent Bank:-

The national banks in San Francisco have generally taken the position that branch banking should be confined to districts within a reasonable radius of the parent bank and that it is impractical to attempt to cover the entire State with a system of branch banking. (Report of Messrs. Miller and Mitchell, April, 1922, page 5). The Board apparently took no action on this suggestion.

State Policy re Branches De Novo:-

It has been suggested that the Board adopt as its policy in acting upon applications of California State member banks for permission to establish additional branches, the following policies adopted by the State Bank Superintendent, and promulgated as rulings effective March 8, 1923, after a conference with the Legislative Committee of the California Bankers' Association and the Executive Committee of the California League of Independent Bankers; but the Board apparently has not adopted this suggestion:-

"From and after this date no branch office shall be established by any bank in a city or locality other than that in which its principal place of business is located by the purchase of or consolidation or merger with another bank unless both banks shall have been open for business for at least three years prior to said sale, consolidation or merger unless the superintendent of banks in his discretion shall find that the public convenience and advantage require it; in the case of a national bank that has been converted into a state bank the time required herein shall be considered as running from the date of the original organization of said national bank.

"From and after this date no more than one branch office shall be established by any bank in a city or locality other than

that in which its principal place of business is located, unless the superintendent of banks in his discretion shall find that the public convenience and advantage require it. In the event, however, of sale, consolidation or merger, all branches that have been maintained for a period of three years prior to such sale, consolidation, or merger by the respective institutions or banks concerned may be thereafter continued as branches of the consolidated banks. The three-year requirement herein provided shall not be construed as applying to branch offices in existence as of this date.

"From and after this date no branch shall be created in any locality other than the city or locality in which is located the principal place of business except by purchase of or consolidation or merger with an existing bank in said city or locality unless the superintendent of banks in his discretion shall find that the public convenience and advantage require it."

(It should be noted that the practical effect of these policies is greatly diminished if not entirely nullified by the exception stated in the words, "unless the superintendent of banks in his discretion shall find that the public convenience and advantage require it," especially when it is well known that most California ex-Superintendents of Banks obtain lucrative positions with the large California banks operating branch systems.)

Distinction between Establishing Branches De Novo and Taking Over Existing Banks:-

Attention has been called to the fact that there is quite a difference between granting permission to establish new branches and acquiring the business of banks already established and converting them into new branches. In the case of new branches there is no immediate assumption of additional liabilities, and the machinery of the parent bank is gradually developed with the growth of the business of the new branch. With the acquisition of established banks, however, the volume of business is immediately greatly increased, and, unless the organization is equipped with the highest quality of efficiency, a proper control cannot be had over the business acquired. (Letter, Jan. 17, 1922, proposed by Mr. Mitchell disapproving application of Bank of Italy to establish eight branches; but not adopted by the Board.)

Mr. Hamlin's Pending Resolution:-

At the Board meeting on May 22, 1923, Mr. Hamlin stated that he had on April 10, 1923, presented certain resolutions setting forth the terms of a general policy covering the Federal Reserve Board's attitude towards applications for branches by State member banks, and requested that his resolutions be recorded upon the minutes of that date, but laid aside for the present as unfinished business. Mr. Hamlin further stated that he now desired to amend the resolutions aforesaid, and to have them recorded upon the minutes as follows, with the request that the amended resolutions be treated at this time as were the original, and laid aside for the present as unfinished business:-

"Resolved:-

That, in passing upon the establishment of Branches by Member State Banks and Trust Companies, whether de novo or through voluntary purchase of existing Banks, the Board will take into consideration the need of the community for additional or improved facilities and the effect of the establishment of the proposed Branch on the condition of the Parent Bank.

"Resolved:-

That, the Board will accept the decision of the State Banking Department as to the need of the community for additional or improved banking facilities.

"Resolved:-

That, the Board will not undertake to lay down any general policy as to territorial limitations or spheres of influence, but will accept the policy of the State with regard thereto, as determined by the State authorities."

(Minutes May 22, 1923)

It appears that these resolutions are still pending and that no action has been taken on them.

SUMMARY

The following is a brief summary of the various points heretofore considered or suggested and which might be given consideration in connection with the formulation of a general policy on this subject:-

1. Rapidity of expansion and assimilation of going banks taken over and operated as branches;
2. Distinction between branches in same city as head office and branches scattered over the entire State;
3. Distinction between branches and mere receiving and paying stations;
4. Effect of establishment of further branches on the problem of proper supervision and examination;
5. Effect of establishing additional branches on general safety and strength of parent institution;
6. Condition, organization and management of parent bank;
7. Ratio of capital to deposits;
8. Monopolistic tendencies and bludgeon methods in obtaining branches;
9. Establishment of de novo branches in competition with existing banks in cities other than that in which the head office of parent bank is located;
10. Geographic location of branch with reference to parent bank, especially as it affects economic relation and ability of parent bank to properly control and supervise branch;
11. Policy of State re branches de novo;
12. Distinction between establishing branches de novo and taking over existing banks;
13. Mr. Hamlin's resolutions which are now pending before the Board.

CONCLUSION

It is believed that a historical discussion of the Board's attitude toward the development of the present branch system of five or six of the

California State member banks having large numbers of branches will throw more light on this problem, but I have been unable to prepare such a statement in the short time allowed me. This office will cheerfully undertake the task if the Board so desires; but it is not a legal problem and the Board may prefer to have it prepared by some other department of its organization, especially in view of the fact that this office already has all it can do while some of the other offices are not so busy.

In conclusion, I respectfully suggest the importance of having the Board's files on this subject put in such shape that they can be more easily consulted and that correspondence on any particular point can be more readily located. To this end, it is respectfully suggested that all the files on this subject should be consolidated in one place; all missing papers should be found and restored as far as possible, even if it is necessary to write to the Federal Reserve Bank of San Francisco for duplicates; and the entire file should be analyzed, subdivided and indexed. In their present state, it is very discouraging to attempt to make a study of these files, and it is often difficult and sometimes impossible to locate a particular letter when it is needed. This is not intended as a criticism of any one, but merely as a constructive suggestion.

Respectfully,

WALTER WYATT,
General Counsel

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FEDERAL RESERVE BOARD

WASHINGTON

X-3797
August 1, 1923.

SUBJECT: Costs of Examining State Member Banks,
When Examinations, Rather than Credit
Investigations, are Necessary.

Dear Sir:

In order that a uniform basis may prevail throughout the System for assessing the costs of the examination of state member banks, whether conducted independently or in cooperation with the state supervisory authorities, the Board considers the following items as proper charges for this service.

A per diem charge, calculated at the rate of 300 days to the year, on the annual salaries of all examiners and assistants furnished by the reserve bank for the entire time they are occupied in connection with an examination and in addition an amount to cover the actual traveling and living expenses while so employed.

No charge shall be made for any work in connection with such examinations performed in the office of the reserve bank, or on account of any services of the chief examiner or other employee of the bank, unless they have been actually engaged in the work of the examination at the bank examined.

No charge shall be made for examinations of state banks which are applicants for membership in the System.

By order of the Federal Reserve Board.

Very truly yours,

Wm. W. Hoxton,
Secretary.

TO ALL F. R. AGENTS

(COPY)

X-3798

653

July 30, 1923.

MEMORANDUM on opinion of General Counsel:

Power of the Federal Reserve Board to impose
conditions of admission of State banks.

1- I agree that the Board has power to impose, as a condition of membership, that no new branches shall be established without the consent of the Board.

2- The only question of difference is as to the reasons upon which such consent or refusal should be based.

3- The opinion of Counsel seems to rest upon the belief that the Board has a dispensing power wholly apart from the express provisions of the Federal Reserve Act, and limited only by what it believes to be the so-called "spirit" of the Act.

4- For example, Counsel claims that the Board could refuse its consent on the ground that branches are inconsistent with the independent system of banking which was the basis upon which the Federal Reserve System was founded.

5- In my opinion, no condition can lawfully be imposed, and no reason for refusing consent would be valid, which did not rest upon some provision, express or necessarily implied, of the Federal Reserve Act.

6- It is clear to my mind that the Board could justify its refusal upon the ground that the taking over of a particular branch would injure the parent bank, or that the general character of its management was such that the Board felt that it could not properly maintain such a branch.

7- I differ decidedly with Counsel in his statement that the Federal Reserve System is based upon an independent system of banking. On the contrary, I believe that the System rests upon a double base, (1) national banks,- an independent system; (2) state banks and trust companies, which in many states consist of banks with numerous branches.

8- By the Act of June 21, 1917, it is provided that when a state bank becomes a member of the System it shall retain its full charter and statutory rights, and may continue to exercise all corporate powers granted it by the state in which it was created. It would seem clear that the above language can only mean that where the corporate powers of a state bank include the right to establish branches, such a bank has that right during its membership in the System, unless it affects the soundness of the parent bank. If this were not so, the Board, apparently, would have the power to refuse to admit any state bank having branches, irrespective of its financial condition, which I cannot believe would be claimed by anyone.

9- There are other questions which the Board has, from time to time, taken into consideration in determining whether to give or refuse consent, which I believe to be not within its province.

For example, in my opinion, the question whether or not the community needs a new branch, or whether it will be benefitted by the purchase by the state member bank of an existing bank, is one to be determined by the authorities of the state, and that the Board should accept such determination. In this connection, we should remember that if the state authorities refuse permission to establish a branch or buy an additional bank, the matter is settled, as the consent of the Board would give no

power to the applicant to establish such a branch or buy such a bank. So, conversely, I believe that where the state authorities have certified their approval the Board should accept this decision as a finality as to this question.

10- Some members of the Board, apparently, believe that, even though there is an admitted necessity for a new branch from the point of view of the public, and even though the parent bank is amply able to maintain such a branch,- the Board should still decline to give its consent if the parent bank seeking to establish such a new branch is seeking to invade territory which the Board believes to be within the sphere of influence of other banking centers, and it has even been suggested that the Board establish a zone or sphere of influence with this end in view.

To my mind this would be an extension of the "dispensing power" fraught with peril to the Federal Reserve System. Such a limitation and spheres of influence should surely rest and remain upon the sound discretion of the individual states. For the Board to interfere would seem to be a taking away from the states of their police powers,- which I can not believe Congress ever intended even to attempt to bring about.

11- I believe that the legislature of California has acted for the best interests of its people in establishing its branch system of banks; that this system, on the whole, is demonstrating its usefulness; that in many instances it is giving the agriculturists the benefit of lower discount rates; that it has enabled them to borrow larger amounts than they could borrow from many of the individual unit banks,- such larger amounts being necessary to the proper development of said agricultural interests; and, furthermore, that the branch bank system is of

special value because of the different peaks of borrowing within the state, thus enabling the banks having branches to move their loanable funds quickly wherever they may be needed, in order to serve the needs of the respective communities.

C. S. HAMLIN.

FEDERAL RESERVE BOARD

X-3799

WASHINGTON

August 1, 1923.

SUBJECT: Uniformity of Policy in Statistical, Publication Work, etc.

Dear Sir:

The Board has decided to make a systematic survey of publications, public relations and statistical work now being performed at the several Federal Reserve Banks with a view to informing itself as to the desirability of effecting a reorganization of the work of this nature done by the Federal Reserve Board and the several Federal Reserve Banks. It is the purpose of the Board to secure greater unity and efficiency in work of this character and by the elimination of duplication, and otherwise, to reduce costs.

The work of the Committee on Economy and Efficiency and of the Procedure Committees in the respective banks has been devoted primarily to effecting economies and improving efficiency in the operating departments of the banks. The Board, however, feels that it has a special responsibility with regard to the cost, scope and character of activities conducted under the direction of the Federal Reserve Agents and is, therefore, especially interested in what is being done by the Agents to increase efficiency and reduce costs in their departments. The statistical organizations of the twelve banks are costing at the rate of approximately \$540,000 a year. Of this total amount, approximately two-thirds, or nearly \$360,000 a year, is spent by four of the banks. In order that the expenditure of such large sums of money for this purpose may yield proportionate results it is necessary that the work of the Board and of the banks be more systematically organized and that the character and scope of the work be more clearly defined. It is with this purpose in mind that the Board is undertaking a survey of the statistical work of the Board and of the banks.

In order that fuller information may be at hand in making this survey, the Board requests that you assemble and send to the Secretary's office copies of all reports and statements compiled and distributed by your department during the month of June, 1923, including reports made to officers and directors as well as reports issued to the public for general circulation.

By order of the Federal Reserve Board.

Very truly yours,

W. W. Hoxton,
Secretary.

To All Federal Reserve Agents.

FEDERAL RESERVE BOARD

WASHINGTON

X-3801.

August 2, 1923.

SUBJECT: CURRENCY STANDARD.

Dear Sir:

It has been reported by the Board's Committee on Economy and Efficiency that in spite of the efforts of the Federal reserve banks and the Treasury Department to establish a uniform standard of fitness of currency for circulation, there exists among the Federal reserve banks a wide variation in the standard of fitness, as indicated by the fact that some Federal reserve banks have advised the committee that all Federal reserve notes returned to them by other Federal reserve banks are sorted to such a low standard that a resort is necessary, and other Federal reserve banks have advised that returned notes are sorted to a standard higher than their own. From time to time during the past year or two, the Treasury Department has sent circular letters and telegrams to all Federal reserve banks complaining of too high a standard of fitness of currency notes received from the Federal reserve banks by the Treasury redemption agencies.

The following recommendation has been made by the Economy and Efficiency Committee and has been approved by the Federal Reserve Board:

That the redemption agencies of the Treasury Department carefully scrutinize all currency redemption receipts from the Federal reserve banks and after examining them call the attention of the Board to each and every redemption lot which in the opinion of the agencies may contain too great a percentage of notes fit for further circulation; That a representative of the Board be charged with the duty of examining the redemption lots in question, making comparison of those notes contained therein which are alleged to be fit for further circulation with notes contained in a standard package of fit notes made up by the Treasury Department and lodged in the Board's office, and that on the basis of the report of the Board's representative, the matter be taken up by the Board direct with the Federal reserve bank concerned.

The plan of procedure outlined in the committee's recommendation is now effective.

By order of the Federal Reserve Board.

Very truly yours,

Wm. W. Hoxton,
Secretary.

TO GOVERNORS OF F. R. BANKS.

F E D E R A L R E S E R V E B O A R D

STATEMENT FOR THE PRESS

For release in Morning Papers,
Friday, August 3, 1923.

At a meeting of the Federal Reserve Board on August 1st, Charles DeB. Claiborne, representing the Committee of Five on Exchange of the American Bankers' Association, presented and discussed in detail the so-called "Claiborne-Adams Check Collection Plan," designed to supersede the regulation of the Federal Reserve Board governing the collection of checks by the Federal reserve banks.

The session was attended also by the Governors of the Federal Reserve Banks of Boston, New York, Philadelphia, Cleveland, Chicago and Richmond. Following a discussion of the plan by Mr. Claiborne, the matter was referred by the Federal Reserve Board to an advisory committee composed of the Governors of the banks named. The so-called "Claiborne-Adams Check Collection Plan" and the report of the advisory committee of Governors of the Federal Reserve Banks in their entirety are attached.

The Federal Reserve Board, in accordance with the recommendation contained in the report of the advisory committee of Governors, directed all Federal Reserve Banks to discontinue the use of agents other than banks for the purpose of making collections at par of items drawn upon non-remitting banks. No action was taken by the Board looking to the adoption of the proposed collection plan, nor on that portion of the Governors' report which relates to the plan. The Federal Reserve Board has referred both the proposed collection plan and the Governors' report to the Federal Advisory Council for consideration and report thereon to the Board at the next Council meeting, which will take place some time in September. The Federal Advisory Council is composed of twelve members, one from each Federal Reserve District and is representative of the public.

Report to the Federal Reserve Board
by the Advisory Committee of Governors
of Federal Reserve Banks, on the so-
called "Claiborne-Adams Check
Collection Plan"

X-3800

Aug. 1, 1923.

Gentlemen:

In compliance with your request that we should make a statement of our views on the three subjects discussed at today's conference, we beg to advise you as follows:

Amended Regulation "J" suggested by Messrs. Claiborne
and Adams on behalf of the Committee of Five on Exchange
of the American Bankers' Association.

We are entirely and unanimously opposed to this plan for the following reasons:

(1) It would reinstate and perpetuate one of the most glaring faults of the old banking system - the creation of a fictitious reserve.

(2) It would be a substantial abandonment of the par collection system and would pave the way for the imposition upon the commerce and business of the country of an annual charge of over \$100,000,000.

(3) If immediate availability were to be given by each bank on all items in its district there would probably be added to the float over \$300,000,000, calculating simply on the basis of the present weekly consolidated statement of the System. In practice this float would be enormously increased.

Human nature being what it is, it is inconceivable that banks would not take advantage of the unusual opportunity afforded them. Instead of forwarding to their own Federal reserve bank checks payable in other Federal reserve districts, they would naturally send such items to correspondents in other Federal Reserve bank cities, which correspondents could deposit them in their own Federal reserve banks and receive immediate credit and availability without being subject to the exchange charge. This would result in giving immediate credit and availability for practically all checks, as received at each Federal reserve bank or branch. It is also evident that it would make possible unlimited "kiting".

(4) As these additional credits would be either checked out or used to reduce loans, there would not only be a reduction in the reserve ratio of the Federal reserve system but there would be a still further very large reduction in the actual reserves of the member banks which were practically cut in half when the Federal reserve system was established.

These objections might be elaborated and various others might be cited, but the mere enumeration of those stated above seems sufficient wholly to condemn the plan. In view of these considerations and of the further facts which were brought out at the hearing today, this Committee respectfully and earnestly recommends that the Board promptly announce its rejection of the proposed plan.

Effective date of Amended Regulation "J".

In view of the fact that a revision of the phraseology of amended Regulation J seems desirable, it is recommended that the postponement of the effective date for this Regulation be continued until further notice.

Changes in practice of making collections on banks, not willing to remit at par.

In order to conform to the fullest possible extent to the spirit, as well as the letter, of the recent decisions of the Supreme Court of the United States in the par clearance cases, it is recommended that the use of agents other than banks for the purpose of making collections at par of items upon non par-remitting banks be discontinued in any district where any such practice may now exist.

Respectfully,

(Signed) Geo. W. Norris,

(Signed) J. H. Case,

(Signed) J. B. McDougal,

(Signed) E. R. Fancher,

(Signed) W. P. G. Harding,

(Signed) Chas. A. Peple.

Advisory Committee of Governors.

The Federal Reserve Board,
Washington, D. C.

Check Clearing and Collection Plan
Submitted to the Federal Reserve Board
by Charles DeB. Claiborne, represent-
ing the Committee of Five on Exchange
of the American Bankers Association.

X-3791

CHECK CLEARING AND COLLECTION

Section I. Statutory Provisions.

Section 16 of the Federal Reserve Act authorizes the Federal Reserve Board to require each Federal Reserve Bank to exercise the functions of a clearing house for its member banks, and section 13 of the Federal Reserve Act, as amended by the act approved June 21, 1917, authorizes each Federal Reserve Bank to receive from any non-member bank or trust company, solely for the purposes of exchange or of collection, deposits of current funds in lawful money, national-bank notes, Federal Reserve notes, checks and drafts payable upon presentation, or maturing notes and bills, provided such non-member bank or trust company maintains with its Federal Reserve Bank a balance sufficient to offset the items in transit held for its account by the Federal Reserve Bank.

Section II. General Requirements.

In pursuance of the authority vested in it under these provisions of law, the Federal Reserve Board, desiring to afford both to the public and to the various banks of the country a direct, expeditious, and economical system of check collection and settlement of balances, has arranged to have each Federal Reserve Bank exercise the functions of a clearing house for such of its member banks as desire to avail themselves of its privileges and for such non-member State banks and trust companies as may maintain with the Federal Reserve Bank balances sufficient to qualify them under the provisions of section 13 to send items to Federal Reserve Banks for purposes of exchange or of collection. Such non-member State banks and

trust companies will hereinafter be referred to as non-member clearing banks.

Each Federal Reserve Bank shall exercise the functions of a clearing house under the general terms and conditions hereinafter set forth.

Section III. Eligibility of Checks to be Handled by Federal Reserve Banks.

(a) Each Federal Reserve Bank will receive from its member banks and from non-member clearing banks in its district on deposit at par for immediate credit and availability checks payable within its district drawn on all member and non-member clearing banks and on all other banks within its district that agree to remit at par in acceptable funds to the Federal Reserve Bank.

(b) For all such checks so deposited, the depositing bank shall be given immediate credit and availability by the Federal Reserve Bank.

(c) No Federal Reserve Bank shall receive on deposit for immediate credit and availability any check drawn on any bank not within its district, ^{on} nor any bank within or without its district that refuses to remit at par in acceptable funds: Provided, however, that all Federal Reserve Banks will receive from their members and clearing members within their respective districts as forwarding agents only and for deferred credit only checks on member banks of other Federal Reserve Banks, and checks on non-member banks within or without their districts to be forwarded direct to the banks on which drawn if within their district, or through the Federal Reserve Bank of the district in which the drawee bank is located, for remittance by said drawee bank, and any such drawee bank may deduct from the face value of the checks so forwarded to it for remittance an exchange charge against the bank for which said checks are being handled of not exceeding ten cents (10¢) per One Hundred Dollars (\$100.00) of the face

amount of such check or checks, and in no case less than ten cents for any one remittance, and the net proceeds of such check or checks shall be covered by exchange drafts available at par, drawn to the order of the Federal Reserve Bank from which such checks were received by the drawee bank. When the net proceeds of any such check or checks are available to any Federal Reserve Bank, either direct or through the gold settlement fund, or under its established average time schedule, the same shall be credited by it to the reserve or deposit account of the bank from which such checks were originally received.

(d) Every Federal Reserve Bank will receive from other Federal Reserve Banks checks drawn upon all banks of its district as forwarding agent only, and as such agent receive the proceeds of all such checks direct from the drawee bank, less such charges against the bank for which said checks are being handled for payment and remittance as may be made by the drawee bank, but in no case to exceed ten cents (10¢) per One Hundred Dollars (\$100.00) of the face amount of such check or checks, and a minimum charge of ten cents (10¢).

(e) No such charge for payment and remittance shall be made by any member or clearing member bank against the Federal Reserve Bank upon any check drawn payable to such Federal Reserve Bank without prior endorsement.

(f) No exchange charge shall be made by any bank upon any check which is the property of the United States.

Section IV. Manner of Collection.

The Federal Reserve Board hereby authorizes, and each member and non-member clearing bank will be required to authorize the Federal Reserve Banks to handle checks received on deposit, or as forwarding agent, as follows:

(1) A Federal Reserve Bank will act as agent only, and will assume no liability except for its own negligence and its guaranty of prior endorsements.

(2) A Federal Reserve Bank is authorized to send checks for payment in exchange draft direct to the bank on which they are drawn, or to which they are payable.

(3) Checks received on deposit for immediate credit and availability, as provided in paragraph (a) of Section III of these regulations, by a Federal Reserve Bank on its member or non-member clearing banks will be forwarded direct to such banks, and such banks will be required to remit therefor at par in funds acceptable to the Federal Reserve Bank, or to authorize the said Reserve Bank to charge their respective account or clearing accounts.

(4) Checks received by a Federal Reserve Bank as forwarding agent payable in other districts will be forwarded to the Federal Reserve Bank of the district in which such items are payable, in accordance with paragraph (c) of Section III of these regulations.

(5) A Federal Reserve Bank will charge back the amount of any check for which payment has not actually been received, regardless of whether or not the check itself can be returned.

Section V. Penalties for Deficiencies in Reserves.

(a) Statutory provisions:-- Section 19 of the Federal Reserve Act provides that --

The required balance carried by a member bank with a Federal Reserve Bank may, under the regulations and subject to such penalties as may be prescribed by the Federal Reserve Board, be checked against and withdrawn by such member bank for the purpose of meeting existing liabilities: Provided, however, That no bank shall at any time make new loans or shall pay any dividends unless and until the total balance required by law is fully restored.

(b) Basic Penalty:-- Inasmuch as it is essential that the law in respect to the maintenance by member banks of the required minimum reserve balance shall be strictly complied with, the Federal Reserve Board, under authority vested in it by section 19 of the Federal Reserve Act, hereby prescribes a basic penalty for deficiencies in reserves according to the following rules:

1. Deficiencies in reserve balances of member banks in central reserve and reserve cities will be computed on the basis of average daily net deposit balances covering a weekly period of seven days. Deficiencies in reserve balances of other member banks will be computed on the basis of average daily net deposit balances covering a semi-monthly period.

2. Penalties for deficiencies in reserves will be assessed monthly on the basis of average daily deficiencies during each of the reserve computation periods ending in the preceding month.

3. A basic rate of 2 per cent per annum above the Federal Reserve Bank discount rate on 90-day commercial paper will be assessed as a penalty on deficiencies in reserves of member banks.

(c) Progressive Penalty:-- The Federal Reserve Board will also prescribe for any Federal Reserve District, upon the application of the Federal Reserve Bank of that district, an additional progressive penalty for continued deficiencies in reserves, in accordance with the following rules:

1. When a member bank in a central reserve or reserve city has had an average deficiency in reserves for six consecutive weekly periods, a progressive penalty, increasing at the rate of one-fourth of 1 per cent for each week thereafter during which the average reserve balance is deficient, will be assessed on weekly deficiencies until the required reserve

has been restored and maintained for four consecutive weekly periods, provided that the maximum penalty charged will not exceed 10 per cent.

2. When a member bank outside of a central reserve or reserve city has had an average deficiency in reserves for three consecutive semi-monthly periods, a progressive penalty, increasing at the rate of one-half of 1 per cent for each half month thereafter during which the average reserve balance is deficient, will be assessed on semi-monthly deficiencies until the required reserve has been restored and maintained for two consecutive semi-monthly periods, provided that the maximum penalty charged will not exceed 10 per cent.

Section VI. Other Rules and Regulations.

Any further requirements that the Board may deem necessary will be set forth by the Federal Reserve Banks in their letters of instruction to their member and non-member clearing banks. Each Federal Reserve Bank will also promulgate rules and regulations governing the details of its operations as a clearing house not inconsistent herewith, such rules and regulations to be binding upon all member and non-member banks which are clearing through the Federal Reserve Bank.

FEDERAL RESERVE BOARD

WASHINGTON

608

X-3804

August 3, 1923.

SUBJECT: CHANGE IN RATE FOR PRINTING FEDERAL RESERVE NOTES.

Dear Sir:

For your information, I would state that the Board is in receipt of a communication from the Director of the Bureau of Engraving and Printing, advising that "the rate to be charged for Federal reserve notes until further notice will be \$42.50 per thousand sheets. This is a reduction of \$7.92 per thousand sheets, compared with the rate for the fiscal year 1923."

Very truly yours,

Walter L. Eddy,
Assistant Secretary.

TO ALL FEDERAL RESERVE AGENTS.

COPY

X-3805

UNITED STATES CIRCUIT COURT OF APPEALS

FOURTH CIRCUIT

No. 2106

FEDERAL RESERVE BANK OF RICHMOND,
Plaintiff in Error,

versus

D. J. MALLOY & J. H. MALLOY, trading as
MALLOY BROTHERS,
Defendants in Error.

In Error to the District Court of the United States for the Eastern District
of North Carolina, at Raleigh.

(Argued May 24, 1923.

Decided July 12, 1923)

Before WOODS and WADDILL, Circuit Judges, and GRONER, District Judge.

M. G. WALLACE (J. C. LITTLE on brief) for Plaintiff in Error, and ROBERT H.
DYE (BRANCH & SNOW on brief) for Defendant in Error.

WADDILL, Circuit Judge:

This action was instituted in the Superior Court of Cumberland County,
North Carolina, by the defendants in error D. J. Malloy and J. H. Malloy,
partners doing business under the firm name of Malloy Brothers, citizens of
the State of Georgia, against the plaintiff in error, the Federal Reserve
Bank, of Richmond, a corporation organized under the act of congress known

as the Federal Reserve Act, and Napier G. H. Balfour, a citizen and resident of Cumberland, North Carolina. The purpose of the suit was to recover from the plaintiff in error the sum of \$9,000.00, the amount of a certain check drawn by the said Napier H. G. Balfour on the Lumberton Ridge Bank of Lumberton, N. C., in favor of the defendants in error in payment of an indebtedness due them by said Balfour, secured upon real estate in Cumberland County. The check had been entrusted to plaintiff in error for collection in due course of its banking business, and the amount of which was lost to defendants in error, as claimed by them, by reason of the negligence and want of business care exercised by the plaintiff in error; the specific charge being that plaintiff in error negligently mailed said check to the Lumberton Bank upon which it was drawn, which charged the same to the account of Balfour, the drawer, who had to his credit ample funds to meet the check, and negligently accepted in payment therefor a draft drawn by the Bank of Lumberton on the Atlantic Bank and Deposit Company, of Greensboro, N.C., in favor of the Federal Reserve Bank of Richmond, the plaintiff in error, for said \$9,000.00. This draft was not paid when presented, for lack of funds, and the Lumberton Bank in a few days suspended, and a receiver was appointed for it. Defendants in error further averred that plaintiff in error carelessly and negligently omitted to give them prompt and timely notice of the failure to receive the amount of said check sent it for collection, which would have enabled them to collect the same, and that the plaintiff in error was liable as well for its negligence in forwarding said check for \$9,000.00 to the bank on which it was drawn, as for accepting something other than money therefor, which proved valueless.

The case was, by appropriate proceeding, removed to the United States District Court for the Eastern District of North Carolina, where the same

was docketed, duly matured, and issue joined upon the pleadings. A trial by jury was waived by written stipulation of parties by counsel duly filed, and all questions of law and fact submitted to the judge of the trial court for determination, all parties asking for findings of fact and judgment in their favor. After full consideration, the court found in favor of the defendants in error against the plaintiff in error, and also found in favor of the defendant Balfour, and rendered judgment against the plaintiff in error in favor of the defendants in error for \$9,000.00 with interest and costs.

This writ of error is presented by the Federal Reserve Bank of Richmond, to review and reverse this judgment. The learned judge of the court below made a full and comprehensive finding of facts, the accuracy of which is conceded, and not challenged in any material respect, and upon the facts thus ascertained, rendered the opinion and judgment sought to be reviewed and reversed. (Malloy Bros. vs. Federal Reserve Bank, 281 Fed. 997).

The assignments of error raise in substance the question of whether the district court erred in holding plaintiff in error guilty of negligence in the circumstances, and that it was without authority to receive in settlement of the check in its hands for collection, the draft accepted by it upon the Atlantic Bank and Trust Company, the taking of which resulted in the loss sued for.

After most careful consideration, we find ourselves in full accord with the court below upon the facts, if, indeed, it may be said that there is any real dispute about them, and we accept the able and comprehensive opinion of the judge of the district court as containing a clear and correct review of the law properly applicable to the case, and neither desire nor deem it

necessary to add anything to what is there said.

The decision of the district court will be affirmed, with costs.

Affirmed.

THE UNDERSECRETARY OF THE TREASURY

WASHINGTON

August 3, 1923.

My dear Governor:

I take it that there is no immediate occasion at this time to consider possible advances in the discount rates of the Federal Reserve Banks, but it is conceivable that some such occasion may arise in the not distant future, and I am therefore writing to suggest a method of approach to the problem which it seems to me has not been sufficiently considered in the past. I refer particularly to the possibility of establishing a different rate for discounts at the Federal Reserve Banks representing the ordinary line of credit loans to commercial banks, as distinguished from paper of prime liquidity which has at the same time a recognized open market, as, for example, bankers acceptances and short-time Treasury certificates of indebtedness. The Federal Reserve Banks now are proceeding generally on the basis of a uniform discount rate for all classes of paper, with a special buying rate for bankers acceptances. I take it that there is nothing sacred, however, in a uniform rate, and it is manifest that any uniform rate necessarily fails to take into account the differences existing between different classes of paper. The most fundamental difference, which is much better recognized in England and is coming to be recognized in this country, is that between paper which has a recognized status in the open market, like bankers acceptances and Treasury certificates, and paper like customers' loans at a bank

which has no market status and cannot be readily tested by the open market.

There is a growing realization in the Federal Reserve System of the importance of the open market powers of the Federal Reserve Banks, and with that, it seems to me, there must come a better recognition of the fact that the way for the Federal Reserve Banks to bring their operations into relation with the general credit situation is through an open market policy divorced entirely from any question of making enough earnings to meet expenses and dividends, and based instead on the market's need for credit. There has already been much progress along this line. For some years past the Treasury has been engaged in developing an open market for Treasury certificates of indebtedness, and there is now, and for some time back has been, an active open market, reflecting accurately the investment values of Treasury certificates as liquid short-time securities and at the same time enabling the Treasury to adjust the terms of its successive offerings to meet actual market conditions. The Federal Reserve Banks at the same time have been engaged in an effort to establish a market for bankers acceptances and have achieved some success, though frequently the buying rate at the Federal Reserve Banks has been so low as to undersell the open market, leaving the Federal Reserve Banks practically the only market for acceptances. More could be accomplished if the buying rate for acceptances were kept up to the market, and I understand the Central Committee of Governors on open market operations has been giving some study to this side of the problem. At any rate, both the Treasury and the Federal Reserve Banks have had sufficient experience with Treasury certificates and bankers acceptances to know

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that an open market can be successfully developed for both classes of securities, and that if free of artificial influences this market will constantly reflect the true position of the securities and afford free play, through purchases and sales of certificates and acceptances, to changes in the credit situation.

The further development of the open market for certificates and acceptances offers, it seems to me, the best opportunity in the world for placing the Federal Reserve Banks in something of the same relation to the market here that the Bank of England holds to the bill market over there, leaving the Federal Reserve Banks to deal, like the Bank of England, with only the marginal demand for credit. The open market, in other words, would act as a kind of balance-wheel between the banks and the Federal Reserve Banks. Banks in the financial centers would hold in their portfolios reasonable amounts of liquid short-time securities, like Treasury certificates and bankers acceptances, and when in need of funds would sell certificates or acceptances to the market before having recourse to the Federal Reserve Banks. The market would normally absorb the certificates or acceptances thus sold, probably through sale to an investor or to another bank having an excess supply of funds, but in the event of a real lack of credit the market itself could apply to the Federal Reserve Bank, through a sale of certificates or acceptances to the Federal Reserve Bank under its open market powers. To some extent this is already what happens in the principal financial centers under the present system, but it breaks down in a situation where member banks, without having recourse to the market, can get funds from the Federal Reserve Banks on the same terms by discounting with the Federal

CMS

Reserve Banks customers' notes and line of credit loans which have no standing in the open market. Under this system discounts of customers' notes are almost always made at a rate lower than the going rate for such paper, while sales of certificates or bills to the Federal Reserve Banks, which must be regarded for practical purposes as only another form of discount, will probably be made at about the open market rate, unless the Federal Reserve Banks themselves cut in under the open market by establishing artificially low buying rates for bills. There is no real recognition given to paper enjoying an open market, and what has been done in the name of encouraging the market for acceptances has frequently tended to destroy it.

The remedy, it seems to me, would be to establish the rate of discount on customers' notes and line of credit loans at a sufficient figure, say, 1 per cent higher than the rate on Treasury certificates and bankers acceptances, to match the going rate on commercial paper and give a differential in favor of paper which has independent standing in the open market. This would encourage the development of the open market and bring the banks more and more to resort to the open market for certificates and acceptances as a means of securing necessary funds or of employing funds temporarily idle. At the same time it would tend to give an outside check on the credit policies of the Federal Reserve Banks and through the inevitable relations that would arise between the banks and the market would keep the Federal Reserve Banks more on their mettle in the development of these policies.

The suggestion offers particularly interesting possibilities

in case there should be a situation calling for an increase in discount rates, for it would make it possible to recognize, as the official Federal Reserve rate, the rate on acceptances and certificates of indebtedness, with the proviso that the rate of discount on customers' notes and line of credit loans would be, say, 1 per cent higher than the established rate. This would recognize the essential differences between the two classes of paper, would be a perfectly safe distinction in view of the liquidity of the paper and the independent open market which it would enjoy, and would make the Federal Reserve rate more nearly comparable than it has ever been before to the discount rate of the Bank of England. Incidentally, it would have the psychological advantage of leaving one official rate at the relatively lower figure, with a higher rate applicable to discounts of line of credit loans, which are handled ordinarily by banks in practically all sections of the country at a rate considerably higher than the open market rate on certificates and acceptances. The differential would thus accord with the facts. Even now, for example, with a $4\frac{1}{2}$ per cent discount rate, it is the general practice of banks to charge around $5\frac{1}{2}$ per cent to their customers, and in many cases much more than this, whether in the form of direct interest charges or through incidental charges in the form of commissions, fixed deposits, and the like.

A recognition of the differences between paper enjoying an

independent open market, like certificates and bankers acceptances, and customers' paper or line of credit loans by banks, on the other hand, would give the Federal Reserve Banks much more effective control over the general credit situation, would put their rates into better relation with the going rates on the different classes of paper, and would enable them to exercise such control as might be necessary through increasing their rates without at the same time prejudicing the open market which has been built up for both certificates and acceptances. To put it another way, it gives the Federal Reserve Banks the opportunity to establish their rate at or above the market without discriminating against certificates and acceptances. The facts are that there are different rates for different kinds of paper, lower rates for acceptances and certificates and higher rates for commercial paper, and unless the Federal Reserve Banks are willing to recognize these facts it will always be impossible for them to get on top of the market without operating unfairly against certificates and acceptances. At the present time the Federal Reserve rate on line of credit loans is undoubtedly below the market and just as clearly above the market on certificates and acceptances. An increase to 5½ per cent, for example, would unfairly penalize certificates and acceptances and still not much more than meet the market on customers' notes and line of credit loans. Any increase in rates large enough to put the Federal Reserve rate on top of the market rate on customers' notes and line of credit loans would thus operate most unfairly against certificates

and acceptances and seriously upset the market for these securities without giving Federal Reserve Banks much better control over the general situation. If, on the other hand, the differential is recognized and different rates established for the different classes of paper, it would be possible, by putting a higher discount rate on customers' notes and line of credit loans, to put Federal Reserve rates all around into effective relation with outside rates and thus accomplish what the Federal Reserve Banks have been hoping to accomplish ever since their original organization.

The differential between the two classes of paper would also have a direct bearing on our position in world trade and commerce, for it recognizes the popular character of short-time paper like acceptances and would make it possible to finance such paper at an appropriate rate, unprejudiced by the higher rate that might be applicable to ordinary commercial paper. This would enable our bankers and business men to compete on more nearly an equality with the other money markets of the world, and facilitate the development of our own market for bills.

Another thing to be said for the suggested differential in rates is that it would keep the Federal Reserve Banks on their mettle, and require them in all their operations to keep in the closest touch with the market. Both the Federal Reserve System and the Treasury would have to exercise the utmost care to watch any artificial influences operating in the market for certificates or

acceptances, and to avoid at all costs any action on their own part that would tend to put either certificates or acceptances on a false basis of value. The market itself will give a constant check on these things if not subjected to artificial influences, and would be the best test of whether the rates were being intelligently administered by the Federal Reserve Banks.

All of these suggestions are, of course, more or less tentative and would have to be further developed, but I am offering them now in the light of the Treasury's experience in these matters with the thought that there may soon be a real opportunity to consider their application to the development of Federal Reserve policy. I hope the Federal Reserve Board will receive them on that basis, and give some consideration to their possibilities in advance of the time when action will have to be taken. The term "Treasury certificates of indebtedness", I should add, ought to be regarded throughout this letter as meaning strictly what it says, and not as including other Government securities like Liberty bonds or short-time Treasury notes. Generally speaking, it seems to me that Liberty bonds and Treasury notes, not being at all in the class of short-time Treasury certificates or bankers acceptances, and not having the same kind of a market, would have to fall into the general classification and not enjoy any different rate of discount than customers' notes and line of credit loans.

Sincerely yours,

(Signed) S. P. GILBERT, Jr.,
Under Secretary.

Hon. D. R. Crissinger,
Governor, Federal Reserve Board,
Washington, D.C.

TREASURY DEPARTMENT
Office of the Secretary
WASHINGTON

X-3808

August 7, 1923.

The Governor
Federal Reserve Board.

Sir:
You are hereby advised that the Department has referred to the Disbursing Clerk, Treasury Department, for payment, the account of the Bureau of Engraving and Printing for preparing Federal Reserve notes during the period July 1 to July 31, 1923, amounting to \$88,910.00, as follows:

Federal Reserve Notes, 1914

	<u>\$5</u>	<u>\$10</u>	<u>\$20</u>	<u>\$50</u>	<u>\$100</u>	<u>Total</u>
Boston.....	---	90,000	113,000	---	12,000	215,000
New York.....	113,000	113,000	---	---	---	226,000
Philadelphia...	225,000	180,000	102,000	11,000	---	518,000
Cleveland.....	113,000	45,000	71,000	17,000	---	246,000
Chicago.....	225,000	274,000	51,000	88,000	---	638,000
San Francisco..	113,000	68,000	68,000	---	---	249,000
	<u>789,000</u>	<u>770,000</u>	<u>405,000</u>	<u>116,000</u>	<u>12,000</u>	<u>2,092,000</u>

2,092,000 sheets at \$42.50 per M.....\$88,910.00

CHICAGO

<u>Sheets</u>	<u>Denomination</u>	<u>Serial Numbers</u>	
225,000	\$5	79,068,001	79,968,000
274,000	10	60,564,001	61,660,000
51,000	20	37,828,001	38,032,000
88,000	50	2,996,001	3,348,000
<u>638,000</u>			

The charges against the several Federal Reserve Banks are as follows:

<u>Sheets</u>	<u>Compen- sation</u>	<u>Plate Printing</u>	<u>Materials</u>	<u>Inc. Com- pensation</u>	<u>Total</u>	
Boston.....	215,000	\$2,902.50	\$2,956.25	\$2,526.25	\$752.50	9,137.50
New York.....	226,000	3,051.00	3,107.50	2,655.50	791.00	9,605.00
Philadelphia...	518,000	6,993.00	7,122.50	6,086.50	1,813.00	22,015.00
Cleveland.....	246,000	3,321.00	3,382.50	2,890.50	861.00	10,455.00
Chicago.....	638,000	8,613.00	8,772.50	7,496.50	2,233.00	27,115.00
San Francisco...	249,000	3,361.50	3,423.75	2,925.75	871.50	10,582.50
<u>2,092,000</u>	<u>\$28,242.00</u>	<u>\$28,765.00</u>	<u>\$24,581.00</u>	<u>\$7,322.00</u>	<u>\$88,910.00</u>	

The Bureau appropriations will be reimbursed in the above amount from the indefinite appropriation "preparation and Issue of Federal Reserve Notes, Reimbursable", and it is requested that your board cause such indefinite appropriation to be reimbursed in like amount.

Respectfully,
(Signed) R. W. BARR,
Acting Deputy Commissioner.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-3809
August 14, 1923.

SUBJECT: EXPENSE MAIN LINE, LEASED WIRE SYSTEM, JULY, 1923.

Dear Sir:

Enclosed herewith you will find two mimeograph statements, X-3809a and X-3809b, covering in detail operations of the main line, Leased Wire System, during the month of July, 1923.

Please credit the amount payable by your bank in the general account, Treasurer, U. S., on your books, and issued C/D Form 1, National Banks, for account of "Salaries and Expenses, Federal Reserve Board, Special Fund", Leased Wire System, sending duplicate C/D to Federal Reserve Board.

Very truly yours,

Fiscal Agent.

(Enclosure)

TO GOVERNORS OF ALL BANKS EXCEPT CHICAGO.

X-3809a

REPORT SHOWING CLASSIFICATION AND NUMBER OF WORDS
TRANSMITTED OVER MAIN LINE OF THE FEDERAL RESERVE
LEASED WIRE SYSTEM FOR THE MONTH OF JULY, 1923.

From	Bank Business	Percent of Total Bank Business(*)	Treasury Dept. Business	War Finance Corp. Business	Total
Boston	35,830	3.14	5,881	-	41,711
New York	225,511	19.78	17,723	-	243,234
Philadelphia	59,446	5.22	5,630	-	65,076
Cleveland	95,621	8.39	6,100	-	101,721
Richmond	69,870	6.13	4,701	-	74,571
Atlanta	68,220	5.98	5,735	-	73,955
Chicago	151,139	13.26	8,715	91	159,945
St. Louis	91,288	8.01	7,033	-	98,321
Minneapolis	44,092	3.87	4,186	-	48,278
Kansas City	96,244	8.44	5,727	-	101,971
Dallas	67,835	5.95	4,297	-	72,132
San Francisco	134,821	11.83	12,706	27	147,554
Total					
F. R. Banks	1,139,917		88,434	118	1,228,469
Washington	<u>291,357</u>	<u>100.00%</u>	<u>89,049</u>	<u>775</u>	<u>381,181</u>
Grand Total	1,431,274		177,483	893	1,609,650
Percent of Total	88.92%		11.03%	.05%	
Bank Business	1,431,274 words	or 88.97%			
Treasury	<u>177,483</u>	" "	<u>11.03%</u>		
TOTAL	<u>1,608,757</u>		100.00%		

(*) These percentages used in calculating the pro rata share of leased wire expenses as shown on the accompanying statement (X-3809b)

FEDERAL RESERVE BOARD,
Washington, D. C.
August 14, 1923.

REPORT OF EXPENSE
MAIN LINE

X-3809b

FEDERAL RESERVE LEASED WIRE SYSTEM JULY, 1923.

Name of Bank	Operators' Salaries	Operators' Overtime	Wire Rental	Total Expense	Pro rata Share of Total Expense	Credits	Payable to Federal Reserve
Boston	\$ 250.00	\$ -	\$ -	\$ 250.00	\$ 679.08	\$ 250.00	\$ 429.08
New York	1,501.14	-	-	1,501.14	4,277.77	1,501.14	2,776.63
Philadelphia	190.83	-	-	190.83	1,128.92	190.83	938.09
Cleveland	366.00	-	-	366.00	1,814.48	366.00	1,448.48
Richmond	315.00	-	-	315.00	1,325.72	315.00	1,010.72
Atlanta	240.00	-	-	240.00	1,293.28	240.00	1,053.28
Chicago (#)	4,921.13	-	-	4,921.13	2,867.71	4,921.13	(*)2,053.42
St. Louis	235.00	-	-	235.00	1,732.30	235.00	1,497.30
Minneapolis	289.45	-	-	289.45	836.96	289.45	547.51
Kansas City	412.66	-	-	412.66	1,825.30	412.66	1,412.64
Dallas	251.00	.75	-	251.75	1,286.79	251.75	1,035.04
San Francisco	395.00	-	-	395.00	2,558.44	395.00	2,163.44
Fed. Res. Board			16,976.36	16,976.36			
TOTAL	\$9,367.21	\$.75	\$16,976.36	\$26,344.32 (a)4,717.57 \$21,626.75	\$21,626.75	\$9,367.96	\$14,312.21 (&)2,053.42 \$12,258.79

- (#) Includes salaries of Washington operators.
- (&) Amount reimbursable to Chicago.
- (*) Credit.
- (a) Received \$17.57 from War Finance Corporation and \$4,700.00 from Treasury Dept. covering business for month of July, 1923.

FEDERAL RESERVE BOARD,
WASHINGTON, D. C.
AUGUST 14, 1923.

BY-LAWS OF THE FEDERAL RESERVE BOARD.

August 14, 1923.

Article I.

The Chairman.

The Secretary of the Treasury, as Chairman of the Board, shall preside at all meetings when present. In the absence of the Chairman, the Governor shall act as presiding officer. In the absence of both the Chairman and the Governor, the Vice-Governor shall preside, and in the absence of all three such officers, the remaining member of the Executive Committee shall preside.

Article II.

The Governor.

Sec. 1. The Governor of the Federal Reserve Board shall be the active executive officer thereof; subject, however, to the supervision of the Board and to such rules and regulations as may be incorporated herein or may from time to time, by resolution, be established.

Sec. 2. The Governor shall have general charge of the executive and routine business of the Board not specifically assigned under the by-laws or by resolution of the Board to any individual member or committee thereof, and shall have supervision of the Board's staff.

Sec. 3. It shall be the duty of the Governor to oversee and control the submission of statements to the press expressive of the Board's policy or descriptive of its action.

Sec. 4. The Governor shall be an ex-officio member of all Standing Committees of the Board.

Article III.

The Vice-Governor.

Sec. 1. In the absence or disability of the Governor, his powers shall be exercised and his duties discharged by the Vice Governor, and in the absence or disability of both of these officers, such powers shall be exercised and such duties discharged by the remaining member of the Executive Committee; in the absence or disability of all members of the Executive Committee the powers and duties of the Governor shall be exercised by the senior member of the Board present.

Sec. 2. It shall be the duty of the Vice Governor to cooperate with the Governor in the administration of the executive business of the Board.

Article IV.

The Executive Committee.

Sec. 1. There shall be an Executive Committee of the Board consisting of three members, which shall include the Governor and Vice-Governor and one other. The third member shall be nominated and elected at a regular meeting of the Board. Members of the Board shall serve as far as practicable in rotation and for periods to be fixed by the Governor from time to time. Two members shall constitute a quorum for the transaction of business.

Sec. 2. It shall be the duty of the Executive Committee of the Board to transact all business of an executive nature which can be transacted in accordance with principles or policies already established by the Board, and such as may be delegated to it from time to time; to review and approve important correspondence involving the expression of opinions or decisions of the Board, and to prepare and make recommendations governing the conduct of the Board's business.

Sec. 3. The Executive Committee shall also have charge of all matters appertaining to the internal organization of the Board, and shall make recommendations from time to time on this matter. It shall also prepare annually a budget of proposed expenditures.

The General Secretary of the Board shall serve as Secretary of the Executive Committee.

article V.

Standing Committee.

In addition to the Executive Committee there shall be the following Standing Committees:

Sec. 1. Law.

To the Law Committee shall be referred for study and report all questions of a legal nature. To this Committee shall also be assigned the preparation or revision of the Board's regulations, contemplated amendments to the Federal Reserve Act, applications under the Kern amendment to the Clayton Act, and applications for the exercise by national banks of trust powers.

The General Counsel shall serve as Secretary of the Committee.

Sec. 2 Examination.

To this Committee shall be referred all questions relating to the examination of Federal Reserve or member banks including admission of state banks and permission to establish and operate branches.

The Chief Examiner shall serve as Secretary of this Committee.

Sec. 3. Clearings.

To this Committee shall be referred all questions relating to the Federal Reserve par clearance system.

The General Secretary of the Board shall serve as Secretary of this Committee.

Sec. 4. Discount and Open Market Policy.

It shall be the duty of this Committee to study and advise the Board from time to time of the trend of business and credit and to make recommendations with regard to the credit policy and operations of the Federal Reserve Banks including changes of discount rates and the purchase or sale of open market investments.

The Director of the Division of Research and Statistics shall serve as Secretary of this Committee.

Sec. 5. Agricultural Credit Conditions.

It shall be the duty of this Committee to keep the Board informed of the condition of agriculture and its credit needs in different Federal Reserve Districts in order to bring about a better adaptation of the credit operations of the Federal Reserve Banks to the meeting of these needs.

A member of the Division of Research and Statistics shall be designated to serve as Secretary of this Committee.

Sec. 6. Research and Statistics.

This Committee shall have charge of all investigations of an economic and statistical character authorized by the Board and shall supervise the work of the Division of Research and Statistics and the preparation and publication of the Federal Reserve Bulletin. This Committee shall also have supervision of the statistical and publication work of the Federal Reserve Banks.

The Director of the Division of Research and Statistics shall serve as Secretary of this Committee.

Sec. 7. Salaries and Expenditures of Federal Reserve Banks.

To this Committee shall be assigned all recommendations from Federal Reserve Banks for changes of salaries and other expenditures. This Committee shall also make reports with respect to charge-offs and franchise tax of Federal Reserve Banks.

The Executive Secretary of the Board shall serve as Secretary of this Committee.

Sec. 8. District Committees.

To each Federal Reserve Bank and District shall be assigned a Committee of not less than two members of the Federal Reserve Board. It shall be the duty of each Committee to keep itself informed by correspondence and visit of the affairs of the Bank and the condition of the District, and make investigation and report on all questions appertaining to the operation of any Federal Reserve Bank or the condition of any Federal Reserve District that may be referred to it by the Board. These Committees shall also aid the Committee on Salaries and Expenditures of Federal Reserve Banks

with information regarding personnel of the respective Federal Reserve Banks of which they have charge. These Committees shall also make recommendations to the Board for the appointment of Directors at Federal Reserve Banks and Branches.

Sec. 9. NOMINATIONS. It shall be the duty of this Committee to investigate and report on the qualifications of all recommendations for the appointment of Class C Directors and other vacancies to be filled by the Board at Federal Reserve Banks or their branches.

Article VI

Secretaries and Assistant Secretaries.

Sec. 1. The Board shall appoint a General Secretary, an Executive Secretary, one or more assistant secretaries, and may appoint an assistant to the General Secretary.

Sec. 2. The General Secretary shall attend each meeting of the Board and shall keep an accurate record of its proceedings, and shall conduct such correspondence as may be assigned to him by the Board or the Governor. He shall perform such other duties as may be assigned to him by the Governor.

Sec. 3. The General Secretary shall have custody of the seal and, acting under the authority of the Board, shall have power to affix same to all instruments requiring it. Such instruments shall be attested by the General Secretary.

Sec. 4. The Executive Secretary shall perform such duties as shall be assigned to him by the Board, and in the absence or disability of the General Secretary may, by direction of the Board, perform the duties of that office. In the absence or disability of the Executive Secretary, the duties of that office may, by direction of the Board, be performed by the General Secretary, or an assistant secretary.

Sec. 5. The assistant secretaries shall each perform such duties as may be assigned to them from time to time by the Board, by the General Secretary, or by the Executive Secretary.

Article VII

Assistant to the Governor.

Sec. 1. The Board may appoint an Assistant to the Governor.

Sec. 2. The Assistant to the Governor shall perform such duties as shall be assigned to him by the Governor.

Sec. 3. The Assistant to the Governor shall have power to sign checks of the Federal Reserve Board withdrawing funds from the Gold Settlement Fund as described in Article IX of these by-laws, and requisitions upon the Comptroller of the Currency for the delivery of Federal Reserve notes to the respective Federal Reserve Agents or to their order and Federal Reserve Bank notes to the respective Federal Reserve Banks or to their order as described in Article X of these by-laws, such checks and requisitions to be countersigned by the Governor or acting executive officer of the Board.

Article VIII.

The Fiscal Agent and Deputy Fiscal Agent.

Sec. 1. The Board shall appoint a Fiscal Agent and a Deputy Fiscal Agent. The duty of the Fiscal Agent shall be to collect and deposit all moneys receivable by the Board with the Treasurer of the United States, to be placed in a special fund established on the books of the Treasurer for the Federal Reserve Board. The Deputy Fiscal Agent shall perform the duties of the Fiscal Agent during his absence or disability.

Sec. 2. The Fiscal Agent and Deputy Fiscal Agent shall each execute a separate bond with surety satisfactory to the Board.

Sec. 3. Payments of expenses and other disbursements of the Board shall be made by the Fiscal Agent upon proper vouchers out of moneys advanced to him by requisition and warrant out of the special fund and placed to his official credit with the Treasurer of the United States as provided by section 5 of this Article. In the absence of the Fiscal Agent payment of expenses and other disbursements shall be made by the Deputy Fiscal Agent upon proper vouchers out of moneys advanced to the Fiscal Agent by requisition and warrant out of the special fund and placed to his official credit with the Treasurer of the United States as provided by Sections 5 and 6 of this article.

Sec. 4. The Fiscal Agent shall prepare a quarterly account in such form as shall be approved by the Comptroller General of the United States and, after approval by the Governor, such quarterly account shall be submitted to the General Accounting Office. Such account shall cover payments of expenses and other disbursements made by both the Fiscal Agent and the Deputy Fiscal Agent.

Sec. 5. The Governor shall, when necessary, make requisition on the Treasurer of the United States for the advance of such sums to the Fiscal Agent as may be necessary from the Federal Reserve Board fund.

Sec. 6. The Deputy Fiscal Agent in making disbursements of the Board upon proper vouchers out of the moneys advanced to the Fiscal Agent shall sign against funds to the official credit of the Fiscal Agent with the Treasurer of the United States in the name of the Fiscal Agent by himself as Deputy Fiscal Agent.

Article IX.

Gold Settlement Fund
and
Federal Reserve Agents' Fund

All funds deposited by or for account of the respective Federal Reserve Agents in the Federal Reserve Agents' fund of the Federal Reserve Board and all funds deposited by or for account of the respective Federal Reserve Banks in the Gold Settlement Fund of the Federal Reserve Board shall be held on deposit with the Treasurer of the United States and shall be subject to withdrawal only by check of the Federal Reserve Board signed by the Executive Secretary, the General Secretary or an Assistant Secretary or the Assistant to the Governor and countersigned by the Governor or acting executive officer of the Board.

Article X.

Requisition for Delivery
of
Federal Reserve Notes

Requisitions upon the Comptroller of the Currency for the delivery of Federal Reserve notes to the respective Federal Reserve Agents shall be signed by the Executive Secretary, the General Secretary or an Assistant Secretary or the Assistant to the Governor and countersigned by the Governor or acting executive officer of the Board.

Article XI.

The Seal.

The following is an impression of the seal adopted by the Board.

SEAL

Article XII.

Counsel

Sec. 1. The Board shall appoint a General Counsel whose duty it shall be to advise with the Board, or any member thereof, as to such legal questions as may arise in the conduct of its business; to prepare, at the Board's request opinions, regulations, rulings, forms and other legal papers and to perform generally such legal services as he may be called upon by the Board to perform.

Sec. 2. Subject to the direction of the Governor, the General Counsel shall have authority to correspond directly with the Counsel of the various Federal Reserve Banks and to request their opinions as to the interpretation of the local laws of the States included in their respective Federal Reserve Districts. Copies of all such correspondence to be furnished to the Board for its information.

Sec. 3. Whenever it may be deemed advisable, the Board may appoint one or more Associate or Assistant Counsel, or one or more Assistants to Counsel. The duty of such Associate or Assistant Counsel shall be to assist the General Counsel in the performance of his duties and to perform the duty of the General Counsel in his absence. The duty of such Assistant to Counsel or Assistants to Counsel shall be to assist the General Counsel in the performance of his duties.

Sec. 4. The Board may appoint from time to time Consulting Counsel, who may be attorneys at law engaged in outside practice.

Article XIII.

Meetings.

Sec. 1. Stated meetings of the Board shall be held on such days of the week at such hours as the Board by majority vote may adopt from time to time. Special meetings of the Board shall be called by the Chairman or the Governor or upon the written request of three members of the Board.

Sec. 2. Four members of the Board shall constitute a quorum for the transaction of business, except as otherwise required by the Federal Reserve Act.

Sec. 3. At all meetings of the Board the following shall be the order of business:

- (1) Reading or inspection of the Minutes of the last regular meeting and Minutes of meetings of the Executive Committee.
- (2) Report of the Governor.
- (3) Report of the General Secretary.
- (4) Reports of the committees or members on assigned business.
- (5) Unfinished business

Article XIV.

Information and Publication.

Sec. 1. All persons employed by the Board shall keep inviolate its business, affairs, and concerns, and shall not disclose or divulge the same to any unauthorized person whomsoever, and any employee who shall give information contrary to this by-law shall be liable to immediate dismissal.

Except upon vote of the Board, no one other than a Member of the Board, or the General Secretary, Executive Secretary, Assistant Secretaries, Assistant to the Governor, and General Counsel, shall be permitted to inspect any of the Board's minutes.

Sec. 2. While each member of the Board must determine for himself the propriety or necessity of expressing publicly his individual opinion on any question, members shall not quote publicly the opinion of other members on matters which have not formally been passed upon by the Board.

Sec. 3. There shall be published monthly, under the supervision of a committee of the Board, a bulletin to be known as "The Federal Reserve Bulletin", which shall be the official periodical organ or publication of the Federal Reserve Board.

Sec. 4. No resolutions of a personal character, except upon the death of a member of the Federal Reserve Board while serving as such, shall appear in any publication of the Federal Reserve Board.

Article XV.

Audit.

The executive committee, acting as a committee of Audit, shall audit the accounts of the Board for each six months' period.

Article XVI.

Amendments

These by-laws may be amended at any regular meeting of the Board by a majority vote of the entire Board, provided that a copy of such amendments shall have been delivered to each member at least seven days prior to such meeting.

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FEDERAL RESERVE BOARD

WASHINGTON

August 16, 1923

X-3811

**SUBJECT: Joint Conference of Federal Reserve Agents
and Governors.**

Dear Sir:

The Board has designated Monday, November 12th, as the opening date for the annual conference of Federal Reserve Agents and Governors of Federal Reserve Banks. The Board desires that this conference be conducted in the same manner as heretofore and that both joint and separate sessions be held. It is understood that the programs for discussion at the independent conferences of the Governors and Agents will be prepared under the direction of the chairmen of the conferences, and the Board itself in due course will prepare a list of topics which it desires to have considered. It would be well to have the program completed and a copy placed in the hands of each Federal Reserve Agent and Governor not later than October 1st.

Very truly yours,

Vice Governor.

TO FEDERAL RESERVE AGENTS AND GOVERNORS.

091

FEDERAL RESERVE BOARD

WASHINGTON

X-3812
August 16, 1923.

SUBJECT: EXPRESS RATES FOR TRANSPORTATION OF MONEY AND SECURITIES.

Dear Sir:

In letter X-3777 dated July 12, the Board's Committee on Economy and Efficiency asked all banks for certain information concerning the present costs of shipping currency and coin, particularly with respect to those shipments made by express. As advised in that letter, the question of securing a downward revision of the express rates now being charged, had already been taken up informally with the Interstate Commerce Commission, with the result that it was regarded as advisable to formally present the matter to the Commission.

It is, of course, desirable that the matter be handled in such a way as to secure the greatest benefits possible, and the Committee on Economy and Efficiency has advised the Board that it may be advisable to secure the services of an attorney regularly practicing before the Interstate Commerce Commission. The Board has approved of this action with the understanding that whatever expense may be incurred in this connection, which is not expected to be great, will be paid by all banks on a pro rata (not an equal) basis.

The information received from the banks indicates that the matter is of considerable importance inasmuch as the twelve banks are paying altogether over \$300,000. per annum for express charges, this cost being based upon rates which are between 40 and 50% higher than the rates in effect prior to about a year ago. It is desirable to have the matter handled as promptly as possible and will you, therefore, advise if the proposed action meets with the approval of your bank.

By order of the Federal Reserve Board.

Very truly yours,

W. W. Hoxton,
General Secretary.

TO GOVERNORS ALL F.R. BANKS.

95

FEDERAL RESERVE BOARD

WASHINGTON

August 18, 1923.

X-3814.

SUBJECT: Report of Insurance Committee to Last Governors' Conference.

Dear Sir:

The last Governors' Conference, held March 26-29, 1923, considered a report made to the Conference by a special "Insurance Committee" on the subject of self-insurance for Federal Reserve Banks. This report embodied a proposed plan for self-insurance of the so-called fidelity or bankers' blanket bond risks in excess of an amount of \$500,000, for which sum it was recommended that the banks continue to purchase insurance, for the time being at least.

This report was approved by the Governors' Conference and referred to the Federal Reserve Board. Since then, the Board, through its Committee on Economy and Efficiency, has been considering the general subject of insurance, and the Committee has obtained data from all banks concerning insurance carried.

In this connection, there is enclosed herewith a copy of the report referred to above, which it is requested be submitted to the Board of Directors of your bank for their consideration and such recommendation or action as they may think advisable. It is desired, if possible, that a definite decision regarding the plan proposed be reached by all banks, and transmitted to the Board, before the next Governors' Conference, the date of which has been set for November 12th, next.

By order of the Federal Reserve Board.

Very truly yours,

Wm. W. Hoxton,
General Secretary.

Enclosure.

TO CHAIRMEN OF ALL BANKS.

Association of Reserve City Bankers

August 7th, 1923.

To the Member Addressed:

I am writing you again in relation to the Par Collection System. Since our referendum letter of July 23rd, Regulation "J" has, as you know, been suspended until further notice. Various proposals by Messrs. Claiborne and Adams, representing the anti-par collection banks, were rejected by the Federal Reserve Board and Governors in session last week. The whole matter was temporarily left as before, except that the Federal Reserve Banks will discontinue the use of outside agencies for collecting checks on non-member banks and will, at the same time, refuse to handle checks drawn on non-member banks. A number of non-member banks have signified their intention of going off the Federal Reserve Par list and it is possible that a large number will do so unless some additional regulations are put out by the Federal Reserve Board, which will present a distinct advantage for non-member banks to remain on the par list.

Our referendum clearly showed a strong sentiment among our members in favor of the preservation of the Par Collection System. A little more than 48% of our members were in favor of Regulation "J" as it was written; the remaining 52% found objection to certain features of Regulation "J", particularly in relation to the charge of \$1.00 per thousand on all items bearing endorsements of non-par banks, or on bank drafts drawn by non-par banks.

We have been encouraged to think that the Federal Reserve Board will welcome constructive suggestions in relation to this entire problem and that the Board would be glad to give a committee from our Association a hearing on the matter. Our Association was originally organized for the discussion of transit problems, and it would appear at this time that we have an opportunity to do a bit of constructive work, which would well justify the purposes of the organization.

I have conferred by wire with each of the Directors of our Association and have obtained their opinion that it would be well within the province of our organization to take an active part in this matter and send a committee to Washington at the Association's expense. Before doing so it would be highly desirable to determine if the majority of our Association can unite on certain definite recommendations to be presented to the Federal Reserve Board and this is the object of this letter.

Quite informally and without any official standing a group of our members from the cities of Minneapolis, Milwaukee, Indianapolis and Chicago met in Chicago on Friday of last week to discuss the problem. Out of this conference came the

following conclusions and I should like to request that you give the Association the benefit of your very careful and frank judgment. The opinion was unanimous that Federal Reserve banks should not receive for credit or collection checks drawn on banks unwilling to par. The provisions of Regulation "J" were approved with three important changes:

1. The elimination of the provision for \$1.00 per thousand charge on checks bearing non-par bank endorsements.
2. Insertion of a provision that the Federal Reserve Banks do not handle at all, either for credit or collection, checks bearing non-par bank endorsements.
3. The elimination of the provision providing for a charge on drafts drawn on member banks by non-par banks.

It would appear to be illogical for the Federal Reserve Banks to make a charge against their member bank depositors when they may not under the law pay any bank exchange for the collection of checks.

There is an old principle in transit relations which is still logical and fair and that is the principle of par for par. If non-member banks refuse to remit at par it should not be possible for checks, which are deposited with them to be collected with the aid of Federal Reserve Bank facilities, obtained directly or indirectly. If this provision were inserted it would simply mean that city banks would separate their incoming cash letters in two parts, one received from paring banks, items in which could be parred through the Federal Reserve System, and the other received from non-paring banks, which the city bank would be under the necessity of collecting direct or at least outside the facilities of the Federal Reserve System.

Plainly, the cost of collecting checks without the use of Federal Reserve facilities would be higher, consequently collecting banks would quite naturally ask for larger compensation, either in the way of exchange or compensating balances. Under these circumstances the thinking non-member banker would carefully consider whether his increased cost would offset the revenue obtained in charging exchange.

Each city bank would know, without question, which of their correspondents are non-par banks and there would be no difficulty about separating their items. Federal Reserve Banks would be under the necessity of watching the deposits of member banks but after the plan was in working order there should be no great difficulty about the matter, as member banks would hesitate to present items to the Federal Reserve Banks for credit and collection bearing non-par

endorsements at the risk of having been turned back with consequent loss of time.

The reason for the third change enumerated above is fairly obvious. No bank draft drawn on a member bank should be turned down at any Federal Reserve Bank.

This lengthy letter is probably necessary to give you a full picture of the situation. If the conclusions of our little conference in Chicago coincide with your judgment and if Regulation "J" with these amendments meets with your approval I would be very glad to have your wire advice to this effect. If not, and if you have any other suggestions to make, will you be good enough to wire me to this effect and write me your further suggestions. In any event, it is very desirable that prompt action be taken as the matter should not be allowed to drift along to the point that a large number of country banks go off the par list.

Awaiting your wire advice, I am,

Very truly yours,

(Signed) Craig B. Hazlewood

President.

COPY

X-3815 a

August 10th, 1923.

Mr. Craig B. Hazlewood, President,
Association of Reserve City Bankers,
c/o Union Trust Company,
Chicago, Ill.

My dear Craig:

In response to your letter of August 7th to the members of the Association of Reserve City Bankers, I agree with you the Par Collection situation presents a distinct opportunity to our Association to be of service.

I have always believed in the ideal of a Par Collection System, provided it should be gradually built up through the voluntary co-operation of banks rather than attempting to force them to conform to the rules promulgated by the Federal Reserve Banks. I do not believe that force is a proper means to be used in building up an American institution. On the other hand, I do not think the Federal Reserve System should open its doors for the collection of items endorsed by non-assenting banks, and believe that many banks will be convinced that the privilege of having their items cleared at par will justify them in continuing to remit at par. Thus slowly the System will be built up.

As indicated in my first letter, I am opposed to the Federal Reserve Banks discriminating against items drawn on assenting institutions, whether drawn by a non-assenting bank or any other customer, as such a regulation is unfair to the assenting bank and does not give them quid pro quo for the service they are rendering.

I think that the amendments to Regulation J, suggested at the conference of bankers to which you refer, form a proper basis for negotiations.

Very truly yours,

Vice President.

McA-A

FEDERAL RESERVE BOARD

700

WASHINGTON

August 21, 1923.

X-3816.

SUBJECT: Improper Advertisements by State Member Banks.

Dear Sir:

The Federal Reserve Bank of Chicago has recently adopted a method of correcting improper advertisements of State member banks which should prove to be very effective. In connection with correcting the advertising practices of one State member bank, it took the matter up with the advertising company which prepared the advertising cuts of this member bank and of many other banks in the country, and pointed out the objectionable features in all the cuts which the advertising company proposed to circulate for use by member banks. The advertising company was glad to cooperate in revising the cuts, and in this case the improper member bank advertisements were thus corrected at the source.

It is suggested that all Federal Reserve Agents get in touch with advertising companies which handle the advertising business of member banks in their districts and explain to them what forms of State member banks advertising are deemed to be improper, as indicated in the Board's circular letter X-3649 of February 28, 1923. It is believed that if this course is followed there will be considerably less difficulty in the future in connection with member bank advertisements.

By order of the Federal Reserve Board.

Very truly yours,

W. W. Hoxton,
General Secretary.

TO ALL FEDERAL RESERVE AGENTS.

CONFIDENTIAL

COPY

X-3817

OFFICE CORRESPONDENCE

Date, August 18, 1923.

To Governor Crissinger
From Mr. Wyatt, General Counsel.

Subject: Purchase of Government Securities and Bankers' Acceptances by Federal Reserve Banks under so-called Repurchase Agreements.

Question has been raised as to the propriety of the practice engaged in by the Federal reserve banks of purchasing Government securities and bankers' acceptances from member and nonmember banks, and stock, bond and acceptance brokers, under agreements providing that the sellers of these securities or acceptances will repurchase the same from the Federal reserve banks within a specified period of time.

The details of such transactions vary, but it appears that in all cases United States Government securities or bankers' acceptances are transferred to the Federal reserve bank at a certain agreed price while at the same time an agreement is entered into obligating or permitting the seller of the securities or acceptances to repurchase the same within a certain period. It is sometimes provided that the Federal reserve banks shall have the right to require the seller to repurchase the securities or acceptances at any time within this period upon giving a certain number of days' written notice. The Federal reserve bank charges interest for the period during which it holds the securities or acceptances, and this interest is sometimes computed in advance and sometimes when the resale is effected. It is also provided in some of these agreements that the seller shall keep on deposit with the Federal reserve bank additional securities sufficient to maintain a margin of safety, based upon a ratio of \$120 to each \$100 of the difference between the par value of the securities purchased and the market value thereof.

The Comptroller's Office has ruled that national banks which have sold securities to Federal reserve banks under such agreements shall consider the transactions as borrowings of money and shall carry them on their books accordingly. On the contrary, the Federal Reserve Board has held in connection with the reports of member State banks and trust companies that such a transaction is not to be considered as a borrowing but should be included in a special item on the report as securities sold under repurchase agreements. You have requested the opinion of this office as to the true nature of such transactions, i.e., whether they constitute purchases on the open market by Federal Reserve banks as authorized by Section 14 of the Federal Reserve Act or merely loans secured by the deposit of securities or acceptances as collateral.

In my opinion, a transaction whereby securities or acceptances are sold to a Federal Reserve bank under an agreement obligating the seller to repurchase the same on or before a certain date is in legal effect merely a loan secured by collateral, and not a sale; and Federal reserve banks have no legal authority to participate in such a transaction. Where the agreement merely permits, but does not obligate, the seller to repurchase the securities or acceptances, no universal rule can be laid down; but it is believed that even in these cases the transactions would generally be construed by a court as loans secured by collateral. The reasons upon which my opinion is based are stated below.

GENERAL PRINCIPLES

In construing an agreement such as that described above, a court would be guided by the intention of the parties as far as it can be ascertained from the agreement itself and the surrounding circumstances. For this purpose it is settled that parol evidence will be admitted to show the facts and circumstances attending the execution of the agreement. The court will look to the substance of the transaction and will not be controlled by the form which the agreement may happen to have. The actual intent of the parties will be the controlling factor. Where there is a contract of sale and a contemporaneous agreement to resell at a certain time the two agreements will be construed together in the endeavor to ascertain the true intention of the contracting parties. In 5 Ruling Case Law, p. 589, it is said:

"Sometimes a bill of sale intended as a security for money lent is accompanied by the execution of a separate instrument of defeasance, by the terms of which, on the repayment of the loan at a certain time, the bill to be surrendered to the vendor. In such a case the two instruments must be construed together and constitute a mortgage."

In discussing the distinction between a conditional sale and a chattel mortgage 11 Corpus Juris at page 412, states as follows:

"Intention of the parties. Whether a transaction constitutes a chattel mortgage or a conditional sale ultimately depends on the intention of the parties, which must be ascertained from their conduct and the attendant circumstances, as well as from the terms of the agreement. Further, the intention must be collected from the entire transaction and not from any particular feature of it, and from the actual agreement of the parties and not from their characterization of it, although the construction placed on the contract by the parties is properly considered. The form of the instrument is of little importance. A contract of conditional sale will not be regarded as a chattel mortgage merely because it is recorded as such."

With regard to the specific provisions of the contract which indicate the intention of the parties as to the transaction, it is further stated in 11 Corpus Juris, at page 413, as follows:

"Conditions Permitting Repurchase. A bill of sale with an agreement permitting repurchase may constitute either a chattel mortgage or a conditional sale, its character depending on the surrounding circumstances and the intention of the parties. The fact that a bill of sale contains an agreement to resell the property to the seller at a fixed price or confers on him an option to repurchase it does not, in itself, establish that the transaction is a mortgage, especially when there is no debt to be secured and no obligation to repay. But the transfer may be shown to be a mortgage by evidence that the vendor's obligation continued, that he bound himself to pay interest, that the bill of sale was given to secure a loan, or that the amount of consideration was inadequate as a purchase price."

From this statement of the law it is obvious that the specific provisions of a particular contract must be known in order to determine whether or not a conditional sale or a loan in the nature of a chattel mortgage is intended. This question turns upon the provisions of the particular contract and, therefore, an examination of each agreement entered into by the Federal reserve banks would be necessary for a definite opinion as to the effect of that particular agreement. There are, however, certain of these agreements which classify themselves very readily either as sales on condition or loans secured by chattel mortgage or pledges.

COMMON CHARACTERISTICS OF LOANS

There are several features found in many of the repurchase agreements of Federal Reserve banks which indicate that loans rather than conditional sales are intended. One of the most important of these is the stipulation that additional securities shall be deposited by the seller with the Federal reserve bank to maintain a certain margin over and above the market value of the securities. If the parties intended a sale there would be no necessity for such a provision. This is a clause which is usually found in connection with chattel mortgages, pledges or other forms of loans secured by collateral; in such cases the provision is very desirable. The purpose of the provision is plainly to protect the Federal reserve bank from any possible loss by reason of fluctuation in the value of the securities or acceptances held by it as security for a loan.

Another important characteristic of a loan is present when it is provided that the Federal reserve bank may sell at a public or private sale the securities or acceptances upon which it has advanced money, in case the so-called seller fails to comply with the agreement of repurchase and to buy back the securities or acceptances at the time specified. This also is a clause which is usually found in all forms of loan agreements but for which there can be no possible need in a contract of sale, even though such contract reserves to the seller the privilege of repurchasing within a certain time. If these securities or acceptances are really owned by the Federal reserve bank it would be entirely unnecessary to go through the form of a sale in order to transfer the title thereto to the Federal reserve bank, because it already has title; and if it is desired by the Federal reserve bank to have someone else purchase them, the Federal reserve bank, being the owner of the securities or acceptances, may make such sale in the ordinary manner and it would be entirely superfluous to provide for this kind of a sale in the agreement. But if the Federal reserve bank does not, as a matter of fact, take absolute title to the securities or acceptances, a provision for sale in case of default is necessary in order that the Federal reserve bank, or any other party purchasing at such sale, may acquire a clear title.

The fact that the Federal reserve banks charge interest on such transactions, and that this interest is computed in the same way as in the case of any ordinary loan is a very strong factor in evidencing the intention of the parties to this agreement in reality to negotiate a loan, although in form the transaction is an absolute sale with a right to repurchase reserved to the seller. In the case of an actual sale with right to repurchase there probably would be some form of fee or commission provided for to compensate the Federal reserve bank for its services, but it is unlikely that this fee or commission would take the form of interest and be computed in the same manner as interest, unless the parties were attempting to consummate a loan rather than a sale.

TWO CLASSES OF REPURCHASE AGREEMENTS.

Transactions of the kind under consideration may be divided into two general classes (1): Those in which the seller is obligated to repurchase the securities and acceptances on or before a certain specified date; and (2) those in which the seller is given the privilege of repurchasing if he so desires. In the first of these classes, the nature of the transactions seems entirely clear, but the proper construction of the second class of transactions depends largely on the terms of each particular agreement.

SELLER OBLIGATED TO REPURCHASE.

Where the so-called seller has not only a right or privilege to repurchase, but is absolutely required to repurchase by the terms of the agreement, this is conclusive of the intention of the parties to

effect a loan secured by the deposit of securities or acceptances as collateral. Where the agreement entered into by the Federal reserve bank, therefore, contains a provision obligating the seller to repurchase the securities or acceptances within a certain specified period, or at the option of the Federal reserve bank upon a certain number of days written notice, there is no question but that the transaction is a loan, although in form a conditional sale. This position is sustained by the authorities.

In the case of Robinson v. Farrelly, 16 Ala., 472, the Court in discussing the nature of a transaction similar to that under consideration states as follows;

"The nature of a sale, with the right to repurchase for a given sum, and within a specified time, is a conveyance of the title to the purchaser; he is the owner of the property, but the vendor has the right to repurchase if he sees fit; no obligation rests on him to do so, it is a mere matter of volition, whether he will or not. If he declines to repurchase, he is not bound to refund the money, and the purchaser has no cause of action against him because he does not see fit to claim his privilege. If the purchaser retain the right to demand the money of the vendor, notwithstanding his purchase, a debt is then due from the vendor to him, and the existence of this debt within itself shows that the conveyance is a mere security for its payment."

In the case of Cake v. Shull, (N.J.) 16 Atl. 434, the court made the following statement:

"The right of a court of equity to declare a deed or bill of sale, which is absolute on its face, to be a mortgage, is clear, as is also the competency of parol evidence to prove the fact. The question turns upon the actual intention of the parties at the time of the transaction. Crane v. Decamp, 21 N.J. Eq. 414. If that intention was that the instrument should constitute security for the payment of money, or the performance or non-performance of any other act, then it is deemed a mortgage; but, if a real sale was intended, then it takes effect according to its terms, even though a contemporaneous right or privilege to purchase back the property sold was contracted for by the vendor. Gassert v. Bogk, (Mont.) 19 Pac. Rep. 281; Conway's Ex'r v. Alexander, 7 Cranch 218; notes to Thornbrough v. Baker, 2 Lead. Cas. Eq. 1030. An obligation to repurchase, or any other duty resting on the vendor by the performance of which the property was to revert to him, could ordinarily be conclusive evidence of a mortgage, while the absence of such obligation or duty, either expressed or implied, would be indicative of a sale."

SELLER WITH OPTION TO REPURCHASE.

Where the agreement provides that the seller shall have the right or privilege of repurchasing within a certain specified period, but there is no obligation upon him to do so, there may be some question as to the intention of the parties; it is sometimes uncertain whether such a transaction should properly be construed as a sale or a loan. In such cases the courts have, in endeavoring to ascertain the true intention of the parties, reached different conclusions, depending upon the purpose of the transaction, the result to be accomplished, and the other surrounding circumstances. As has been heretofore stated, each agreement must be construed according to its own particular terms and it is difficult to lay down any general rule which will be applicable to all cases. The fact that most of the repurchase agreements entered into by Federal reserve banks provide for the payment or deduction of interest is a strong indication of an intention to effect a loan rather than a sale. Further indication of such an intention is sometimes found in the payment of a price other than the market value for the securities or acceptances and in the provision for deposit of additional collateral. In view of these facts, I believe that it may be fairly said that most if not all sale agreements made by Federal reserve banks reserving to the seller the privilege of repurchasing are, properly construed, loans and not sales.

The cases hereafter cited show under what circumstances agreements reserving to the seller merely the privilege to repurchase are to be construed as loans secured by collateral although the transactions are in form conditional sales.

In the case of Dickinson v. Oliver, 89 N.Y. Supp., 52 (Affirmed in 88 N.E. 44), where a bill of sale was given for certain property together with an agreement permitting the seller to repurchase within a certain time, the transaction was held to constitute a loan in the nature of a chattel mortgage and not a sale with the right of repurchase. The court quotes with approval the following head note from the case of Susman v. Whyard, 149 N.Y. 127, 43 N.E. 413:

"Where the provisions of an instrument which is in form an absolute bill of sale, taken in connection with the surrounding facts, indicate that the parties contemplated a loan of money and a sale of the property, upon the condition, however, that the property should be returned upon the payment of the money so loaned, the instrument is in effect a chattel mortgage, and the fact that it employs the term 'resale' will not change its meaning when no other sum than the amount of the loan is mentioned or contemplated as the price of such resale."

In the case of O'Niell v. Walker, (La.) 12 South. 872, an agreement of sale permitted the seller to buy back timber purchased at any time within six months at cost plus eight per cent interest, the repurchaser to stand any loss incurred in the meantime. The court held that this agreement, in the light of all the surrounding circumstances, was in effect merely a transaction giving security for a loan and could not be construed as a sale.

In Sparks v. Robinson, (Ark) 515, S.W. 460, which was a case involving the usury laws, an absolute bill of sale, which purported to sell certain property at a price far less than the market value thereof, was construed as a cover for a loan. The court said that "The law shells the covering and extracts the kernel."

In the case of Mercantile Trust Company v. Kastor, (Ill.) 112 N.E. 988, the Trust Company, which had no power to make loans entered into a contract purporting to be a sale by a certain corporation of its accounts receivable to the Trust Company. The Trust Company was by the terms of this agreement to pay no more than 77% of the value of the said accounts. The corporation and the defendant guaranteed to pay these accounts if they were not paid at maturity. On a certain account which was unpaid the Trust Company brought suit against the defendant on this guaranty. It was held that the transaction constituted not a sale, but merely a loan with the accounts receivable assigned to the Trust Company as security, and the Trust Company was permitted to recover nothing because the contract was ultra vires and therefore void.

In the case of Home Bond Company v. McChesney, 239 U.S. 568, the Supreme Court of the United States approved the findings of a special master holding that a transaction very similar in its terms to that in the Kastor case, which is discussed above, was a mere loan with collateral security, and not a sale. The Supreme Court quotes with approval the language of the United States District Court as follows:

"In so far as the contracts in question here used words fit for a contract of purchase, they are mere shams and devices to cover loans of money at usurious rates of interest."

ORIGIN OF PRACTICE

That these transactions are in substance loans rather than bona fide purchases of securities on the open market is further confirmed by a consideration of the origin of the practice.

The practice of the Federal Reserve banks in purchasing Government securities and bankers' acceptances under re-sale agreements originated in November, 1917, when demands for accommodation upon the Federal reserve banks were very heavy and the Government was floating large issues of Liberty bonds. On December 1, 1917, the stamp tax on promissory notes was to become effective and this would have been a very heavy expense upon member banks in obtaining funds from Federal reserve banks upon their fifteen day collateral notes under Section 13 of the Act. The Federal Reserve Board, therefore, suggested that in order to avoid the payment of this stamp tax member banks might obtain short time advances from Federal reserve banks by rediscounting eligible commercial paper of longer maturities under re-purchase agreements. The Board pointed out that interest might be charged only for the period covered by the agreement, that is, from the date of discount to the date of repurchase, and that the interest might be adjusted in advance or at the time of the re-sale. The suggestion of the Board was adopted and the Federal reserve banks began purchasing paper from member banks under repurchase agreements as a substitute for the fifteen day collateral notes of member banks. Notes secured by Liberty Bonds or United States certificates of indebtedness were subsequently exempted from the stamp tax and thereupon at least one of the Federal reserve banks (Richmond) discontinued this practice. Other Federal reserve banks, (notably New York) have not discontinued it, however, but on the contrary have extended it by entering into transactions of this kind not only with their member banks but also with non-member banks and stock, bond, and acceptance brokers.

It is clear, therefore, that these transactions originated as loans (presumably under the authority to make direct loans to member banks) and the practice has simply grown and spread until it has gone far beyond the original purpose of the Board's ruling, and has been taken advantage of by the Federal reserve banks as a justification for making direct loans to non-member banks and to brokers - parties to whom the Federal Reserve Act never intended that Federal reserve banks should extend credit in any way without the intervention of a member bank.

CONCLUSIONS OF LAW.

When the transactions between the Federal reserve bank and the various member and non-member banks, and other corporations, therefore, are considered in the light of all the surrounding circumstances it seems clear that under the principles announced by the courts, most if not all

of these transactions should be considered loans secured by the deposit of securities or acceptances as collateral, instead of sales with the right to repurchase reserved to the seller. The agreements, though in form sales, are in substance loans secured by the pledge of collateral.

The transaction described being a loan secured by collateral, instead of a sale which it purports to be, Federal reserve banks have no power to engage in such transactions and such agreements on the part of these banks are entirely ultra vires. Federal reserve banks have no power to make loans direct to the person or corporation primarily liable under any conditions, except that they make advances to their member banks upon promissory notes for a period not exceeding 15 days when properly secured in accordance with Section 13 of the Federal Reserve Act. Advances under repurchase agreements such as described above, however, can not be considered advances upon promissory notes, because the debt in such cases is not evidenced by notes of any kind. Federal reserve banks, therefore, can not in my opinion, make advances even to member banks under repurchase agreements.

POLICY

This subject has been discussed above largely as a question of general law, and I have not discussed the effect of its application to the Federal reserve banks. I think, however, it is perfectly manifest that the application of these conclusions of law to the operations of the Federal reserve banks will lead to a much closer adherence to the fundamental purposes and principles of the Federal Reserve Act than exists at the present time. The original Federal Reserve Act gave the Federal reserve banks no power to make direct loans even to their member banks.

The power to make direct loans to member banks on their fifteen day notes was granted on the recommendation of the Federal Reserve Board as a means of enabling Federal reserve banks to extend credit to their member banks for short periods of time on the security of paper eligible for rediscount. An amendment to the Act granting this power to Federal reserve banks was recommended by the Federal Reserve Board in 1916 when little use was being made of the rediscount facilities of the Federal reserve banks and it was hoped that this would induce the member banks to make more use of the system. The Board's proposed amendment, however, was not acted upon before it became evident that this country might be drawn into the world-war and in order that the banks of the country might be in position to facilitate Government financing in such an event, the Board made a further suggestion that the proposed fifteen-day collateral notes of member banks might be made eligible when secured by bonds and notes of the United States as well as when secured by paper eligible for rediscount.

It was never contemplated by Congress that the Federal reserve banks should make direct loans to non-member banks nor to stock, bond and acceptance brokers or other individuals, partnerships or corporations which ordinarily would seek such accommodations from member banks. The practice which has grown up in the Federal reserve banks of buying bonds and bankers' acceptances under so-called "repurchase agreements" amounts to nothing more nor less than the making of direct loans on the security of such bonds or acceptances; and the making of such loans to parties other than member banks is manifestly inconsistent with the purposes of the Act in that it enables non-member banks and stock, bond and acceptance brokers to tap the resources of the Federal reserve banks directly and without the intervention of a member bank.

As stated above, I am of the opinion that these transactions are clearly ultra vires as to Federal reserve banks and it is respectfully recommended that the Board so rule.

Respectfully,

(Signed) Walter Wyatt,
General Counsel.

10/21
8/25

FEDERAL RESERVE BOARD

WASHINGTON

X-3818
August 25, 1923.

SUBJECT: Capital Stock.

Dear Sir:

I enclose herewith, for your information, copy of a letter recently written to an officer of one of the Federal Reserve Banks with respect to the necessity of a member bank filing an application for the surrender of stock whenever it reduces the amount of its surplus.

Very truly yours,

Walter L. Eddy,
Executive Secretary.

Enclosure.

TO ALL F. R. AGENTS

(COPY)

August 15, 1923.
X-3818a

Dear Sir:

Receipt is acknowledged of your letter of August 13 inquiring with respect to the change in the Board's Regulation I, Series of 1923, which relates to the increase or decrease of Federal reserve bank stock.

As you say, Section II of the Regulation of 1920 provided that whenever a member bank reduced the aggregate amount of its paid-up capital stock and surplus, it must file an application for the surrender and cancellation of a proportionate amount of its Federal reserve bank stock. The equivalent provision in the 1923 regulation omits the requirement that a member bank must file an application for the surrender of stock whenever it reduces the amount of its surplus and requires merely that an application for the surrender of Federal reserve bank stock must be filed by a member bank when it reduces its capital.

This change in the regulation was intentional and was made to conform more closely to the provisions of law. Section 5 of the Federal Reserve Act requires a member bank to surrender a proportionate amount of its Federal reserve bank stock when it reduces its capital, but is not mandatory with respect to the surrender of Federal reserve bank stock upon a reduction of member bank surplus. The relevant provisions of Section 5 are as follows:

"When a member bank increases its capital stock, or surplus it shall thereupon subscribe for an additional amount of capital stock in the Federal reserve bank. * * * When a member bank reduces its capital stock, it shall surrender a proportionate amount of its holdings in the capital of said Federal reserve bank".

This section also provides in another part that the capital stock of a Federal reserve bank "shall be increased as member banks increase their capital stock and surplus * * * and may be decreased as member banks reduce their capital stock or surplus".

You will note, therefore, that there is no provision requiring a member bank to surrender a proportionate amount of its Federal reserve bank stock when it reduces its surplus. The Board has always recognized this distinction between a reduction of capital of a member bank and the reduction of its surplus, and has taken the position that when a member bank reduces its surplus only, it is not required to surrender a proportionate amount of its Federal reserve bank stock,

but that the Federal reserve bank has the option, subject to the Board's approval, of cancelling the proper amount of its capital stock in the hands of the member bank or of leaving such stock outstanding. (See opinion of Counsel published on page 218 of the Federal Reserve Bulletin for August, 1915).

In preparing the 1923 Regulations, it was found that Regulation I, Series of 1920, was somewhat inconsistent with the provisions of law in this connection and with the Board's construction of them, because in terms it required a member bank to file an application for the surrender of Federal reserve bank stock whenever it reduced the aggregate amount of its capital stock and surplus, which would necessarily involve the filing of such an application upon the reduction of surplus alone. The Board also felt that it would be an unnecessary formality to require an application for the surrender of stock to be filed every time a member bank reduces its surplus, because many reductions of surplus are small in amount and temporary in character. The regulation was accordingly amended by omitting this requirement and under the new regulation it is contemplated that a surrender of Federal reserve bank stock need not be made every time a member bank reduces its surplus, but that it will be optional with the Federal reserve bank involved, subject to the Board's approval, to require the surrender of stock in such a case or to leave it outstanding. In cases where the reduction of surplus appears to be of a permanent nature and is so substantial in amount as to affect a considerable number of shares of stock, a surrender of stock should ordinarily be required.

A similar change was made in Section II(d) of the new regulation with reference to the surrender of stock upon a consolidation of member banks, when the consolidated bank has a capital less than the aggregate capital of the consolidating banks. The corresponding provision in the regulation of 1920 required a surrender of stock whenever the consolidated bank had a capital and surplus less than the aggregate paid-up capital and surplus of the consolidating banks.

Yours very truly,

Walter L. Eddy,
Executive Secretary.

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS

X-3821

For Release in Morning Papers,
Monday, August 27, 1923.

The following is a summary of general business and financial conditions throughout the several Federal Reserve Districts, based upon statistics for the months of July and August, as contained in the forthcoming issue of the Federal Reserve Bulletin.

Production of basic commodities and employment at industrial establishments decreased in July and there was a further decline in wholesale prices. The distribution of goods, as indicated by railroad freight shipments, maintained record totals and the sales of merchandise, though showing the usual seasonal decline, continued to be relatively heavy.

PRODUCTION:

Production in basic industries, according to the index of the Federal Reserve Board, declined one per cent in July. Mill consumption of cotton, steel ingot production, and sugar meltings were considerably smaller than in June. New building operations during the month, as measured by the value of permits granted and of contracts awarded, showed more than the usual seasonal decline.

Employment at industrial establishments located in various sections of the country decreased 2 per cent during July. Manufacturers of automobile tires, and cotton goods showed large reductions in number of employees. There were some further announcements of wage advances, but these were not as numerous as in the three previous months. Average weekly earnings of factory workers, due to a decrease in full-time

operations, were 3 per cent less than in June.

Crop forecasts of the Department of Agriculture on the basis of condition on August 1 indicated that yields of wheat and rye would be below July estimates, while larger yields of cotton, corn, oats and barley were forecast. Due to a seasonal increase in grain shipments and continued large shipments of industrial raw materials and manufactured goods, car loadings in the last week of July reached the largest total on record.

TRADE:

The volume of wholesale trade was about the same in July as in June, while there was a decline in retail trade, which was largely seasonal in nature. Among the wholesale lines sales of dry goods and clothing were larger than in June, while sales of groceries, hardware, and shoes were considerably smaller. Business in all reporting lines was larger than in July, 1922, and the average increase, as indicated by the Federal Reserve Board's index of wholesale trade, was 13 per cent. Sales of department stores were 10 per cent larger than a year ago, while mail order sales showed a gain of 27 per cent. Stocks of department stores showed a seasonal reduction during July and were smaller than in any month since January.

PRICES:

Wholesale commodity prices declined during July for the third consecutive month and the index of the Bureau of Labor Statistics was 5 per cent below the April peak. Prices of all groups of commodities, except housefurnishings, were lower in July. The largest decline occurred in quotations of clothing, drugs and chemicals, farm products, and building materials. During the first half of August price changes were more moderate and quotations of cotton, spring wheat, hogs, sheep,

and rubber advanced.

BANK CREDIT:

Since the middle of July the volume of bank credit in use has shown a reduction, largely because of the substantial liquidation of loans on stocks and bonds at New York City banks. Between July 18th and August 15th loans of member banks in leading cities secured by stocks and bonds decreased by \$94,000,000 to the lowest point for the year, \$258,000,000 below the amount outstanding at the beginning of the year. Commercial loans, however, increased, so that the net reduction in total loans for the period amounted to \$60,000,000. Security investments declined \$73,000,000 to a new low level for the year.

The volume of discounted paper held at the Federal Reserve Banks showed a slight decrease, while their holdings of acceptance and United States securities reached new low points for the year. Between the middle of July and the middle of August gold holdings of the Federal Reserve Banks increased by \$21,100,000, reflecting in part net gold imports during July of \$27,400,000. Federal Reserve note circulation increased by about \$15,000,000, and there were also substantial increases in the volume of gold certificates and National bank notes in circulation.

Slightly firmer tendencies in money rates during the month were reflected in a gradually increasing proportion of commercial paper sales at 5 1/4 per cent, as compared with 5 per cent in the previous month.

FEDERAL RESERVE BOARD

X-3822

For release in Morning Papers,
Friday, August 31st.

CONDITION OF ACCEPTANCE MARKET

JULY 15 TO AUGUST 15, 1923.

During the 30-day period ending August 15 the acceptance market continued dull and inactive. The supply of bills was generally moderate but the storage of grain influenced the supply in some western centers. The demand for bills improved substantially during the first week of the period but slackened somewhat during later weeks. Purchases by corporations, country banks and for foreign account were the most important factors in the market and bills with 60 to 90-day maturities were in the best demand. Rates remained unchanged at $4 \frac{1}{8}$ to $4 \frac{1}{4}$ bid and 4 to $4 \frac{1}{8}$ offered. Silk, grain, cotton, sugar, wool, leather, and provisions were the principal commodities against which bills were drawn.

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS

X-3824

For Immediate Release.

The Federal Reserve Board announces that the agencies in Havana, Cuba, of the Federal Reserve Banks of Atlanta and Boston will open for business on Saturday, September 1, 1923.

August 31, 1923.

X-3829

CERTIFICATE OF MEMBER OF FEDERAL RESERVE BOARD.

CITY OF WASHINGTON)
 DISTRICT OF COLUMBIA) SS.

I, _____, of
 the State of _____, having been appointed
 by the President a member of the Federal Reserve Board,
 created by the Act of Congress approved December 23,
 1913, known as the Federal Reserve Act, and desiring
 to qualify and enter upon my duties as such, do hereby
 certify in accordance with the terms of sections 10
 and 25(a) of the said Act that I am not an officer or
 director of any bank, banking institution, trust
 company or Federal reserve bank; that I do not hold
 any stock in any bank, banking institution or trust
 company; that I am not an officer or director of any
 corporation organized under the provisions of section
 25(a) of the Federal Reserve Act, or of any corporation
 engaged in similar business organized under the laws
 of any State, and that I do not hold stock in any
 such corporation.

 Subscribed and sworn to before me, a Notary
 Public in and for the District of Columbia, this _____
 day of _____, 19__.

 Notary Public,
 Washington, D.C.

My commission expires _____.

FEDERAL RESERVE BOARD

WASHINGTON

X-3832
September 8, 1923.

SUBJECT: MEMORANDA ON CUBA.

Dear Sir:

For your information there are enclosed herewith, copies of a memorandum and statements presented to the Federal Reserve Board by representatives of the Government of the Republic of Cuba at an informal conference held in Washington on September 6, 1923.

Very truly yours,

Wm. W. Hoxton,
General Secretary.

TO ALL FEDERAL RESERVE AGENTS.

Washington, D. C., September 6, 1923.

TO THE GOVERNOR AND MEMBERS OF THE FEDERAL RESERVE BOARD:

The Republic of Cuba pays its tribute of admiration to the magnificent record of achievement made by your Federal Reserve Board in the world field of economics and finance.

We esteem it a privilege therefore to place our problems and successes before you so that we may not only have the benefit of conference and advice with you but also that your people may better understand the real conditions presently existing in Cuba.

We feel great pride in the present financial, economic and political condition of our Republic. The present administration has had many and complex problems to solve since the financial and industrial chaos which existed in 1920 and 1921.

That they have been solved is fully attested by the present prosperity and happiness of our country and its people. Some unrest may exist but it is negligible compared with the general world unrest of today.

We are the only nation whose war debts have been fully liquidated. Our treasury has a record balance of over twenty-five millions of dollars. All accrued obligations have been met, and we are paying all charges promptly as they mature.

The Island of Cuba has an area of about half that of Great Britain. Its population at the time of the foundation of the Republic on May 20, 1902, was approximately 1,500,000.

On December 1, 1922, it had increased to 3,123,040 people, or, say 65 per square mile as against 480 per square mile in Great Britain. Yet the total annual trade per head of the fixed population of Cuba is about the same as the total annual trade per head of the population of the United Kingdom. It is the largest sugar producing country in the world and yet not more than 12% of the land of Cuba is under cultivation.

POLITICAL STATUS: Our Constitution, largely fashioned after your own, guarantees the same protection to life, liberty and property. Our President, liberal statesman and profound student that he is, has so administered the affairs of our government for the past two years that our liberty and property rights have been conserved and respected, that the confidence and credit of our people and our institutions have been restored, our trade has made new high records in stability, our education facilities have been increased and our financial status is more healthy and prosperous than ever before in the history of our Republic.

Our Congress and our people recognize the effort and accomplishment of our Executive by giving him every evidence of confidence and support.

SANITATION: This essential feature of our government is constantly improving. This administration is following the standards and methods so successful under General Leonard Wood and Dr. Gorgas.

At present there are no quarantine cases. Small pox has been completely obliterated and is now unknown within the confines of the Republic. The administration maintains a permanent service in all parts of the Republic to fight the mosquito and other insects that breed infection and disseminate

disease. Vaccination is obligatory. That these methods have been effective is best demonstrated by the mortality rate of the Republic, compared with other countries. Mortality statistics for the year 1921, showing England 12.4 per 1,000 inhabitants; the United States, 12.9 per 1,000; Cuba, 15.36 per 1,000; France, 17. per 1,000; Austria, 19. per 1,000; Spain, 23.8 per 1,000.

The city of Havana is second only to New York in mortality statistics. New York City, 18.4 per 1,000; Havana, 19.9 per 1,000.

These results have been acquired through the ability and fidelity of the highest class of Cuban citizens who have given their time and effort toward improving the sanitation of the Republic.

ECONOMIC: Probably the most notable progress of Cuba during the past two years was in the field of economy and finance. May 20th, 1902, was the date of the birth of the Republic. Its first budget provided for expenditures of \$16,200,757.26, and its income for that year was about the same figure. Twenty-one years have passed and the present budget for expenditures of the Republic is \$61,672,169.28; its income, if we may take as a basis the month of July of the current year, which is the first month of the fiscal year, was \$9,183,000.00, or at that ratio over \$100,000,000 a year.

Our Republic passed through a great economic crisis during the years 1920 and 1921, due to the after-war conditions and the sudden drop in the price of sugar. This administration which took office on May 20th, 1921, was ~~therefore~~ confronted with grave and serious political and economic problems. However, ~~the natural~~ resources of the country, and the conscientious, economic and democratic methods have, in less than two years,

again restored the Republic to a sound and contented economic and political condition. Today we are enjoying a more prosperous condition than ever before in our history, having in the Treasury of the Republic on August 16, last, in excess of \$25,000,000, after having paid all of its budget obligations that had accrued, and having during the month of August last, paid its obligation, principal and interest, to the United States for its war indebtedness.

The Republic of Cuba in order to pay its veterans of the War of Independence and to provide funds for the foundation and continuance of its existence as a Republic, and to cover the cost of sanitation, drainage, roads, and other improvements necessary to the government, has negotiated various external and internal loans.

The external loans were as follows:

Speyer & Co. 1904, Loan, \$35,000,000	
On which there is now due.....	\$ 21,062,500.00
Speyer & Co. 1909, Loan, \$16,500,000	
On which there is now due.....	15,298,000.00
J.P.Morgan & Co. 1914, Loan, \$10,000,000	
On which there is now due.....	8,650,000.00
J.P.Morgan & Co. Last Loan, \$50,000,000	
On which there is now due.....	49,749,000.00

It may be interesting to note that the Cuban Government has only utilized part of the last Morgan loan, the balance being on deposit in New York, earning interest, subject to the order of the Cuban Government.

For the amortization of the principal and the payment of interest of these loans, the national budget makes provision each year. This year that item amounts to \$12,240,000.

The important income of the Republic is derived from the customs,

fiscal zones, postal and telegraphic service, revenues from taxation, and income from the various properties belonging to the Government.

The Cubans pay a taxation of \$22.83 per capita, which is the lowest tax rate per capita of any country in the world. Its great economic wealth is due to the fact that it occupies first place in the world as a sugar producing country. At present it has 183 sugar mills with capacity for producing more than 6,000,000 tons, annually.

Imports to Cuba from the United States during the fiscal year of 1922-23 amounted to \$154,175,108.00. During the same period the exports from Cuba were \$379,989,637.

Our development, therefore, both internal and international, is dependent to a very large extent on the economic policy which the United States may pursue with respect to our country. According to recent investigation the capital of American citizens invested in Cuba in the sugar industry and other business exceeds the sum of \$1,000,000,000. The United States sold Cuba merchandize for value as high as \$500,000,000 in a single year; so that commercially and industrially, the national prosperity of each of our Republics is in a great measure at least dependent upon each other.

I neglected to mention another feature that seems to me very important. The total funded Cuban debt, external and internal, amounts to \$43.00 per capita, as compared with approximately \$208.00 per capita for the United States, and \$275.00 per capita for Canada. In making such comparison it should be noted that the political subdivisions of Cuba, with the exception of the City of Havana, have practically no funded debt. The people of the United States and Canada, however, have to consider in their taxation programs

Not only the service of their national debt, but also the service of a substantial public debt created by political and administrative subdivisions.

It is a matter of pride to the Republic of Cuba, that, while there was unfortunately a temporary cessation in the payment of the interest upon the internal debt during the commercial and financial crisis of 1921, the Republic of Cuba has never in its history defaulted in the payment of the principal or interest of any of its external debt.

I leave with you the official Gazette of the Republic of Cuba under date of June 30, 1923, setting forth a detailed and complete statement of the budget for the fiscal year 1923-24, a resume of which will be found on page 358; also two statements from the Secretary of the Treasury, - one showing the national income for the month of July, 1923, the first month of the present fiscal year; and the other showing the cash on hand as of August 16, 1923.

Before concluding may I, speaking for the President of Cuba and the Cuban people, reiterate our continued appreciation for the counsel, advice, aid and cooperation of your Government.

Our friends and allies in 1898 in our struggle for independence are still our cherished friends today in our prosperity and success.

The spirit that has animated and prompted the continued helpful aid and advice was so well described by your distinguished Secretary of State, Mr. Hughes, in his recent speech in Minneapolis, when he said "We have acted as the friendly adviser of the Cuban Government, our action has been solely for the purpose of aiding in maintaining the independence and stability of Cuba and thus not to create but to preclude the necessity of intervention."

We want to know you better and on a more intimate basis. We believe that meetings such as these are conducive to a better understanding of our respective problems, and will lead to more business and prosperity to both countries. It is our hope that there will be frequent repetitions of similar meetings when we can frankly discuss and advise with you concerning our problems so that our people will not alone profit socially and financially, but that we may have franker expressions of our difficulties and discourage gossip and misinformation which we believe has largely been the cause of misunderstanding in the past.

(Signed) Celso Cuellar

X-3832-b

Republic of Cuba
Department of Finance

Revenue collections during the month of July according
to telegraphic reports.

Customs	\$4,258,000.00
Fiscal zones and districts	4,097,000.00
Lottery	528,000.00
Communications	200,000.00
Consular	<u>100,000.00</u>
Total	\$9,183,000.00

Habana, August 17, 1923.

(Signed)

Central Auditor of Finance.

Republic of Cuba
 General Treasury
 Habana

X-3832-c

729

Eduardo Y Montouliou, General Treasurer of the Republic ad interim certifies: that the cash holdings of the General Treasury on August 16, 1923 are \$25,030,694.70, Twenty-five million thirty thousand six hundred and ninety-four pesos and seventy centavos, composed as follows:

In Vaults:

Gold in \$20 coins.	\$30,000
" " 10 "	610,000
" " 5 "	535,000
" " 4 "	5,000
" " 2 "	10,000
Silver in \$1 coins	209,500
" " 0.40 "	186,000
" " 0.20 "	725,000
" " 0.10 "	144,000
Nickel " 0.05 "	109,550
" " 0.02 "	25,750
" " 0.01 "	58,020

American Money

Gold in \$20 coins	585,000
" " 10 "	370,000
" " 5 "	300,000
Notes of \$10,000 denomination	60,000
" " 5,000 "	15,000
" " 1,000 "	14,981,000
" " 500 "	3,496,000
" " 100 "	899,000
" " 50 "	600,000
" " 20 "	130,000
" " 10 "	80,000
" " 5 "	5,000
" " 1 "	33,000
Silver in \$0.50 coins	26,000
" " 0.25 "	49,000
Copper " 0.01 "	1,050

Total \$24,277,870

In vault	\$24,277,870.00
Auxiliary	
cash holdings	<u>752,824.70</u>
	\$25,030,694.70

In witness whereof I have made out the present in quadruplicate at Habana on the 17th day of August of the year nineteen hundred and twenty three.

(Signed) E. Y. Montouliou

Seal: (Republic of Cuba
 --
 General Treasury)

FEDERAL RESERVE BOARD

780

WASHINGTON

X-3833
~~X-3883~~

September 8, 1923.

SUBJECT: Congressional Inquiry on Membership in the
Federal Reserve System.

Dear Sir:

There is enclosed herewith copy of a letter, with enclosure, received from the Chairman of the Congressional Joint Committee of Inquiry on Membership in the Federal Reserve System. This letter is referred to you with the request that you furnish the Board, at the earliest possible moment, with the answers which you individually would propose to the questions asked by the Committee, and any information which you think would be of value to the Board in its appearance before the Committee. This matter is also being referred to the members of the Federal Advisory Council.

Very truly yours,

G o v e r n o r .

TO GOVERNORS OF ALL F. R. BANKS

(COPY)

X-3833a

CONGRESS OF THE UNITED STATES
JOINT COMMITTEE OF INQUIRY
ON MEMBERSHIP IN FEDERAL RESERVE SYSTEM
WASHINGTON, D. C.

September 6, 1923.

Hon. D. R. Crissinger, Governor,
Federal Reserve Board,
Washington, D. C.

My dear Mr. Crissinger:

In pursuance of the provisions contained in the Agricultural Credits Act of 1923, passed by the Sixty-seventh Congress, Public Law No. 503, a copy of which is enclosed herewith, a joint committee, consisting of three members of the Banking and Currency Committee of the Senate and five members of the Banking and Currency Committee of the House of Representatives, has been appointed.

It is the purpose of the committee to start formal hearings along the lines of authority conferred upon them by the Act.

My purpose in communicating with you at this time is to advise you that the committee will be glad to have you, or any of all members of the Federal Reserve Board appear before the committee, on Tuesday, October 2, 1923, at two-thirty o'clock in the afternoon, in the House Banking and Currency Committee Rooms in the Capitol Building. The committee would like to have you be prepared to give them the effect of the present limited membership of State banks and trust companies in the Federal Reserve System; whether or not it is advisable to attempt to increase the membership of the Federal Reserve System; also advice upon the present financial conditions in the Agricultural Sections of the United States; Federal Reserve System reasons which actuate eligible State banks and trust companies in failing to become members of the Federal Reserve System; and what administration measures, if any, have been taken and are being taken to increase such membership; and whether or not in the opinion of the Federal Reserve Board any change should be made in the existing law or in the rules and regulations of the Federal Reserve Board; or if you have any suggestions of change in the method of administration to bring about in the Agricultural Districts a larger membership of State banks and trust companies in the Federal Reserve System.

For the use of the committee in preparing for the investigation, I shall be pleased if you will furnish me with a complete set of the rules and regulations of the Federal Reserve Board from its inception to date, also a copy of the Federal Reserve Act with all amendments to date.

The committee of inquiry are endeavoring to give as wide

publicity as possible to these hearings with a view of obtaining information in accordance with the instructions in the Act creating the committee. In this connection we are asking the cooperation of the Secretary of the Treasury, Secretary of Agriculture, War Finance Corporation, Federal Farm Loan Commissioner, American Bankers Association, State Bankers Association, Federal Reserve Banks, United States Chamber of Commerce, American Farm Bureau Federation, National Grange and other similar organizations, which are in a position to be helpful in furnishing accurate information such as is desired by the committee.

The committee realizes that in connection with the consideration of the question of limited membership of State banks and trust companies in the Federal Reserve System there are several outstanding, widely discussed questions which involve, to a greater or less degree, membership in the System; to-wit, branch banking, per collections, abolishment of the office of the Comptroller of the Currency, administration practices and policies of the Federal Reserve System, administration practices and policies of the office of the Comptroller of the Currency, interest on daily balances of the Federal Reserve System, conflict and competition now existing between National and State banking laws.

The purpose in mentioning these outstanding questions is to enable you to prepare yourselves, so far as possible, to present to the committee your views and conclusions as regards the problems presented by each of these questions. It is not, however, the intention of the committee to limit the discussions to these few enumerations, but it is the honest desire of the committee to, as far as possible, arrive at definite conclusions, therefore, it is to be hoped that the Board will make a full presentation of its views to the committee covering the scope of this inquiry.

Very truly yours,

(sgd) L. T. McFadden,

Chairman.

(Extract from Public Law, No. 503, 67th Congress.)

An Act To provide additional credit facilities for the agricultural and live-stock industries of the United States; to amend the Federal Farm Loan Act; to amend the Federal Reserve Act; and for other purposes.

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JOINT CONGRESSIONAL COMMITTEE.

SEC. 506 (a) That a joint committee be appointed, to consist of three members of the Banking and Currency Committee of the Senate, to be appointed by the President thereof, and five members of the Banking and Currency Committee of the House of Representatives, to be appointed by the Speaker thereof. Vacancies occurring in the membership of the committee shall be filled in the same manner as the original appointments.

(b) The joint committee is authorized to inquire into the effect of the present limited membership of State banks and trust companies in the Federal reserve system upon financial conditions in the agricultural sections of the United States; the reasons which actuate eligible State banks and trust companies in failing to become members of the Federal reserve system; what administrative measures have been taken and are being taken to increase such membership; and whether or not any change should be made in existing law, or in rules and regulations of the Federal Reserve Board, or in methods of administration, to bring about in the agricultural districts a larger membership of such banks or trust companies in the Federal reserve system.

(c) The committee is authorized to sit at any time during the sessions or recesses of the Congress, to conduct its hearings at Washington or at any other place in the United States, to send for persons, books, and papers, to take testimony, to administer oaths, and to employ experts deemed necessary by such committee, a clerk, and a stenographer to report such hearings as may be had in connection with any subject which may be before said committee, such stenographer's services to be rendered at a cost not exceeding \$1.25 per printed page. The expenses of such committee shall be paid out of the contingent funds of the Senate and House of Representatives in proportion to the membership of such committee from each House.

(d) The committee shall from time to time report to both the Senate and the House of Representatives the results of its inquiries, together with its recommendations, and may prepare and submit bills or resolutions embodying such recommendations, and the final report of said committee shall be submitted not later than January 31, 1924.

IN THE DISTRICT COURT OF THE UNITED STATES

For the District of Oregon.

BROOKINGS STATE BANK, an
Oregon Banking Corporation,

Plaintiff

v.

FEDERAL RESERVE BANK OF
SAN FRANCISCO, A Federal
Reserve Banking Corporation,

Defendant.

L-9041

July 30, 1923.

T. T. Bennett, Marshfield, Oregon,
John F. Reilly, Portland, Oregon, for Plaintiff;

Albert C. Agnew, San Francisco, Cal., for Defendant.

WOLVERTON, District Judge:

In this case there is diversity of citizenship. A federal question is also involved. So it cannot be said that jurisdiction is founded only on the fact of diversity of citizenship. The defendant is a Federal Reserve Bank, with its head office and principal place of business in San Francisco, California, and with branch banks elsewhere, one of these being located at Portland Oregon. Plaintiff has sued the defendant in this court, in tort. Service was had upon Frederick Greenwood, manager of the Portland Branch, within this jurisdiction, on November 18, 1922. On November 23rd, the attorney for the defendant bank wired from San Francisco to the attorney for plaintiff, as follows:

"I refer to complaint for damages Brookings Bank against Federal Reserve Bank filed in Portland November eighteenth. Owing to pressure of other work and engagements in Seattle and Salt Lake it will be difficult if not impossible for

me to give consideration to preparation of answer or other pleading at this time. Will you kindly give stipulation that defendant may have thirty days from November eighteenth nineteen twenty two within which to demur, answer or file such other pleading to complaint or otherwise as defendant may be advised by counsel. Will appreciate your courtesy in this connection. Please wire reply quickly."

On the same day attorney for plaintiff wired:

"Your request November twenty third re Brookings Bank Case is agreed to. Prepare written stipulation if you wish, forward it to me and I will sign."

Also on the same day, attorney for defendant mailed to attorney for plaintiff a stipulation, entitled in the cause pending, of the following tenor;-

"Stipulation extending time to plead.

"It is hereby stipulated by and between respective counsel for the above named parties that the defendant, Federal Reserve Bank of San Francisco, may take and have to and including the twenty-eighth day of December, 1922, within which to answer the complaint on file in the above entitled action, or to demur thereto, or to make such other motion or motions in respect thereto, or in respect to the cause of action stated therein, as said defendant, Federal Reserve Bank of San Francisco, may be advised by counsel."

The stipulation was signed by attorney for plaintiff, and returned to counsel for defendant, who thereupon signed it, and mailed it to the clerk of the court, with directions:

"I hand you herewith stipulation extending time for defendant to plead in the above entitled matter. I will appreciate it if you will present the stipulation to the court, have it approved and file."

When the stipulation was received, the court's attention was called to it by the clerk, and the following order was made respecting it:

"Now at this day upon motion of defendant on file herein, said defendant appearing by Mr. A. C. Agnew, of counsel, It is ordered that said defendant be and it is hereby allowed to and

including Thursday December 28, 1922, to answer, demur, or file such other motion as it may be advised."

It is apparent that counsel for defendant, as it relates to the order, made no other appearance in court than is evidenced by his letter of instructions to the clerk. On December 26, 1922, the defendant, appearing specially by its attorney, moved the court to dismiss the cause, for the reason that the defendant is not an inhabitant within the district in which the action has been instituted.

The crucial question presented for decision is whether defendant waived jurisdiction over its person by entering into, and causing to be filed with the clerk of the court, the stipulation for an extension of time within which to plead.

It ought not to be controverted that a stipulation between parties to a suit or action, filed in court, has the same effect and potency as an order of the court, agreed to by the parties, to the same purpose. The purpose of the parties is subserved in either event, as, in the present case, the time was enlarged in which the defendant was entitled to answer, etc.

The jurisdiction in controversy here pertains to the person, and not to the subject-matter. Clearly, the court has jurisdiction of the subject-matter. The court having such jurisdiction, the defendant may waive jurisdiction over the person, and the question involved here is whether it has done so.

"Waiver is the intentional relinquishment of a known right."

Waters vs Central Trust Co., 126 Fed. 469, 472.

The taking of any proceeding, other than a special appearance

and a motion or plea founded thereupon, is equivalent to a general appearance and a submission of the defendant's person to the jurisdiction of the court."
Foster's Federal Practice, Vol. I (Fourth Edition), p.459.

So, where counsel appeared and moved to dismiss the bill for want of jurisdiction, and also for want of equity, it was held to be a waiver of a non-resident's privilege, and to amount to a voluntary appearance. Jones v. Andrews, 10 Wall. 327.

"An application for an extension of time to plead is a recognition of the jurisdiction of the court over the person and constitutes a general appearance."

4 C.J. Sec. 31, p. 1339.

In Hupfeld v. Automaton Piano Co., 66 Fed. 788, the defendants, non-residents, applied to the court and obtained an extension of time to plead, answer, demur, or take such other action as might be advised, and it was held, on motion to dismiss on the ground of want of jurisdiction, that obtaining such extension of time was the equivalent of a general appearance. See, also, to the same purpose, Briggs v. Stroud, 58 Fed. 717; Waters v. Central Trust Co., 126 Fed. 469, 471; Murphy v. Herring-Hall-Marvin Safe Co., 184 Fed. 495; Everett Ry., Light & Power Co. v. United States, 236 Fed. 806, 808.

Attention has been given the case of Bacon v. Federal Reserve Bank of San Francisco, recently decided by Judge Neterer, but it is not applicable here. The case last cited, decided by the same learned judge, has applicability, and serves pointedly, when compared with the Bacon case, to illustrate the distinction between a general and a special appearance.

Both the letter asking for stipulation for extension of time, addressed to counsel for plaintiff, and the stipulation entered into by

counsel for the parties, show unmistakably that it was the purpose of defendant to obtain an extension of time within which to answer, demur to the complaint, or make such motion in respect thereto as it might be advised. Nothing is said from which to infer that defendant designed to reserve its right or privilege of objecting to the jurisdiction of the court over the person of the defendant. The appearance is obviously general in its effect, and is tantamount to a waiver of jurisdiction over the person. Counsel says now, in effect, that he did not intend that his appearance, thus made on the part of defendant, should subject it to the jurisdiction of the court; but the acts speak for themselves, and show incontrovertibly their purpose.

Another question is presented, which pertains to the power of the court, in its discretion, to relieve the defendant of the effect of its general appearance, and allow it now to appear specially for contesting jurisdiction over the person. While it is obvious that the court is possessed of such power, it is not at all clear that it should so exercise it in the present case. To permit the defendant to raise the question now would be to permit it to violate a solemn stipulation, in which the opposing party has acquired a valuable right, and this by extending to the defendant a favor asked for and granted.

The motion to dismiss will be denied.

TREASURY DEPARTMENT
Office of the Secretary
WASHINGTON

X-3835

September 8, 1923.

The Governor,
Federal Reserve Board.

Sir:

You are hereby advised that the Department has referred to the Disbursing Clerk, Treasury Department, for payment, the account of the Bureau of Engraving and Printing for preparing Federal Reserve notes during the period August 1 to August 31, 1923, amounting to \$88,825.00, as follows:-

Federal Reserve Notes, 1914.

	<u>\$5</u>	<u>\$10</u>	<u>\$20</u>	<u>\$50</u>	<u>\$100</u>	<u>Total</u>
Boston	200,000	200,000	65,000	---	---	465,000
New York	400,000	---	---	---	---	400,000
Philadelphia	156,000	16,000	83,000	8,000	---	263,000
Cleveland	200,000	---	60,000	---	---	260,000
Richmond	---	---	23,000	---	---	23,000
Chicago	152,000	128,000	42,000	---	---	322,000
Minneapolis	---	---	---	1,000	1,000	2,000
Kansas City	---	---	---	---	2,000	2,000
San Francisco ...	<u>200,000</u>	<u>50,000</u>	<u>100,000</u>	<u>2,000</u>	<u>1,000</u>	<u>353,000</u>
	1,308,000	394,000	373,000	11,000	4,000	2,090,000

2,090,000 sheets at \$42.50 per M \$88,825.00

The charges against the several Federal Reserve Banks are as follows,-

	<u>Sheets</u>	<u>Compen- sation</u>	<u>Plate Printing</u>	<u>Materials</u>	<u>Inc. Com- pensation</u>	<u>Total</u>
Boston	465,000	\$6,277.50	\$6,393.75	\$5,463.75	\$1,627.50	\$19,762.50
New York	400,000	5,400.00	5,500.00	4,700.00	1,400.00	17,000.00
Philadelphia.	263,000	3,550.50	3,616.25	3,090.25	920.50	11,177.50
Cleveland ...	260,000	3,510.00	3,575.00	3,055.00	910.00	11,050.00
Richmond	23,000	310.50	316.25	270.25	80.50	977.50
Chicago	322,000	4,347.00	4,427.50	3,783.50	1,127.00	13,685.00
Minneapolis..	2,000	27.00	27.50	23.50	7.00	85.00
Kansas City..	2,000	27.00	27.50	23.50	7.00	85.00
San Francisco	<u>353,000</u>	<u>4,765.50</u>	<u>4,853.75</u>	<u>4,147.75</u>	<u>1,235.50</u>	<u>15,002.50</u>
	2,090,000	28,215.00	28,737.50	24,557.50	7,315.00	88,825.00

The Bureau appropriations will be reimbursed in the above amount from the indefinite appropriation "Preparation and Issue of Federal Reserve Notes, Reimbursable", and it is requested that your board cause such indefinite appropriation to be reimbursed in like amount.

Respectfully,
(signed) S. R. Jacobs,
Deputy Commissioner.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-3837
September 15, 1923.

SUBJECT: EXPENSE MAIN LINE, LEASED WIRE SYSTEM, AUGUST, 1923.

Dear Sir:

Enclosed herewith you will find two mimeograph statements, X-3837a and X-3837b, covering in detail operations of the main line, Leased Wire System, during the month of August, 1923.

Please credit the amount payable by your bank in the general account, Treasurer, U. S., on your books, and issue C/D Form 1, National Banks, for account of "Salaries and Expenses, Federal Reserve Board, Special Fund", Leased Wire System, sending duplicate C/D to Federal Reserve Board.

Very truly yours,

Fiscal Agent.

(Enclosure)

TO GOVERNORS OF ALL BANKS EXCEPT CHICAGO.

X-3837a

REPORT SHOWING CLASSIFICATION AND NUMBER OF WORDS
TRANSMITTED OVER MAIN LINE OF THE FEDERAL RESERVE
LEASED WIRE SYSTEM FOR THE MONTH OF AUGUST, 1923.

From	Bank Business	Percent of Total Bank Business(*)	Treasury Lept. Business	War Finance Corp. Business	Total
Boston	34,053	3.04	4,144	-	38,197
New York	223,954	20.02	15,452	-	239,406
Philadelphia	59,504	5.32	5,359	30	64,893
Cleveland	89,494	8.00	5,415	27	94,936
Richmond	70,303	6.28	4,740	-	75,043
Atlanta	65,561	5.86	4,902	-	70,463
Chicago	145,046	12.97	6,976	-	152,022
St. Louis	90,821	8.12	6,599	-	97,420
Minneapolis	46,489	4.16	3,903	-	50,392
Kansas City	88,452	7.91	5,085	-	93,537
Dallas	69,507	6.21	4,100	60	73,667
San Francisco	135,482	12.11	11,091	-	146,573
Total					
F. R. Banks	1,118,666		77,766	117	1,196,549
Washington	<u>306,630</u>	<u>100.00%</u>	<u>67,475</u>	<u>402</u>	<u>374,507</u>
Grand Total	1,425,296		145,241	519	1,571,056
Percent of Total	90.72%		9.25%	.03%	
Bank Business	1,425,296	words or 90.75%			
Treasury	<u>145,241</u>	" " 9.25%			
TOTAL	1,570,537	100.00%			

(*) These percentages used in calculating the pro rata share of leased wire expenses as shown on the accompanying statement (X-3837b)

FEDERAL RESERVE BOARD,
Washington, D. C.
September 15, 1923.

REPORT OF EXPENSE
MAIN LINE
FEDERAL RESERVE LEASED WIRE SYSTEM AUGUST, 1923.

X-3837b

Name of Bank	Operators' Salaries	Operators' Overtime	Wire Rental	Total Expense	Pro rata Share of Total Expense	Credits	Payable to Federal Reserve Board
Boston	\$ 250.00	\$ -	\$ -	\$ 250.00	\$ 656.00	\$ 250.00	\$ 406.00
New York	1,473.64	5.00	-	1,483.64	4,320.13	1,483.64	2,836.49
Philadelphia	190.83	-	-	190.83	1,148.01	190.83	957.18
Cleveland	338.00	-	-	338.00	1,726.33	338.00	1,338.33
Richmond	315.00	-	-	315.00	1,355.17	315.00	1,040.17
Atlanta	240.00	-	-	240.00	1,264.53	240.00	1,024.53
Chicago (#)	5,000.01	2:00	-	5,002.01	2,798.81	5,002.01	(*)2,203.20
St. Louis	200.00	-	-	200.00	1,752.22	200.00	1,552.22
Minneapolis	303.33	-	-	303.33	897.69	303.33	594.36
Kansas City	390.94	-	-	390.04	1,706.90	390.94	1,315.96
Dallas	251.00	-	-	251.00	1,340.06	251.00	1,089.06
San Francisco	395.00	-	-	395.00	2,613.22	395.00	2,218.22
Fed. Res. Board			16,881.43	16,881.43			
TOTAL	\$9,402.75	\$ 7.00	\$16,881.43	\$26,291.18 (a)4,712.11 \$21,579.07	\$21,579.07	\$9,409.75	\$14,372.52 (&)2,203.20 \$12,169.32

- (#) Includes salaries of Washington operators.
- (&) Amount reimbursable to Chicago.
- (*) Credit.
- (a) Received \$12.11 from War Finance Corporation and \$4,700.00 from Treasury Dept. covering business for month of August, 1923.

FEDERAL RESERVE BOARD
WASHINGTON, D. C.
SEPTEMBER 15, 1923.

X-3839

FEDERAL RESERVE BOARD

September 18, 1923

STATEMENT FOR THE PRESS.

For Immediate Release.

The Federal Advisory Council today concluded its third statutory meeting for the year 1923 and reported upon the Claiborne-Adams Check Collection Plan, as follows:

"The Federal Advisory Council having heard Messrs. Claiborne and Adams in support of the so-called Claiborne-Adams check collection plan and the recent amendments thereto, is of the opinion that the plan is unsound and, therefore, unanimously recommends its rejection by the Federal Reserve Board. The Council concurs in the essential objections to the plan as set forth in the report of the Advisory Committee of Governors of the Federal Reserve Banks to the Federal Reserve Board dated August 1, 1923."

The Council recommended some changes in Regulation J, which is not yet in effect, the chief of which was that Federal Reserve Banks shall not receive on deposit checks on any nonmember bank which are not collectible at par. The Council also opposed any charge by Federal Reserve Banks for collecting checks drawn on member banks even if endorsed by nonmember banks which refuse to remit at par.

FEDERAL RESERVE BOARD

WASHINGTON

X-3841

September 20, 1923.

SUBJECT: Notice of Withdrawal of membership.

Dear Sir:

For your information, there is enclosed herewith copy of a letter recently addressed to the Governor of one of the Federal reserve banks, containing a ruling by the Board on the question of whether the notice of withdrawal given by a state member bank may remain effective for a month or two after the expiration of the required six months' period, in order that the state bank member may have an opportunity of paying off its obligations to the Federal reserve bank before withdrawing from the System.

Very truly yours,

(Enclosure)

Walter L. Eddy
Executive Secretary.

TO ALL FEDERAL RESERVE AGENTS.

COPY

September 19, 1923.

Dear Sir:-

Receipt is acknowledged of your letter of September 11 in which you request a ruling by the Federal Reserve Board on the question whether the notice of withdrawal given by a State member bank may remain effective for a month or two after the expiration of the six months' period in order that the bank may pay off certain obligations to the Federal Reserve Bank before withdrawing from the System.

The Board is of the opinion that the notice required by Section 9 of the Federal Reserve Act to be given by a State member bank before withdrawing from the Federal Reserve System, would remain in effect for a reasonable time after the expiration of the six months' period. The Federal Reserve Bank has the right to assume that the withdrawal will be effected at the expiration of the six months' period or within a reasonable time thereafter. The question what is a reasonable time is not susceptible of any definite answer; this must depend upon the circumstances of each particular case. The notice of withdrawal, however, could not legally remain effective indefinitely, as such an indefinite extension of the force of the notice would serve to nullify the requirements of the statute.

A State bank may, therefore, if it so desires, remain a member of the Federal Reserve System for a month or two after the expiration of the six months' period, for the purpose of paying off its obligations to the Federal Reserve Bank, without prejudicing its right to surrender its Federal reserve bank stock under the notice theretofore given. The actual withdrawal, however, cannot be delayed indefinitely but must take place, if at all, within a reasonable time after the expiration of the six months' period.

Very truly yours,

(Signed) D. R. Crissinger,

Governor.

G V:B

SECTION III. CHECKS RECEIVED FOR COLLECTION.

(a) Each Federal Reserve Bank will receive at par from its member banks and from nonmember clearing banks in its district, checks drawn on all member and nonmember clearing banks, and checks drawn on all other nonmember banks which are collectable at par in funds acceptable to the Federal Reserve Bank of the district in which such nonmember banks are located.

(b) Each Federal Reserve Bank will receive at par from other Federal Reserve Banks, and from all member and nonmember clearing banks in other Federal Reserve districts authorized to route direct for the credit of their accounts with their respective Federal Reserve Banks, checks drawn on all member and nonmember clearing banks of its district, and checks drawn on all other nonmember banks of its district which are collectable at par in funds acceptable to it.

(c) No Federal Reserve Bank shall receive on deposit or for collection any check drawn on any nonmember bank which cannot be collected at par in funds acceptable to the Federal Reserve Bank or which can be collected at par in such funds only through an agent other than a bank.

FEDERAL RESERVE BOARD

WASHINGTON

747

X-3844

September 22, 1923.

SUBJECT: Corrections in Inter-District Time Schedule.

Dear Sir:

By agreement between the Federal Reserve Banks of St. Louis and Dallas and the Federal Reserve Bank of San Francisco, the following changes should be made in the inter-district time schedule:

Louisville to Salt Lake City	-	3 days
Louisville to Spokane	-	4 days
Houston to Los Angeles	-	3 days

No changes will be made in the schedules from Salt Lake City to Louisville, from Spokane to Louisville and from Los Angeles to Houston, the time between these points remaining three, four, and four days, respectively.

Very truly yours,

Walter L. Eddy,
Executive Secretary.

TO BE SENT TO GOVERNORS OF ALL
FEDERAL RESERVE BANKS

FEDERAL RESERVE BOARD

X-3845

Washington, September , 1923.

Under date of July 10, 1923, the Federal Reserve Board issued a new edition of all of its regulations applicable to member banks. Those regulations were entitled Series of 1923, and were published both in pamphlet form and in the August, 1923, number of the Federal Reserve Board Bulletin. They were all made effective at once with the exception of Regulation J concerning Check Clearing and Collection. That regulation was to have become effective August 15, 1923, but was later suspended indefinitely by action of the Board.

The Board transmits herewith a revised edition of its regulations, Series of 1923, all of which are in precisely the same form as printed in the July issue except Regulation J.

Regulation J has been redrafted but contains no substantial changes in the practices of the Federal Reserve Banks as defined in Regulation J, Series of 1920, except that a provision is included which reiterates the recent instructions of the Board to all Federal Reserve Banks not to handle checks drawn on nonmember banks which cannot be collected at par in funds acceptable to the Federal Reserve Bank, or which can be collected at par in such funds only through an agent other than a bank.

By order of the Federal Reserve Board.

Walter L. Eddy,
Executive Secretary.

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS

X-3846

For Release in Morning Papers,
Friday, September 28, 1923.

The following is a summary of general business and financial conditions throughout the several Federal Reserve Districts, based upon statistics for the months of August and September, as contained in the forthcoming issue of the Federal Reserve Bulletin.

The volume of merchandise distributed during August, as indicated by railway traffic and wholesale and retail trade, was large. Production of certain basic commodities and industrial employment showed further slight decreases.

PRODUCTION:

The Federal Reserve Board's index of production in basic industries declined 2 per cent during August, and was at the lowest point for this year. The August output, however, was 27 per cent larger than a year ago and production in every month this year has been at a higher level than in any month of the previous five years. The lower production index in August reflected reduced output, after a correction for the usual seasonal trend, of pig iron, woolen goods, flour, and cement. Cotton consumption, sugar meltings, lumber cut, and bituminous coal production increased. The number and value of new building projects, as measured by permits granted in 168 leading cities, increased during August, but actual contract awards were smaller than in July.

Employment at industrial establishments throughout the United States was slightly smaller in August, while average weekly earnings

advanced about 1 per cent. Increases in wages amounting to 10 per cent were granted to anthracite coal miners, and readjustment of wages and hours in the steel industry continued, but wage advances during August were fewer than in any month since last winter.

The principal changes in crop estimates shown by the September 1 forecast of the Department of Agriculture were a large reduction in the expected cotton crop, slight decreases in the probable yield of wheat, barley, and oats, and increases of yields of corn, tobacco and potatoes.

TRADE:

Railroad freight shipments were larger in August than in any previous month on record. This was due to a seasonal increase in shipments of coal, miscellaneous merchandise, and agricultural products. Wholesale trade, according to the index of the Federal Reserve Board, increased 12 per cent in August, which is more than usual at this season of the year. Sales of clothing, dry goods, and shoes showed substantial gains as compared with July and were larger than a year ago. Retail trade also increased in August and sales in all reporting lines were larger than in August, 1922. Department store sales in all sections of the country averaged 12 per cent above last year's level.

PRICES:

The general level of wholesale prices, according to the index of the Bureau of Labor Statistics, remained relatively constant in August, the change for the month being a reduction of less than one-fifth of one per cent, compared with declines of about 2 per cent in

each of the three preceding months. Prices of building materials, house furnishings, and fuel were materially reduced, while prices of farm products and foods increased. Prices of certain raw materials, particularly cotton and silk, advanced substantially during September, while prices of petroleum and copper declined.

BANK CREDIT:

After a decline during July and the first part of August the volume of bank credit in use showed a seasonal increase during the last week of August and the first two weeks of September. Total loans and demand deposits of member banks in principal cities increased during recent weeks, reversing the trend of the preceding two months. Loans chiefly for commercial and agricultural purposes increased by \$122,000,000 and reached a high point for the year. Investment holdings of these banks, on the contrary, continued to decline and on September 12 were lower than at any time since the middle of October of last year.

Between August 22 and September 19 the amount of accommodation extended to member banks by Federal Reserve Banks in industrial districts declined, while in agricultural districts the seasonal demand for credit and currency resulted in a considerable growth of reserve bank credit in use.

The demand for currency arising out of crop moving and fall trade has been reflected in an increase of \$82,000,000 in money in circulation between August 1 and September 1. Of this amount about \$44,000,000 represents an increase in Federal reserve note circulation.

Money rates were firmer during the first two weeks of September,

but eased somewhat after the 15th, partly because Government disbursements were temporarily in excess of tax collections.

The Treasury issued on September 15th \$200,000,000 of six-months certificates bearing $4 \frac{1}{4}$ per cent interest, compared with 4 per cent borne by six-months certificates issued in June.

FEDERAL RESERVE BOARD

753

WASHINGTON

X-3847
September 27, 1923.

SUBJECT: Purchase of Debentures of Federal Intermediate
Credit Banks.

Dear Sir:

There is quoted below, for your information and guidance, a resolution adopted by the Federal Reserve Board at its meeting today:

"WHEREAS, The Federal Reserve Board has been requested to express an opinion on the question of whether or not Federal Reserve Banks may purchase the debentures of Federal Intermediate Credit Banks issued under the terms of the Agricultural Credits Act of March 4, 1923,

"BE IT RESOLVED, therefore, That the Federal Reserve Banks are authorized in their discretion to purchase the debentures of Federal Intermediate Credit Banks issued in accordance with the terms of the Agricultural Credits Act of 1923, provided such debentures have a maturity at the time of purchase not in excess of six months."

While the power to purchase the debentures of Federal Intermediate Credit Banks is subject to such rules and regulations as the Federal Reserve Board may prescribe, the issuance of rules and regulations is not a condition precedent to the right of Federal Reserve Banks to purchase such debentures, and the Board sees no necessity of issuing any rules and regulations at this time restricting their purchase.

By direction of the Board.

Very truly yours,

Walter L. Eddy,
Executive Secretary.

TO GOVERNORS OF FEDERAL RESERVE BANKS

AVERAGE AMOUNT OF FEDERAL RESERVE NOTES OUTSTANDING IN EXCESS
OF GOLD PLEDGED WITH FEDERAL RESERVE AGENT AS COLLATERAL
(ON BASIS OF WEEKLY STATEMENT FIGURES) ALSO AMOUNT OF INTEREST
THEREON AT 2 PER CENT PER ANNUM

Excess of F. R. notes outstanding over gold pledged with agent

	<u>1918</u>	<u>1919</u>	<u>1920</u>	<u>1921</u>	<u>1922</u>
Boston	\$ 67,042,000	\$ 133,193,000	\$ 173,396,000	\$ 91,587,000	\$ 41,058,000
New York	382,770,000	542,115,000	682,738,000	426,702,000	70,257,000
Philadelphia	77,478,000	149,435,000	165,216,000	110,685,000	55,874,000
Cleveland	73,857,000	118,218,000	186,817,000	99,294,000	46,165,000
Richmond	53,374,000	90,288,000	97,533,000	92,931,000	46,950,000
Atlanta	39,317,000	80,862,000	100,660,000	96,604,000	32,745,000
Chicago	129,258,000	193,310,000	402,310,000	246,200,000	56,208,000
St. Louis	41,493,000	71,645,000	102,770,000	70,026,000	28,421,000
Minneapolis	27,789,000	46,717,000	51,187,000	43,836,000	23,283,000
Kansas City	40,785,000	66,881,000	71,189,000	56,548,000	25,308,000
Dallas	25,801,000	36,373,000	56,711,000	39,784,000	16,744,000
San Francisco	65,579,000	121,906,000	180,939,000	134,857,000	60,417,000
TOTAL	1,024,543,000	1,650,943,000	2,271,466,000	1,509,054,000	503,430,000

Interest at 2 per cent per annum

	<u>1918</u>	<u>1919</u>	<u>1920</u>	<u>1921</u>	<u>1922</u>
Boston	\$ 1,340,840	\$ 2,663,860	\$ 3,467,920	\$ 1,831,740	\$ 821,160
New York	7,655,400	10,842,300	13,654,760	8,534,040	1,405,140
Philadelphia	1,549,560	2,988,700	3,304,320	2,213,700	1,117,480
Cleveland	1,477,140	2,364,360	3,736,340	1,985,880	923,300
Richmond	1,067,480	1,805,760	1,950,660	1,858,620	939,000
Atlanta	786,340	1,617,240	2,013,200	1,932,080	654,900
Chicago	2,585,160	3,866,200	8,046,200	4,924,000	1,124,160
St. Louis	829,860	1,432,900	2,055,400	1,400,520	568,420
Minneapolis	555,780	934,340	1,023,740	876,720	465,660
Kansas City	815,700	1,337,620	1,423,780	1,130,960	506,160
Dallas	516,020	727,460	1,134,220	795,680	334,880
San Francisco	1,311,580	2,438,120	3,618,780	2,697,140	1,208,340
TOTAL	20,490,860	33,018,860	45,429,320	30,181,080	10,068,600

Amount of Franchise Tax Paid

<u>1918</u>	<u>1919</u>	<u>1920</u>	<u>1921</u>	<u>1922</u>
-	\$2,703,894	\$60,724,742	\$59,974,466	*\$10,850,604

* Of this amount, \$3,400,061 was on account of adjustments in taxes paid for previous years.

F E D E R A L R E S E R V E B O A R D

X-3850

For Release in Morning Papers,
Tuesday, October 2, 1923.

CONDITION OF ACCEPTANCE MARKET

AUGUST 15 TO SEPTEMBER 15, 1923.

During the 30-day period ending September 15 the acceptance market continued quiet with few developments. The supply of bills was generally moderate throughout the period, although during the second week of September seasonal evidences of drawings against grain and cotton were noted and the volume of bills slightly increased. Demand for bills was very irregular early in the period but it improved somewhat in September. Bills with less than 90-day maturities were in the best demand. Purchases for foreign account continued in good volume but both foreign and domestic demand were not sufficient to absorb offerings and dealers portfolios showed a moderate increase. Rates were generally firm throughout the period at $4 \frac{1}{8}$ to $4 \frac{1}{4}$ bid and 4 to $4 \frac{1}{8}$ offered. The principal commodities against which bills were drawn were grain, cotton, silk, sugar, hides and leather, wool, provisions, and agricultural implements.

FEDERAL RESERVE BOARD

756

WASHINGTON

X-3851

October 1, 1923.

Subject: Election of Class "A" and "B" Directors.

Dear Sir:

This is to confirm the Board's telegram to you of this date, as follows:

"TRANS. 384. Board has fixed November 16th as date for opening polls election Class A and B Directors. No change in group classifications as made in 1918. See our letter October 3, 1918, X-1240."

Very truly yours

Walter L. Eddy,
Executive Secretary.

TO ALL CHAIRMEN.

FEDERAL RESERVE BOARD

WASHINGTON

X-3852
October 10, 1923.

SUBJECT: Employment of Special Counsel to Represent Federal Reserve Banks before Interstate Commerce Commission.

Dear Sir:

Referring to the Board's letter of August 16, 1923, (X-3812), on the subject "Express Rates for Transportation of Money and Securities", you are advised that the Federal Reserve Board on October 3rd approved the employment by the Federal Reserve Bank of New York of Mr. James W. Carmalt as special counsel for the Federal Reserve Banks to present to the Interstate Commerce Commission the matter of a revision of the present express rates applicable to the transportation of money and securities.

This approval was given with the understanding that the total expense for legal services in the litigation, which is to be pro rated among the twelve Federal Reserve Banks, shall in no case exceed \$15,000; regardless of whether the case is carried to the United States Supreme Court, other counsel are engaged, or the result is entirely favorable to the contention of the Federal Reserve Banks. Payments to Mr. Carmalt under this approval will be made by the Federal Reserve Bank of New York, after submission to the Board, and you will be advised promptly of the pro rata share of your bank in all such payments, in order that you may remit to the New York Bank.

Very truly yours,

Walter L. Eddy,
Secretary.

TO GOVERNORS OF ALL FEDERAL RESERVE BANKS EXCEPT NEW YORK

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-3854
October 11, 1923.

SUBJECT: EXPENSE MAIN LINE, Leased Wire System, September, 1923.

Dear Sir:

Enclosed herewith you will find two mimeograph statements, X-3854a and X-3854b, covering in detail operations of the main line, Leased Wire System, during the month of September, 1923.

Please credit the amount payable by your bank in the general account, Treasurer, U. S., on your books, and issue C/D Form 1, National Banks, for account of "Salaries and Expenses, Federal Reserve Board, Special Fund", Leased Wire System, sending duplicate C/D to Federal Reserve Board.

Very truly yours,

Fiscal Agent.

(Enclosure)

TO GOVERNORS OF ALL BANKS EXCEPT CHICAGO

X-3854a

REPORT SHOWING CLASSIFICATION AND NUMBER OF WORDS
TRANSMITTED OVER MAIN LINE OF THE FEDERAL RESERVE
LEASED WIRE SYSTEM FOR THE MONTH OF SEPTEMBER, 1923.

From	Bank Business	Percent of Total Bank Business (*)	Treasury Dept. Business	War Finance Corp. Business	Total
Boston	33,526	2.98	6,095	-	39,621
New York	219,686	19.54	18,890	-	238,576
Philadelphia	61,672	5.49	7,369	-	69,041
Cleveland	86,720	7.71	8,278	16	95,014
Richmond	64,370	5.73	6,111	-	70,481
Atlanta	76,349	6.79	7,309	-	83,658
Chicago	142,555	12.68	10,787	-	153,342
St. Louis	90,939	8.09	7,996	-	98,935
Minneapolis	52,055	4.63	5,408	-	57,463
Kansas City	85,372	7.59	6,543	-	91,915
Dallas	78,090	6.95	4,769	48	82,907
San Francisco	132,901	11.82	14,904	-	147,805
Total					
F. R. Banks	1,124,235	100.00%	104,459	64	1,228,758
Washington	<u>272,378</u>		<u>106,218</u>	<u>330</u>	<u>378,926</u>
Grand Total	1,396,613		210,677	394	1,607,684
Percent of Total	86.87%		13.10%	.03%	
Bank Business	1,396,613	words or 86.89%			
Treasury	<u>210,677</u>	" " 13.11%			
TOTAL	1,607,290	100.00%			

(*) These percentages used in calculating the pro rata share of leased wire expenses as shown on the accompanying statement (X-3854b)

FEDERAL RESERVE BOARD,
Washington, D. C.
October 11, 1923.

092

REPORT OF EXPENSE
MAIN LINE
FEDERAL RESERVE LEASED WIRE SYSTEM SEPTEMBER, 1923.

X-3854b

Name of Bank	Operators' Salaries	Operators' Overtime	Wire Rental	Total Expense	Pro Rata Share of Total Expense	Credits	Payable to Federal Reserve Board
Boston	\$ 250.00	\$ 1.00	-	\$ 251.00	\$ 645.68	\$ 251.00	\$ 394.68
New York	1,381.14	-	-	1,381.14	4,233.79	1,381.14	2,852.65
Philadelphia	190.83	-	-	190.83	1,189.53	190.83	998.70
Cleveland	388.00	-	-	388.00	1,670.55	388.00	1,282.55
Richmond	315.00	-	-	315.00	1,241.54	315.00	926.54
Atlanta	240.00	-	-	240.00	1,471.21	240.00	1,231.21
Chicago	(#) 5,184.03	8.00	-	5,192.03	2,747.41	5,192.03	(*) 2,444.62
St. Louis	200.00	-	-	200.00	1,752.88	200.00	1,552.88
Minneapolis	275.00	-	-	275.00	1,003.19	275.00	728.19
Kansas City	347.35	-	-	347.35	1,644.55	347.35	1,297.20
Dallas	251.00	-	-	251.00	1,505.88	251.00	1,254.88
San Francisco	360.00	-	-	360.00	2,561.07	360.00	2,201.07
Fed. Res. Board			\$16,985.16	16,985.16			
TOTAL	\$9,382.35	\$ 9.00	\$16,985.16	\$26,376.51	\$21,667.28	\$9,391.35	\$14,720.55
				(a) 4,709.23			(&) 2,444.62
				\$21,667.28			\$12,275.93

- (#) Includes salaries of Washington operators.
 (&) Amount reimbursable to Chicago
 (*) Credit,
 (a) Received \$9.23 from War Finance Corporation and \$4,700.00 from Treasury Dept. covering business for month of September, 1923.

FEDERAL RESERVE BOARD
WASHINGTON, D. C.
October 11, 1923.

FEDERAL RESERVE BOARD
WASHINGTON

X-3855
October 11, 1923.

SUBJECT: Re-purchase by Federal Reserve Banks of Securities and Bankers' Acceptances under so-called re-purchase agreement.

Dear Sir:

Certain questions have arisen as to the propriety and legality of the practice engaged in by the Federal Reserve Banks in purchasing Government securities and acceptances from member and nonmember banks, and stock, bond and acceptance brokers, under agreements providing that the sellers of these securities or acceptances will re-purchase the same from the Federal Reserve Banks within a specified period of time. In considering these questions it is very desirable that the Board have before it copies of the agreements used by the Federal Reserve Banks in order that it may be properly informed as to the details of the transactions. You are requested, therefore, to furnish the Board with a form of any such re-purchase agreement which your bank is now using or which it may have used heretofore.

Very truly yours,

Walter L. Eddy,
Secretary.

TO GOVERNORS OF F.R. BANKS

FEDERAL RESERVE BOARD

762

WASHINGTON

X-3856

October 11, 1923.

SUBJECT: Payment Federal Intermediate Credit Bank
Debentures.

Dear Sir:

The Federal Farm Loan Board desires that the debentures issued by Federal Intermediate Credit Banks be made payable at Federal Reserve Banks and Branches, the mechanics of handling such transactions to be the same as those employed by the reserve banks in paying coupons of Federal Farm Loan Bonds issued by Federal Land Banks.

The Board has given its approval to the proposition submitted by the Federal Farm Loan Board and you will be advised by the Federal Farm Loan Board of the details of the arrangement.

By direction of the Federal Reserve Board.

Very truly yours,

Walter L. Eddy,
Secretary.

TO GOVERNORS OF BANKS

FEDERAL RESERVE BOARD

WASHINGTON

X-3859
October 12, 1923.

SUBJECT: Payment of Gold Coins.

Dear Sir:

The supplemental instructions with respect to exchanges, replacement and redemption of United States paper currency, issued by the Secretary of the Treasury, under date of August 11, 1923, to the Treasurer of the United States and all Federal Reserve Banks, provide that "whenever gold coin is demanded Federal Reserve Banks should pay out therefor available (but, so far as possible, NOT new) gold coin in the denomination of \$20, avoiding the use of gold coin in the denominations of \$2.50, \$5, and \$10 unless specifically demanded."

In view of the approaching holiday demand for gold coin, particularly of the \$2.50 denomination, the Federal Reserve Board requested the Treasury Department to advise it whether or not the Treasury Department would be prepared to furnish the Federal Reserve Banks with amounts of gold coin of the \$2.50 denomination should a demand develop therefor which would exhaust their present stocks of this denomination.

The Treasury Department, under date of October 10th, advised the Federal Reserve Board as follows:

"The total stock of gold coins of the \$2.50 denomination held in the Treasury offices is approximately \$800,000 face amount, and it is not contemplated to resume coinage of this denomination on account of the relatively large abrasion loss in circulation and the fact that the demand therefor is based on sentiment rather than utility. The Treasury, however, is prepared to distribute among the Federal Reserve Banks and branches upon their applications, at their own expense and risk, an aggregate of 250,000 pieces from the holdings of such coins by the Mint at Philadelphia and the Assay Office at New York, the distributions to be based upon the proportion between the aggregate amount in the applications received and the amount to be distributed. If you will furnish me with the amount of these coins desired by each Federal Reserve Bank in accordance with the above procedure, appropriate instructions will be given to the Treasurer of the United States to make the shipments."

-2-

You are requested to advise the Board of the amount of gold coin of this denomination desired by your bank, keeping in mind the fact that the Treasury is prepared to make distribution of only 250,000 pieces.

Very truly yours,

Walter L. Eddy,
Secretary.

TO GOVERNORS OF ALL FEDERAL RESERVE BANKS

"AN OPTIMIST'S BIRDSEYE VIEW OF BUSINESS CONDITIONS
AND PROSPECTS."

Address by

D. R. Crissinger

GOVERNOR, FEDERAL RESERVE BOARD

before the

PENNSYLVANIA STATE CHAMBER OF COMMERCE

HARRISBURG

October 18, 1923.

For release in morning papers,
Friday, October 19, 1923.

X-3860

AN OPTIMIST'S BIRDSEYE VIEW OF BUSINESS
CONDITIONS AND PROSPECTS.

X-3860

After accepting your generous invitation to deliver some observations on this occasion, I turned over in my mind the possible themes I might discuss. It occurred to me that I might cause a sensation by making a serious speech on business and affairs, without including any allusion to the "impending collapse of civilization." The idea struck me as so novel that I examined it with some care. Why shouldn't one try the experiment of complete unconventionality? Why not cut the bonds of tradition, and indulge the shocking originality of dealing merely with the facts? Wouldn't it be possible to shake off the fears and fancies that have befogged our reasoning, to lay the ghosts and ignore the superstitions? Might not one give a deaf ear to those spirit-rappings which have wellnigh worn out the long tables in so many directors' rooms?

Suppose--just suppose-- that one should insist on seeing the silver lining and conjuring up no vision of the seamy side! Imagine one being just simply sane and cheerful about the business and political prospect! Consider the possibilities of surprising an audience by pointing to quite a few things with pride, and declining to view any at all with profound alarm!

It would, of course, be a daring thing. The innovator could be sure of ignominious expulsion from all the rarer intellectual areas. He would have to count on constant dismissal from those exclusive sets wherein the "collapse of civilization" has latterly succeeded our old friend the "social avulsion", as the manifest end of the "existing order." He would merit and gain the unqualified scorn of all those of earnest thinkers whose primary postulate is that "whatever is, is wrong."

The more I thought of it, the more the idea appealed to me. But when I looked about me for some models of literary form for such a speech, I found that there were none in modern records. I finally found myself delving into ancient and dust-covered tomes, printed in a language with which we are nowadays all too unfamiliar. Nevertheless, I persevered, and presently was prowling in the forgotten records of 1912 and 1914, of 1907, and even into the hoary traditions which have been handed down from the period 1893-1896.

From these chronicles of the dark ages I gleaned that there actually was a time when men wrote and talked about current affairs in such cheerful, even hopeful terms that it was frequently possible to get a hearing without even mentioning that the gold standard had become obsolete, or that universal bankruptcy was probably inevitable, or that civilization was a failure, or even that human society was on the point of dissolution. I found authentic instances of men getting their speeches printed in the newspapers, sometimes even on the front pages, even though they omitted to predict a new war, or to announce that the sun was cooling off, or that the ocean was drying up, or that a new glacial age was looming in sight just around the corner of tomorrow. It was all so curiously interesting that I decided to try the experiment of making an old-fashioned speech of that type with you gentlemen as the victims.

Before committing myself irrevocably to this performance, I determined to survey some nooks and corners of affairs, to find out whether there could be possible justification for hopefulness about anything in

human relations. At the beginning, I was reminded of the old theory of the economic causation of all wars; the theory that, for instance, the war of 1914 really happened because the industrial and commercial rivalry of Germany and England made it necessary for Germany to destroy England if Germany was to go on prospering and expanding, or else for England to destroy Germany if England was to remain a real factor in the business world. It seems never to have occurred to any of the economic causationists that the world might be big enough to hold a prosperous Germany and a prosperous England at the same time. Far less did any of these suspect that a prosperous Germany might be yet more prosperous because of the existence of a prosperous England, or that a prosperous England might actually be the gainer because of the good fortune of Germany.

We all remember when this theory of economic causation was solemnly and widely accepted. The wars of England, and France, and Spain, and Holland, of Sweden and Russia and Prussia and Poland, over a half dozen centuries, were analyzed in the light of this theory. The conclusion seemed to be that if by any supreme misfortune two countries should ever stumble into a state of progress and prosperity at the same time, they would just naturally have to fight until one or both of them was extinguished. You will all remember how some protagonists of ultimate disaster projected this theory into the future. They assured us that after Europe had finished its struggle, the United States would presently have to fight the winners; and after that, the winner of this last qualifying bout would sooner or later have to fight Japan!

It was a thoroughly developed theory, completely satisfactory to those

whom it completely satisfied. But on examining it in the light of events since 1918, I found some serious blow holes in it. I observed that England and her allies had no sooner destroyed the military power, the financial system, the monetary fabric and the world-flung commerce of Germany, than England herself began demanding the rehabilitation of Germany, in order that a prosperous Germany might resume its contributions to the prosperity of England! It seemed that England, instead of insuring her own good fortune by destroying that of Germany, was actually suffering only less than Germany herself. Instead of rejoicing because German competition had been eliminated, our English friends began to discover that in destroying German competition they had also destroyed the German market for their wares, and that this German market had been doing them vastly more good than German competition had done harm. From Manchester to Glasgow, from Nottingham to Coventry, from the Mercey to the Clyde, from John O'Groat's to Land's End, went up the demand that Germany be put back on its feet as soon as possible, for the benefit of English trade, English industry, English finance, English prosperity and peace of mind! We had ceased to hear how the Germans were capturing British markets everywhere. But we did hear, in terms of ever-increasing earnestness, the story of how greatly British industries had been dependent on the German market; of how Germany had been Britain's greatest customer in the entire continent of Europe; of how impossible it was, in short, for Britain to get on unless Germany was permitted to get on also.

This discovery that your prosperous neighbors are more useful as customers than they are harmful as competitors, has been borne in on all of us in the last five years. In 1914, Russia was the greatest wheat

exporting nation in the world. Any economist of the 1914 variety would have told you that if the wheat exports of Russia should cease, then the wheat growers of Canada and the United States would be certain to enjoy unprecedented prosperity. But how has the theory worked out? A group of gentlemen from Minnesota, Kansas and neighboring areas were telling me the other day how it had been working. While the proprieties of genteel conversation forbid a literal repetition of what they said about it, I am at liberty to tell you that they seemed convinced that there was a screw loose somewhere in the theory of getting rich off your neighbors' misfortunes. They wanted trade with the outside world reestablished, so that they might sell their foodstuffs to it. They were viewing their problem in the light of realization that trade and commerce must be reciprocal. They appreciated the big fact that in most deals, both sides profit. They saw that mutually advantageous exchanges are necessary to prosperity and the acquisition of wealth. Let me add that when you have got that fundamental established in the minds of men, you have gained much on the way to sound economic thought and procedure.

Take the merchant marine situation of the world as another illustration. Millions upon millions of tons of shipping had been destroyed during the war. Shelves and warehouses the world over were empty. Industrial plants and public works were universally in a state of disrepair. Manifestly, such ships as were left on the seas would now be assured more cargoes than they could possibly handle. Shipping, everybody agreed, was going to be one of the real after-the-war bonanzas.

But again, something went wrong with the theory of getting rich by profiteering off your impoverished neighbor. It developed that an im-

poverished neighbor is a poor customer. Even under the pleasant system of lending him the money with which to pay for your goods, he cannot be confidently relied on to stay in the market; and anyhow, there are increasing misgivings as to the ultimate profits of this sort of trading.

Illustrations might be multiplied indefinitely, to show that prosperity is a contagious and self-propagating affair; that depression is the same; and that competition among communities that are all prosperous, is truly, in a sense that too few of us have quite realized, the life of trade.

Now let us consider for a moment what progress has been made since the armistice, and what justification we can find for an attitude of hopefulness. For a long time after the end of the war, the world was almost as much absorbed in the struggle to establish peace as it had been in the business of fighting. In fact, the struggle at Versailles was so long and difficult that I think it somewhat obscured our realization of the cataclysmic character of the war, and of the enormous economic losses it had necessitated. So long as fighting was in progress and the world nervèd to every effort at destruction, prepared for every sacrifice, the wheels went on turning; but when the supreme and instant need of effort and sacrifice seemed to be removed, there was a certain incapacity to realize how fearful had been the waste, and how long and painful must be the process of rehabilitation. I do not mean that anybody expected normalcy to be magically restored with the resumption of peace. I know that many people even realized that the problems of peace would be wellhigh as difficult as those of war. But this realization reached only a very small minority of people. Consequently there was impatience when it began to be appreciated

that the era of reconstruction must cover many years, and that there must be the same willingness to economize and sacrifice that there had been during the war, but without the same incentive. There must be the same willingness to forego extravagances, the same consecration to thrift, that all had so patriotically urged during the war.

Students of history knew that other great and protracted struggles, particularly the Napoleonic wars, had been followed by long periods of industrial depression and social disorganization. They knew that Europe did not even begin to recover for centuries from the demoralization that followed the downfall of the Western Empire. They knew that the long period of social and political turbulence in England, leading to the reform legislation of 1832, was as much a consequence of the Napoleonic wars as were the enormous debts which those wars imposed upon Europe.

But even among the students of history, themselves a pathetically small minority, there was small realization of the extent to which the difficulties of rehabilitation must be accentuated in this 20th century by reason of the increased complexity and interdependence of human society. The vast majority of people, who were not students of these things, could not possibly appreciate the difficulties that the world confronted.

In these circumstances, there was need for a new kind of leadership; for an intellectual and spiritual guidance, quite different from that which had been required during the war. It has been said a thousand times that a different sort of statesmanship was needed to carry forward the struggle for restoration of peace than had been required to conduct the war. This involved no reflection upon the ability or services of the men who had been the war-time chiefs. It was simply not in human nature that

a leadership steeped in the heavy atmosphere of conflict, trained to the hard determination of conquest by force, should instantly throw off this tradition, breathe the new atmosphere, and recognize the completely changed circumstances to which mankind must now adapt itself.

Let me repeat, that to say these things is not to reflect upon the skill or ability of that leadership which suddenly found itself shouldering the burden of peace-time. The leaders simply shared the disabilities of substantially the entire community. It was unavoidable that there should be an interregnum between war and the full restoration of peace. That had always been necessary, and doubtless in like conditions always will be. Men must take new bearings, and, surveying the new conditions, realize that the old order could never, -never- return as the normal state of society. They must clearly envisage the new relations and conditions, and adjust themselves to the weightier responsibilities which these imposed in dealing with the world-wide difficulties of the new epoch. They must have time to think on these things, to measure the revolution in the financial and economic world, and in the minds and hearts and souls of men. Mr. Lloyd George, declaring that England must be made "a place fit for heroes to live in," gave eloquent voice to the wellhigh universal aspiration of this period.

The hard experiences, the grim realizations that have come to men in the last five years, have not changed that underlying purpose to make this a more livable world, to make our country a more lovable country, for the great mass of the people. But these recent years have brought much of postponement and disappointment. Hope deferred maketh the heart sick. In these five years of the struggle for restored peace, hope deferred has made the heart of mankind cynical, dubious about the better day that was to

come with its tomorrow of peace.

Let us now inquire briefly whether there are not some justifications for a more cheerful view of the situation. In an early period of the struggle to restore peace and its real blessings, I recall reading somewhere a compilation of pessimism which set forth that the world, instead of having one big war on its hands, had I believe twenty-one minor wars going on. We were assured therefore that the peace was a mere fiction. It did indeed look so for a time. But where are those twenty-one little wars today? Some of them I guess are not yet entirely liquidated, but on the whole the world has made this much progress: It has substituted something like an armed peace for pretty widespread war.

The great war is ended.

The effort of Bolshevism to drive its way westward and subjugate central Europe has been thwarted.

The later effort of Bolshevism to annex Asia has likewise failed.

The fear of Russian communism spreading itself over Germany and becoming a new and greater menace to Western civilization, has been pretty thoroughly dissipated.

Russia, by all accounts, is making progress on the way back to sanity. Some people are even worrying lest Russia shall in the coming year resume a considerable capacity for export of its staple products, and thus become once more a competitor for the agricultural markets of the rest of the world. But there is less fear in this regard than there would have been two or three years ago, because there is now a well-established realization that your neighbor's hard luck is not readily translatable into your own prosperity.

Almost everywhere, there is increasing disposition to extend a helping hand to both Germany and Russia, because there is realization that the world needs both Germany and Russia, and needs them competent, capable, productive and prosperous.

All this is entirely to the good. All this is sign that the spiritual and mental attitude of men is gradually becoming one of real invitation to permanent peace.

It will be worth while to consider some of the evidences that society is not, after all, bent on committing suicide.

The German Republic still lives, and has demonstrated its capacity to maintain itself under most distressing conditions.

The threat of a Bolshevik revolution in Italy, concerning which at one time we heard a great deal, has not been realized.

The public opinion of the world has demonstrated itself powerful enough to intervene successfully and prevent a contest between Italy and Greece.

The fearfully inhuman struggle between Greece and Turkey has been brought to an end.

Ireland has achieved real self-government, with the dominion status in the British commonwealth of nations, and peace has been restored on terms which seem to promise permanence.

Of all the problems which disintegration presented in Central Europe for a long time after the Armistice, the state of Austria seemed at once the most distressing and the most hopeless. Today we point to Austria as our best exhibit in support of the view that the will to peace, to

restoration, to rehabilitation, is capable of accomplishing the seemingly impossible.

Austria has been put on its feet and given a chance, chiefly by the cooperation of those who were its enemies. Today, instead of being a testimony to the destructiveness and unworkableness of the peace, Austria is held up as a cheering demonstration that none of the wrecks of the war are beyond the possibility of salvage.

If we will turn to political concerns immediately involving our own country, our thought must immediately center upon Japan and Mexico. The Washington conference put an end to the dangerous and long-continued friction between the United States and Japan. Three years ago there was a good deal of evidence that Japan and America were drifting toward conflict. Thanks to good sense and intelligent statesmanship on both sides, thanks to that generous cooperation among nations which made the Washington Conference successful, the menace of conflict in the Pacific has been removed. Today we see in the Pacific a maritime mobilization, not of fleets and arms bent upon destruction, but rather of the argosies of mercy, devoting themselves to one of the greatest works of benevolence and humanity that has ever been inspired by the contemplation of a supreme disaster.

I submit that if we will look on these brighter aspects of the world panorama as it has been unfolding before us, we will have to recognize that it demands a good deal of perversity to remain at all times an unqualified pessimist.

I mentioned Mexico a moment ago as a problem which, fraught with menace, was of especial concern to our own country. We are entitled to

view the present Mexican situation with particular satisfaction because it demonstrates that patience and forbearance in trying circumstances will bear good fruit. There have been patience and forbearance on both sides. Beyond that, there have been gratifying evidences that the Mexican people are determined to lift themselves up by their own efforts to a better estate in the world. There is today a better outlook for a mutually helpful cooperation between the American and the Mexican peoples than at any time since 1911. Mexico is one of the world's storehouses of natural wealth and opportunity. It has needed capital, guidance, political stability, and a fixed purpose of bettering its position as a nation in the world and as a people in their own country. We cannot reasonably question that in these directions it has recently been making great progress, which we are justified in hoping may be reasonably permanent.

I have attempted briefly to suggest why, in a broad and liberal survey of the political state of mankind, many reasons for hopefulness and even optimism may be discovered. Let me turn now to the economic side, and inquire whether there are any cheerful reflections from our political mirror. Here, as in the realm of politics, we find grounds for cheerfulness, even if not a uniformly gratifying condition. Great Britain approaches the winter with no pleasant vision of its prospects. Unemployment is very great. The burden of taxation is onerous just in proportion to British determination that every national commitment shall be executed and the national credit maintained.

Especially is British agriculture in a state of profound depression; and I think if we will examine agricultural conditions in Great Britain and in our own country, we will be impressed that the agricultural troubles

of different countries in this after-war epoch are curiously alike.

The other day my eye alighted on a paragraph in a newspaper, telling of some resolutions of the Farmers Union. They set forth that, "Failing large further measures of State assistance, the farmers will be compelled to put their industry on an economic basis, by letting much land go/waste altogether *** and, generally, to reduce our commitments, to reduce marginal costs by diminishing production, and to divert remaining commitments to the most profitable channels."

It sounded so entirely descriptive of agricultural conditions in this country that I was a little startled to discover later that the quotation was from a set of resolutions adopted by the National Farmers Union of Great Britain, and not from a pronouncement of the Farmers Union of the United States!

Certainly it is suggestive that in England, which produces only a small proportion of its food requirements, agriculture is thus described in precisely the terms that might be applied to its troubles in the United States, a surplus-producing and exporting country whose great difficulty is the collapse of the foreign market for the surplus.

On the point of unemployment in Great Britain, while the condition is bad, there are some rays of light. Thus, there are high authorities for saying that while the number of unemployed is large, the number of the productively employed is probably as large as it ever was, and nearly as large as the industrial plant of the country can utilize. The explanation is that a great army of Englishmen and Englishwomen were transferred during the war from the non-producing to the producing class. There are more

people willing to work, and in need of work, than there ever were before. More than any other country, England is dependent upon foreign markets, and a period in which it finds itself with a positive increase in its force of workers, coupled with a depressed foreign demand, is bound to be disastrous.

Turning to the continent, I am assured by competent authorities that within the last few months unemployment has been on the whole steadily decreasing in the Scandinavian countries, in Holland, and in Italy. In Germany, despite the utter demoralization of finance and money, and the depression in foreign trade, the people have to an amazing extent gone on working; tilling their fields, erecting factories and office blocks, building new houses, of which the need has been in many areas very great since the war.

In France, by universal reports, there is no unemployment, and there has been almost none at any time since the Armistice.

Belgium is constantly described as the busiest and one of the most prosperous countries in Europe.

Switzerland has had on the whole the best season, in 1923, since the war, in respect of its vitally important tourist business.

The disruption of the German money system seems to have gone as far as it is possible, and along with the collapse of passive resistance in the Ruhr and the prospects of resuming production there, measures have been initiated which look to the re-establishment of a money system bearing a calculable relationship to the gold standard.

Taking Europe as a whole, all reports indicate a highly satisfactory agricultural yield for 1923. I know how hard it is to convince an American

farmer with an unmarketable surplus on his hands, that big crops in Europe are going to help him. But I am one of those American farmers; and I dare say to the rest of them, that in the long run the prosperity of Europe as a whole will be to their advantage. Oncemore let me say, that we will do better to take our chances in a world that is getting on well, rather than in a world that is starving for the need of our food surplus, but has nothing with which to buy.

From the date of the Armistice, all the diagnosticians of Europe's troubles have insisted that what Europe most needed was to get back to producing. Likewise they have been insisting that what we most needed was to have Europe get back to producing and therefore to the ability to buy. Now, I challenge the most enthusiastic pessimist to deny that Europe has made real progress to getting back to production in this year 1923. Europe's crops are probably the best in any year since the war. There is reassuring indication that industrial production will be resumed in the Ruhr Basin, which means immediately better conditions for both France and Germany. If the fortunate European situation as to agriculture this year seems momentarily to account for some part of the depression in our agricultural values, we may find consolation in the outlook for a general betterment of Europe's industrial condition in the coming months. That betterment not unlikely will presently restore to a considerable extent our agricultural balance.

We will do well to avoid too much of prophecy. But we may safely let our vision of the future take some tones from our picture of the present. The year 1923 might have been one of disasters. Many predicted it would be.

There might have been a huge convulsion in the Near East between Turkey and Greece. It was avoided. There might have been a Greco-Italian war, drawing in half the world. It did not come. There might have been revolution in Germany, but there was not. The Anglo-French entente might have been wrecked under the strains it sustained. But it was not. Europe might have had bad crops, starvation, typhus, universal turbulence. These have not befallen. Mexico might have had an explosion, involving our own country. Instead Mexico is in better posture than for at least a decade, and our relations with her more satisfactory. It is needless to multiply cases. Let us merely keep in mind how many of possible evils we have avoided, how much of positive betterment we have gained.

There is general disposition to conservatism in both industry and finance. This is particularly to be commended at a time when the price level of the world is pretty plainly tending downward. For us, this adjustment to a general downward tendency will be the more difficult because of the continuing flow of gold to this country. There is always temptation to inflation of the currency when the supply of gold is so generous. A few years ago, every added million of gold that came was greeted as further guarantee of soundness and prosperity. It was a well-nigh universal assumption that we couldn't have too much money circulating, provided it was all solidly based on gold. At least, we know better now. That is something gained, and something immensely important. Nobody has yet found a way to stop the movement of gold to us; but many thoughtful people on both sides the Atlantic at least realize the menace of this condition, and are giving earnest thought to it. In that fact is a sign of better understanding, more accurate processes of thinking.

Here in the United States all classes of business men recognize the very real danger of having too much gold and the necessity of avoiding inflation by reason of it. This is proof of a great progress toward safety, sanity, and the sound basis for business.

The final analysis of the whole matter is that the current year has been on the whole a year of conservation and moderation in both business and politics. The greatest difficulty about economic rehabilitation since the war has been that the world has had to deal with its economic problems in an atmosphere surcharged with politics. Politics and economics have been inextricably mixed. In both business and the broad field of world relationships, we find disposition to caution, to moderation, to patience and reasonableness. This should be altogether gratifying. The situation may not be to the liking of those extremists who believe things cannot begin to get better until they have got very much worse. It may not be satisfactory to the opposite group, who believe that by this time we ought to be in the midst of an economic millenium. But it does contain many elements--let me say, a decided preponderance of the elements-- of reassurance to that great majority of people who do not expect and do not want either a millenium or a revolution.

FEDERAL RESERVE BOARD
WASHINGTON

783

X-3861
October 13, 1923.

SUBJECT: Fiscal Agency Expenses.

Dear Sir:

During June, 1923, all Federal Reserve Banks submitted to the Federal Reserve Board an estimate of reimbursable fiscal agency expenses that will be incurred during the fiscal year beginning July 1, 1923, and ending June 30, 1924. The banks were requested to furnish this estimate for the use of the Treasury Department (See Board's letter May 26, 1923, X-3722).

The Treasury Department has advised the Board that is of the opinion the reimbursable fiscal agency expenses of the Federal Reserve Banks during the fiscal year 1924 will be very much less than originally estimated, and has asked the Board to request the Federal Reserve Banks to review their estimates submitted last June and promptly submit a revision thereof. In this connection, there is enclosed a copy of a letter received by the Board from the Treasury Department under date of October 11th.

Very truly yours,

Walter L. Eddy,
Secretary.

(Enclosure)

TO GOVERNORS OF ALL F. R. BANKS

(COPY)

784
X-3861a

TREASURY DEPARTMENT
WASHINGTON
October 11, 1923.

My dear Governor:

In his letter dated May 25, 1923, the Under Secretary of the Treasury advised you that during the fiscal year 1924 Federal Reserve Banks would be reimbursed for actual expenses incurred in connection with new issues of public debt securities on the same basis as was in effect during the fiscal year 1923, and requested that you secure from the banks estimates of such expenses. On June 29, 1923, you transmitted to the Department the estimates received from the several Federal Reserve Banks aggregating some \$650,000.

These estimates were compiled while a great volume of work was in process at the banks and before refunding operations were concluded. And they were compiled before the final program of the Treasury for the fiscal year 1924 was forecast.

Fiscal agency transactions at the Federal Reserve Banks are now normal and from present indications new issues during the year will consist only of the regular quarterly certificate issues, with a possible issue of Treasury notes. The Series of 1919 war-savings certificates matures on January 1, next, and for the time being will cause some additional work at the Federal Reserve Banks, but this issue is comparatively small and will entail no great volume of work.

In these circumstances, it would appear that the reimbursable expenses of Federal Reserve Banks during the fiscal year 1924 will be very much less than was originally estimated. The strictest economy in the expenditure of public funds is being exercised and expenses are being reduced wherever practicable. A revision of estimated reimbursable expenditures of Federal Reserve Banks is indicated, and accordingly, it is requested that you ask each Federal Reserve Bank to review its own estimates for 1924 and at the earliest possible date submit a revision thereof, showing as to reimbursable expenditures; (a) actual expenditures for the quarter ended September 30, 1923, and (b) estimated expenditures for the period October 1, 1923, to June 30, 1924. These estimates should be stated under the headings "Treasury Certificates of Indebtedness and Treasury Notes", and "Treasury Savings Certificates". The expenses of the sales organization should be stated as a part of "Treasury Savings Certificates" as a separate item. Expenses under each heading should be classified in accordance with Bulletin No. 1 of the General Accounting Office as heretofore.

I am sure the Department can count on the full cooperation of the Federal Reserve Board and the Federal Reserve Banks in reducing expenses to the lowest possible point consistent with efficient service.

By direction of the Secretary.

Very truly yours,

(signed) Garrard B. Winston,

GARRARD B. WINSTON,
Assistant Secretary of the Treasury.

Hon. D. R. Crissinger,

Governor, Federal Reserve Board.

TREASURY DEPARTMENT
Office of the Secretary
WASHINGTON

October 5, 1923.

The Governor
Federal Reserve Board.

Sir:

You are hereby advised that the Department has referred to the Disbursing Clerk, Treasury Department, for payment, the account of the Bureau of Engraving and Printing for preparing Federal Reserve notes during the period September 1, 1923, to September 30, 1923, amounting to \$74,757.50, as follows,-

<u>Federal Reserve Notes, 1914</u>						
	<u>\$5</u>	<u>\$10</u>	<u>\$20</u>	<u>\$50</u>	<u>\$100</u>	<u>Total</u>
Boston	45,000	122,000	27,000	-	-	194,000
New York	222,000	-	-	-	-	222,000
Philadelphia	114,000	94,000	68,000	12,000	-	288,000
Cleveland	-	113,000	79,000	21,000	-	213,000
Richmond	79,000	37,000	36,000	-	-	152,000
Chicago	470,000	84,000	64,000	-	-	618,000
Kansas City	-	-	-	-	2,000	2,000
	<u>1,000,000</u>	<u>450,000</u>	<u>274,000</u>	<u>33,000</u>	<u>2,000</u>	<u>1,759,000</u>

1,759,000 sheets at \$42.50 per M \$74,757.50

The charges against the several Federal Reserve Banks are as follows,-

	<u>Sheets</u>	<u>Compen- sation</u>	<u>Plate Printing</u>	<u>Materials</u>	<u>Inc. Com- pensation</u>	<u>Total</u>
Boston	194,000	\$2,619.00	\$2,667.50	\$2,279.50	\$ 679.00	\$8,245.00
New York	292,000	3,942.00	4,015.00	3,431.00	1,022.00	12,410.00
Philadelphia	288,000	3,388.00	3,960.00	3,384.00	1,008.00	12,240.00
Cleveland	213,000	2,875.50	2,928.75	2,502.75	745.50	9,052.50
Richmond	152,000	2,052.00	2,090.00	1,786.00	532.00	6,460.00
Chicago	618,000	8,343.00	8,497.50	7,261.50	2,163.00	26,265.00
Kansas City	<u>2,000</u>	<u>27.00</u>	<u>27.50</u>	<u>23.50</u>	<u>7.00</u>	<u>35.00</u>
	<u>1,759,000</u>	<u>\$23,746.50</u>	<u>\$24,186.25</u>	<u>\$20,668.25</u>	<u>\$6,156.50</u>	<u>\$74,757.50</u>

The Bureau appropriations will be reimbursed in the above amount from the indefinite appropriation "Preparation and Issue of Federal Reserve Notes, Reimbursable", and it is requested that your board cause such indefinite appropriation to be reimbursed in like amount.

Respectfully,

(signed) S. R. Jacobs,
Deputy Commissioner.

FEDERAL RESERVE BOARD
WASHINGTON

X-3863
October 16, 1923.

SUBJECT: Federal Reserve Telegraphic Code Books.

Dear Sir:

The Board has been advised by a number of Federal Reserve Banks that in the Federal Reserve Telegraphic Code Books which were distributed by the Board on June 6, 1921, certain pages show considerable wear by constant reference. Investigation indicates these pages to be 175 to 207, inclusive, showing symbols for dollars, numerals, dates, etc.

In order to prolong the life of the original books, the Board has had printed a supply of additional sets of sheets containing pages 175 to 207, inclusive, and is prepared to distribute them upon request of the Federal Reserve Banks.

To enable the Board to keep an accurate record of all additional sets of code sheets in use, kindly return those pages which are removed from the books at the time the new sheets are received from the Board and inserted therein.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS

FEDERAL RESERVE BOARD

728

WASHINGTON

X-3865

October 23, 1923.

SUBJECT: Coded phrase to be used in connection with transfers from Gold Redemption Fund to Federal Reserve Agents' Fund account.

Dear Sir:

The Federal Reserve Telegraphic Code does not provide a coded phrase for the use of the Board in advising the Federal Reserve Agents of transfers from either the Banks' or Agents' Gold Redemption Fund accounts with the United States Treasurer to their respective Federal Reserve Agent's Fund accounts with the Board, and in order to provide a uniform coded phrase to cover transactions of this kind and at the same time to reduce the present phraseology of these telegrams, you are advised that, commencing with November 1st, the following code word will be used by the Board in its telegrams to Federal Reserve Agents covering such transfers:

"DUCKED: Your account with Federal Reserve Agent's Fund has credit for \$_____ deposit made with Federal Reserve Board as transfer from Gold Redemption Fund."

It is requested that the above code word be inserted at the bottom of page 78 of the "Federal Reserve Telegraphic Code", following the supplemental code word "Duckbill".

Yours very truly,

J. C. Noell,
Assistant Secretary.

TO ALL FEDERAL RESERVE AGENTS.

FEDERAL RESERVE BOARD

WASHINGTON

X-3866

October 25, 1923.

SUBJECT: Coded phrase to be used in connection with transfers from Gold Redemption Fund to Gold Settlement Fund.

Dear Sir:-

In order to reduce the phraseology in telegrams between the Board and Federal Reserve Banks, the Board has adopted, effective November 1st, the code word shown below for use in connection with transfers from either the Banks' or Agents' Gold Redemption Fund accounts on deposit with the U. S. Treasurer, to the Bank's Gold Settlement Fund account on deposit with the Board:

"DUCKFOOT: Your account with Gold Settlement Fund has credit for \$_____ deposit made with Federal Reserve Board as transfer from Gold Redemption Fund."

It is requested that the above code word be inserted at the bottom of page 78 of the "Federal Reserve Telegraphic Code", following the supplemental code word "Ducked".

Yours very truly,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL FEDERAL RESERVE BANKS.

C O P Y

X-3867

MERCANTILE TRUST COMPANY

San Francisco-California

October 18, 1923.

Hon. A. C. Miller,
Federal Reserve Board,
Washington, D. C.

Dear Sir:-

Following our conference in San Francisco, the Security Trust and Savings Bank, the Pacific Southwest Trust and Savings Bank, and the Mercantile Trust Company of California, through their respective officers, have prepared a letter addressed to the Federal Reserve Board, embodying the views of these three Banks with regard to branch banking in California.

The letter is herewith enclosed, and I have been requested by my associates to ask if you will be kind enough to present it to the Board at its next meeting.

Very truly yours,

JOHN S. DRUM

President.

Enclosure

C O P

San Francisco, California

October 8, 1923.

The Honorable, the
Federal Reserve Board,
Washington, D. C.

Sirs:

At the request of the Security Trust and Savings Bank, the Pacific-Southwest Trust and Savings Bank, the Bank of Italy and the Mercantile Trust Company of California, the Honorable A. C. Miller, a member of your Board, conducted a meeting in the Federal Reserve Bank in San Francisco this morning for the purpose of hearing the views of the above named banks with regard to the present and future status of branch banking in California.

In addition to Mr. Miller and representatives of three of the four banks named above - the Bank of Italy not being represented at the meeting - there were present Governor J. U. Calkins and Chairman John Perrin of the Federal Reserve Bank of this district, the Honorable J. F. Johnson, State Superintendent of Banks, his attorney Mr. James M. Oliver, and Mr. C. B. Wingate. These gentlemen were present at the request of the undersigned.

The entire matter was discussed at length, and we desire now to place before your Honorable Board this memorandum of the meeting.

It was the unanimous opinion of the conferees that your Honorable Board should be urged to adopt a definite policy with regard to the present position and future progress of branch banking in California, and with that in view the undersigned respectfully desire to suggest to you certain principles which we believe should be of substantial assistance in stabilizing the situation.

We feel justified in making these suggestions because we represent three of the four largest branch banks now doing business in California, and we believe that application of these principles would deal justly with our banks as well as with the smaller branch banks.

In reaching a decision on its general policy respecting the granting of permits to establish branches in California, we beg to suggest that the Board review the situation as it existed when the undersigned banks joined the Federal Reserve System. They were then engaged in branch banking which was authorized by the California Bank Act to the same extent as at present, and a review of the correspondence between these banks and the Federal Reserve Bank of San Francisco and the Board will disclose their respective views and policies as of that date.

As a basis for the suggestions that follow, it may be well to affirm the fact that the state banking system of California permits and encourages the development side by side of unit banking and branch banking and that both systems are necessary to the continued welfare and development of the state. We cannot approve any measures that would hamper the free development of unit banks along sound and proper lines, and at the same time we affirm the right of branch banks to develop also along sound and proper lines. We affirm that it has been the policy of the California Bankers Association and the State Superintendent of Banks, representing the people of the State of California, to maintain the integrity of both systems so that unit banks shall have no unfair advantages over branch banks and branch banks shall obtain no unfair advantages over unit banks, to the end that both systems may be allowed to continue on a proper competitive basis for the benefit of the State.

In order that this policy may have the widest possible application, we therefore respectfully suggest the following principles for consideration by your Honorable Board:

1. Every application to establish a branch bank hereafter presented to the Federal Reserve Board shall be considered by the Board separately and upon its merits. Its approval or rejection shall in no wise depend upon applications presented by any other bank or banks or upon the status of any other branch bank or branch banks doing business in California.

2. The approval of the Federal Reserve Board shall be obtained before any branch bank makes any conclusive agreement for the acquisition, either directly or indirectly, of any bank or any stockholding interest in any bank.

3. In its consideration of future applications for branch banks in California the Federal Reserve Board should examine into the public convenience and advantage as affected by the establishment of the particular branch in question and should consider the following points:

a. If a given locality has only one unit bank, the Board should consider whether or not the absorption of that unit into a branch banking organization would promote the public advantage and convenience.

b. In considering an application to establish a branch bank the same principle should apply as in the establishment of a bank de novo, except that if there is more than

one bank in the locality where permission to operate a branch is sought it becomes very important to consider further whether or not the soundness of the bank or banks in the same locality would be jeopardized by the establishment of the branch bank.

c. The Federal Reserve Board should be cognizant of the practices of banks either in acquiring control of the branch bank or in conducting their existing branches as a basis for exercising its discretion in determining whether or not permission to acquire additional branches shall be granted.

4. The Federal Reserve Board shall adopt such rules for the examination of branch banks in California as the Board shall deem necessary to make examinations adequate and thorough. In the event that the Board regards more than one examination a year necessary or desirable it shall consider the possibility of additional examinations for any one or all branch banks.

There shall be made such examinations of branch banks in California as will cover fully all the aspects of each bank's operations. Such examinations shall embrace, in addition to the condition of the bank examined, the following: All contingent obligations, the condition of subsidiary corporations and affiliated companies, stockholders' agreements and other collateral or allied arrangements, whether or not the stockholders in every instance shall be the same as the stockholders in the bank examined. This is to the end that the Federal Reserve Board at all times shall have full and complete knowledge, not only of the condition

of the bank itself, but also of its operating methods and of the assets and obligations of the affiliated corporations in any form or manner owned wholly or in part by the bank or by its stockholders as such.

5. If the Federal Reserve Board should adopt all or any of the foregoing suggestions, it might naturally place branch banks that are members of the Federal Reserve System at a disadvantage in competition with non-member branch banks, unless the State Superintendent of Banks of California applied the same principles to non-member banks applying to him for permission to establish branches.

6. We affirm our belief in the wisdom of the regulations promulgated by the Superintendent of Banks governing the exercise of his discretion in the granting of permits for branches. These regulations, copy of which is attached hereto, were approved by the Legislative Committee of the California Bankers Association and by the Executive Committee of the California League of Independent Bankers. The suggestions here presented are predicated upon an observance of these regulations and are dependent upon the universal application of these suggestions in California.

We have given a copy of the foregoing memorandum to the State Banking Department of California, and have requested the department to inform you of its views with regard to these suggestions.

It is our belief that the substantial adoption of the foregoing suggestions by your Honorable Board will help greatly to clarify the branch banking situation in California, and we submit them with the earnest desire that they may serve this purpose.

We desire at all times to co-operate with your Honorable Board to the fullest possible extent, and we hope the Federal Reserve Board, the State Banking Department and the undersigned bankers may establish and continue a sympathetic understanding that will serve as a foundation for adjustment, by conference and full and frank expression, of any questions relating to branch banking in California that may arise in the future.

Very respectfully,

MERCANTILE TRUST COMPANY

BY John S. Drum
President.

PACIFIC-SOUTHWEST TRUST AND SAVINGS BANK

By Charles F. Stern
Executive Vice President.

SECURITY TRUST & SAVING BANK

By J. F. Sartori
President.

SUPERINTENDENT'S RULINGS.

From and after this date no branch office shall be established by any bank in a city or locality other than that in which its principal place of business is located by the purchase of or consolidation or merger with another bank unless both banks shall have been open for business for at least three years prior to said sale, consolidation or merger unless the superintendent of banks in his discretion shall find that the public convenience and advantage require it; in the case of a national bank that has been converted into a state bank the time required herein shall be considered as running from the date of the original organization of said national bank.

From and after this date no branch shall be created in any locality other than the city or locality in which is located the principal place of business except by purchase of or consolidation or merger with an existing bank in said city or locality unless the superintendent of banks in his discretion shall find that the public convenience and advantage require it.

The rules hereby enunciated will be taken up for further consideration and for such changes as may appear desirable at such times as there may be any change in the status of national banks as to their right to operate branch offices or agencies in the State of California.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-3868
(Superseding X-3424)

Sir:

You are hereby directed to proceed to

on business in connection with this Board, upon completion of which, unless otherwise directed, you will return to Washington, D. C.

While absent from Washington upon the discharge of the above described duty your actual necessary traveling expenses, and actual expenses for subsistence not to exceed \$5.00 per diem, will be paid from funds under the control of this Board.

In connection with the above travel, you will be guided by the Federal Reserve Board Travel Regulations issued May 1, 1923.

Respectfully,

G O V E R N O R.

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS

X-3870

For Release in Morning Papers,
Monday, October 29, 1923.

The following is a summary of general business and financial conditions throughout the several Federal Reserve Districts, based upon statistics for the months of September and October, as contained in the forthcoming issue of the Federal Reserve Bulletin.

Production of basic commodities declined during September, wholesale trade continued large, while retail trade, though larger than a year ago, increased less than is usual at this season of the year. Wholesale prices, particularly those of agricultural products, advanced during the month.

PRODUCTION:

Production in basic industries, according to the Federal Reserve Board's index, declined 5 per cent during September, and was 10 per cent below the peak output of May. The principal factors in this decline were the suspension of anthracite coal mining for over two weeks and a substantial reduction in the production of iron and steel. Cement production and sugar meltings were larger than in August. The decline in the production index, which is corrected for seasonal variations and reflects chiefly changes in the output of raw and semi-finished products, was not accompanied by a reduction of employment at industrial establishments. New building construction showed about the usual seasonal decline in September, due to a curtailment in contracts for residences. Contract awards for business and industrial buildings, however, were larger than in August.

Estimates by the Department of Agriculture on October 1 showed some reduction from the September forecasts in the yields of corn, wheat, oats, and tobacco, but increased yields of cotton, potatoes, and hay.

TRADE:

Distribution of all classes of commodities by railroads continued at a high rate throughout September. Wholesale trade, according to the Federal Reserve Board's index, in September reached the largest total in three years and was 9 per cent larger than a year ago. Sales of meat, hardware, and drugs were considerably larger than in last September, while shoe sales were smaller. Retail trade was slightly larger in September, but the increase was much less than is usual at this season of the year. Department store sales were 6 per cent more than in September, 1922, and stocks at the end of the month were 13 per cent larger than a year ago.

PRICES:

Wholesale prices increased over 2 per cent during September, according to the index of the Bureau of Labor Statistics, particularly large increases occurring in the prices of clothing, farm products, and foods. Fuel prices, on the other hand, declined in September for the eighth successive month, and prices of building materials and metals were also lower. During the first three weeks of October prices of certain farm products continued to advance, wheat and cotton reaching the highest points of the current year, while prices of hogs, coal, and metals declined.

BANK CREDIT:

Demand for bank credit showed a seasonal increase in September

and the early part of October, loans of member banks in leading cities increasing by \$116,000,000 between September 12 and October 10. This increase reflected chiefly the demand for commercial loans, which on the latter date stood at a new high point for the year, almost \$100,000,000 above the total on September 12. Increases in the holdings of Government securities by these banks were partly offset by reductions in corporate security holdings.

The demand for accommodation at the Federal Reserve Banks in some of the agricultural districts increased, while at the reserve banks in the East the volume of discounts for member banks declined. Federal Reserve note circulation continued to increase and in the middle of October was about \$100,000,000 above the July level.

In October money rates showed an easier tendency and after the fifteenth of the month rates for commercial paper in the New York market declined from a range of $5 \frac{1}{4}$ - $5 \frac{1}{2}$ to $5 - 5 \frac{1}{4}$ per cent

F E D E R A L R E S E R V E B O A R D

X-3871

For Immediate Release.

CONDITION OF ACCEPTANCE MARKET

SEPTEMBER 13 TO OCTOBER 10, 1923.

During the first two weeks of the period the acceptance market was characterized by general dullness which had prevailed since mid-summer. The supply of bills, however, increased after the beginning of October, and reflected the seasonal demands for funds for financing the marketing of cotton and grain. Bills were also drawn against sugar, silk, wool, and provisions, and to provide dollar exchange. The demand was sufficient to absorb offerings during the first part of the period but with the increase in the volume of bills in October purchases were in excess of sales and at the end of the period dealers' aggregate portfolios showed slight increases. Bills with maturities of 30 to 90 days were in the best demand and were purchased principally for foreign account and by interior banks. Rates remained unchanged during the period at $4 \frac{1}{8}$ to $4 \frac{1}{4}$ bid to 4 to $4 \frac{1}{8}$ offered for 30-day bills and at $4 \frac{1}{4}$ bid to $4 \frac{1}{8}$ offered for 60 and 90-day maturities.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARDOctober 30, 1923.
X-3872

SUBJECT: Condition of Membership No. 18.

Dear Sir:

The Federal Reserve Board, when approving the application for membership of a State banking institution, which at the time of application has insufficient capital to entitle it to become a national banking association in the place where it is located, but which is eligible for membership under the terms of the Federal Reserve Act, as amended by the Act of March 4, 1923, will impose in all cases the following condition:

- (18) That, as provided in the Federal Reserve Board's Regulation H, series of 1923, the bank shall increase its paid-up and unimpaired capital within five years after the approval of its application by the Federal Reserve Board to \$_____. For the purpose of providing for such increase, the bank shall set aside each year in a fund exclusively applicable to such capital increase not less than fifty per cent of its net earnings for the preceding year prior to the payment of dividends, and if such net earnings exceed twelve per cent of the paid-up capital of the bank, then all net earnings in excess of six per cent of the paid-up capital shall be carried to such fund, until such fund amounts to \$_____. Whenever such fund shall amount to \$_____, or at such other time as the Federal Reserve Board may require, such fund or as much thereof as may be necessary shall be converted into capital by a stock dividend or used in any other manner permitted by State law to increase the capital of the bank to the required amount. Such increase in capital may be provided in whole or in part by the sale of additional stock. Provided, that nothing herein contained shall be construed as requiring the bank to violate any provision of the law of the State in which it is located.

In telegraphic communications this condition will be referred to as No. 18 and should be included as such under the code word "Archery".

Very truly yours,

Walter L. Eddy,
Secretary.

TO ALL F. R. AGENTS

FEDERAL RESERVE BOARD

804

WASHINGTON

X-3873
October 31, 1923.

SUBJECT: Code words to be used between Federal Reserve Banks in connection with telegraphic purchases and sales of U. S. Certificates of Indebtedness and Treasury Notes.

Dear Sir:

In order to reduce phraseology in the large number of certain telegrams between Federal Reserve Banks, it has been suggested to the Board by one of the banks that additional code words supplied from the Federal Reserve Telegraphic Code be designated to cover telegrams between the banks which have reference to the purchases and sales of U. S. Certificates of Indebtedness and Treasury Notes.

This suggestion meets with the approval of the Board, and you are advised that commencing with November 10th, the following code word may be used by Federal Reserve Banks in their telegrams to other Federal Reserve Banks, covering requests for purchase of U. S. Certificates of Indebtedness and Treasury Notes:

"Numerate: Please purchase at not to exceed _____
\$ _____ Certificates or Notes Series _____ account
member bank. Delivery through Commissioner of Public
Debt. Advise amount and we will credit."

In the same manner the following code word may be used by banks in telegrams covering requests for sales of such Government securities:

"Nuchion: Upon authority Commissioner of Public Debt
and payment federal funds please sell at market
\$ _____ Certificates or Notes Series _____
Transaction No. _____."

It is requested that the code words "Numerate" and "Nuchion" indicated in this letter be added to the bottom of page 165 of the Federal Reserve Telegraphic Code, to follow the code word "Numerally".

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF F. R. BANKS

FEDERAL RESERVE BOARD

805

WASHINGTON

X-3874

November 1, 1923.

SUBJECT: Surrender of Federal Reserve Bank Stock upon
Reduction of Member Banks' surplus.

Dear Sir:-

Certain inquiries have been received concerning the Board's Circular Letter X-3818, dated August 25, 1923, on the above subject, and it seems advisable to explain certain features which were not directly considered in that letter.

The purpose of the amendment to the Board's Regulation I, Series of 1923, omitting the requirement that member banks must file applications for the surrender of Federal Reserve Bank stock whenever they make a reduction in surplus, was solely to make the regulation conform more closely to the provisions of the law, as explained in Circular Letter X-3818. The Board understands that heretofore when member banks have reduced their surplus, it has been the practice of the Federal Reserve Banks to advise such member banks that they must surrender stock under the circumstances. This practice should be discontinued, and in cases where member banks reduce their surplus, they should be invited by the Federal Reserve Bank to make application to surrender the appropriate amount of Federal Reserve Bank stock. The member bank should be advised, however, that the Federal Reserve Board is of the opinion that there is no provision of law which requires the surrender of capital stock of Federal Reserve Banks upon the reduction of surplus by member banks, and that, therefore, the member banks may exercise their option in the matter.

In the event a member bank which has reduced its surplus elects not to surrender any of its stock in the Federal Reserve Bank, it will not be necessary for you to advise the Federal Reserve Board, unless a substantial amount of stock is involved - ten shares or more - and such advice will be merely for the purpose of the Board's records.

Very truly yours,

Walter L. Eddy,
Secretary.

TO ALL FEDERAL RESERVE AGENTS.

(COPY)

806

X-3875

July 16, 1923.

TO the Federal Reserve Board)
FROM Mr. Wyatt, General Counsel.) Extent of Board's Power in Pre-
scribing Conditions of Membership
for State Banks.

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The opinion of this office has been requested on the question whether in admitting State banks to membership in the Federal Reserve System the Federal Reserve Board has the right to prescribe any conditions of membership which it deems necessary or advisable in order to carry out the spirit and purpose of the Federal Reserve Act or whether it may prescribe only such conditions as are necessary to carry out the express provisions of the Act; and specifically whether the Board may impose a condition prohibiting the establishment of branches without its consent.

The answer to this question depends upon the proper interpretation of the following provisions of Section 9 of the Federal Reserve Act as amended:

"Any bank incorporated by special law of any State, or organized under the general laws of any State or of the United States, desiring to become a member of the Federal Reserve System, may make application to the Federal Reserve Board, under such rules and regulations as it may prescribe, for the right to subscribe to the stock of the Federal Reserve bank organized within the district in which the applying bank is located. Such application shall be for the same amount of stock that the applying bank would be required to subscribe to as a national bank. The Federal Reserve Board, subject to such conditions as it may prescribe, may permit the applying bank to become a stockholder of such Federal Reserve Bank.

"In acting upon such application the Federal Reserve Board shall consider the financial condition of the applying bank, the general character of its management, and whether or not the corporate powers exercised are consistent with the purposes of this act."

* * * * *

" * * * Subject to the provisions of this act and to the regulations of the Board made pursuant thereto, any bank becoming a member of the Federal Reserve System shall retain its full charter and statutory rights as a State bank or trust company, and may continue to exercise all corporate powers granted it by the State in which it was created, and shall be entitled to all privileges of member banks; * * *."

OPINIONS OF BOARD'S FORMER COUNSEL.

Before discussing the results of my own investigation of this question, I wish to call attention to the fact that all of my predecessors in this office have advised the Board that it has power to prescribe conditions for the admission of State banks to membership which go beyond the express provisions of the Federal Reserve Act, and at least two of them have held specifically that the Board is authorized to prescribe as a condition of membership that the applying bank shall not establish any additional branches except with its consent.

In a memorandum addressed to Honorable A. C. Miller of the Federal Reserve Board, under date of August 2, 1917, Honorable Milton C. Elliott, who was the first General Counsel to the Federal Reserve Board, said:

"In my opinion, Mr. Perrin's letter to Mr. Giannini correctly answers the question submitted. It may be well, however, for him to supplement these answers by calling attention to the fact that, while Section 9 does not impose restrictions other than those mentioned by Mr. Perrin, it authorizes the Board to impose certain conditions upon membership of State banks when the corporate powers possessed by the applying bank are inconsistent with the purposes of the Federal Reserve Act. This being true the Board might reasonably and probably would, in acting upon the application of the Bank of Italy, which has sixteen branches, impose the condition that the number of branches should not be increased without express approval of the Federal Reserve Board."

In a memorandum addressed to the Board by Mr. George L. Harrison, its second General Counsel, under date of October 3, 1919, it is stated that:

"Under the terms of Section 9 of the Federal Reserve Act, any State bank which becomes a member of the Federal Reserve System shall, subject to the provisions of the Act and the Board's regulation, retain its full charter and statutory rights as a State bank and shall continue to exercise all corporate powers granted it by the State in which it was created. The Federal Reserve Board, however, is directed in acting upon applications of State banks to consider whether or not the corporate powers exercised by the bank are consistent with the purposes of the Act. Consequently, if an applying bank possesses charter powers which the Board deems to be inconsistent with the purposes of the Federal Reserve Act, the Board may properly, as a condition of admission, require that the State bank agree not to exercise such powers or agree to exercise them in such manner and subject to such limitations as the Board may impose."

And in a memorandum dated December 12, 1921, Mr. Walter S. Logan, the Board's third General Counsel expressed the opinion that, "Section 9 authorizes the Board to impose its usual condition of membership with respect to the establishment of branches."

,Copies of these opinions are attached hereto.

MY CONCLUSION.

In view of the importance of this question and the earnestness with which the contrary view has been urged upon the Board by eminent Counsel, I have not been content merely to adopt the opinion of my predecessors, but have made a thorough, independent, and impartial investigation of the entire subject, with the very able assistance of Mr. Vest, Assistant Counsel. Such investigation has convinced me beyond any doubt that the conclusions of my predecessors were entirely correct, and that the Board has power, in admitting State banks to membership in the Federal Reserve System, to prescribe such reasonable conditions of membership as in its discretion it deems necessary or advisable in order to carry out the spirit and intent of the Federal Reserve Act; that its power is not limited to prescribing such conditions as are necessary to carry out the

express provisions of the Act; and that it may prescribe as a condition of membership that the applying bank shall not establish any additional branches without the consent of the Federal Reserve Board.

HISTORY OF DEVELOPMENT OF SUBJECT.

It is believed that a much clearer understanding of this question will result from a chronological discussion of the history of its development.

Original Statute and Practice Thereunder.

Section 9 of the Federal Reserve Act as originally enacted provided, in part, as follows:

"The Organization Committee or the Federal Reserve Board under such rules and regulations as it may prescribe, subject to the provisions of this section, may permit the applying bank to become a stockholder in the Federal Reserve Bank of the district in which the applying bank is located."

Acting under authority of this provision, the Board has always understood that it has the power to impose on State banks admitted to membership such conditions as in its discretion it deems necessary or advisable. It acted on the theory that, even if this power were not included in the power to prescribe rules and regulations, it was an incident of the power to approve or reject the application of any particular state bank, in the Board's discretion. In other words, it acted on the theory that the discretionary power to approve or reject any application included the power to approve any application on such conditions as it might prescribe.

The Board has consistently exercised this power from the very beginning and has never hesitated to prescribe such conditions of membership as in its discretion it deemed necessary or desirable. Among other conditions, it customarily prescribed that before being admitted to membership a State bank should agree not to establish any branches without

its consent. This practice of the Board in imposing conditions of membership had become well established before Section 9 was amended in any way. The amendments, therefore, were enacted in the light of this administrative practice and must be construed accordingly.

The Federal Reserve Board's letter transmitting its first regulations with reference to membership of State banks (Regulation M, Series of 1915) contained the following statements which indicate the Board's understanding of the scope of its power as well as the spirit in which it approached this problem:

"A unified banking system, embracing in its membership the well-managed banks of the country, small and large, State and National, is the aim of the Federal Reserve Act. There can be but one American credit system of nation-wide extent, and it will fall short of satisfying the business judgment and expectation of the country and fail of attaining its full potentialities if it rests upon an incomplete foundation and leaves out of its membership any considerable part of the banking strength of the country. The way must be opened for State banking institutions to contribute their share to the capital and resources of the Federal Reserve Banks, in harmony with the intent of the Federal Reserve Act and in accordance with its provisions. State banks, trust companies, and national banks have their distinctive characters and places in the American banking organization, and these should be respected in coordinating them in the Federal Reserve System. The problem presented is to find a basis upon which these different types of banking institutions may thus be associated which shall be fair to each and which will not require greater uniformity of operation than may be necessary to the attainment of the purposes of the Federal Reserve Act.

"Appreciating fully that the strength of the Federal Reserve System is to be measured by the quality and character of its members, rather than by their number, the Federal Reserve Board is prepared to use the broad discretionary power vested in it by the Federal Reserve Act to bring about this coordination on the basis of equity and practicability. The Board has sought, in the regulations governing the admission of State banks and trust companies hereto appended, first, to establish only such reasonable standards of admission as will be generally recognized as necessary to protect the Federal Reserve System and the national banks, whose membership in the system is obligatory, against the admission of any bank which would be a source of weakness rather than of strength, and, second, to prescribe such regulations governing

their conduct as will insure a reasonable conformity to fundamental principles deemed essential to the success of the new banking system.

"The Board realizes, however, that membership also carries with it of necessity obligations as well as privileges. The Federal Reserve Act imposes certain fundamental conditions governing the membership of State banks in the Federal Reserve System, and prescribes that banks not organized under the Federal law must comply with the capital and reserve requirements relating to national banks, and must conform to the provisions of law imposed upon national banks respecting the limitation of liability which may be incurred by any person, firm, or corporation to such banks, the prohibition against purchases of or loans upon stock of such banks, the withdrawal or impairment of capital, and the payment of unearned dividends, and must conform to other provisions of the Federal Reserve Act applicable to member banks, such as restrictions on the amount of acceptances by such banks and on transactions between such banks and their directors, and to such rules as the Federal Reserve Board may prescribe.

"The conditions of membership of State institutions are, furthermore, prescribed only in general terms in the act, the further and final elaboration of them being left to the Federal Reserve Board, which is vested with the necessary discretionary authority."

These statements show that when it first considered this subject the Board took the position that it was authorized and expected to impose conditions of membership which should go beyond the express provisions of the Act and might include any provisions which the Board in its discretion believed necessary to carry out the purpose and intent of the Act.

The text of the regulation (Regulation M, Series of 1915) provided, in part, as follows:

"In passing upon an application the Federal Reserve Board will consider especially -

"(1) The financial condition of the applying bank or trust company and the general character of its management.

"(2) Whether the nature of the powers exercised by the said bank or trust company and its charter provisions are consistent with the proper conduct of the business of banking and with membership in the Federal Reserve Bank.

"(3) Whether the laws of the State or district in which the applying bank or trust company is located contain provisions likely

to interfere with the proper regulation and supervision of member banks.

" * * * Whenever the Board may deem it necessary, it will impose such conditions as will insure compliance with the act and these regulations. When the certificate of approval and any conditions contained therein have been accepted by the applying bank or trust company, stock in the Federal Reserve Bank of the district in which the applying bank or trust company is located shall be issued and paid for under the regulations of the Federal Reserve Act provided for national banks which become stockholders in the Federal Reserve Banks.

* * * * *

"Every State bank or trust company while a member of the Federal Reserve System -

"(1) Shall retain its full charter and statutory rights as a State bank or trust company, and may continue to exercise the same functions as before admission, except as provided in the Federal Reserve Act and the regulations of the Federal Reserve Board, including any conditions embodied in the certificate of approval.

The portions of Regulation M, Series of 1915 above quoted, were repeated in substantially the same form in the Board's Regulation H, Series of 1916.

Amendment of June 21, 1917.

On June 21, 1917, there was enacted into the law a bill which had been drafted and submitted to Congress by the Federal Reserve Board for the purpose of making a number of amendments to various provisions of the Federal Reserve Act. One of the principal purposes of those amendments was to induce more State banks to join the Federal Reserve System, and this result was sought in two ways; (1) By assuring them that the liberal interpretation of the law previously adopted by the Board would not be changed and that the Board would not amend those portions of its regulations which assured to State member Banks the continued exercise of the rights enjoyed by them under State law, subject to such conditions as the Board might prescribe prior to the admission of such banks to membership; (2) by repealing a number of provisions of the Federal Reserve Act which subjected State member banks to examination by the

Comptroller of the Currency and to various provisions of the National Bank Act. In other words, those portions of the bill/^{which}pertain to State bank membership were designed to do two things: (1) To incorporate into law the Board's liberal interpretation of the Act and certain provisions of its regulations based thereon; and (2) To eliminate certain other portions of the Act which State banks had deemed objectionable.

The original language of that part of Section 9 last quoted above, was amended by the Act of June 21, 1917, to read as follows:

"The Federal Reserve Board, subject to such conditions as it may prescribe, may permit the applying bank to become a stockholder of such Federal Reserve Bank."

The substitution of the word "conditions" for the words "rules and regulations" which appeared in the corresponding portion of the original act clearly indicates that Congress intended to sanction the Board's established practice of imposing conditions of membership (which quite frequently limited the exercise of the applying bank's corporate powers). The power to prescribe rules and regulations which was originally conferred on the Board in the first paragraph of Section 9 was covered in a new paragraph inserted by the amendment of June 21, 1917, as herein-after explained, and this indicates that Congress intended to make a distinction between (1) conditions of membership prescribed by the Board and voluntarily agreed to by the applying bank prior to admission and (2) rules and regulations which the Board might prescribe at any time and might amend subsequent to the admission of any bank.

The same Act also made certain additions to Section 9, which are pertinent to this discussion. A new paragraph reading as follows, was added after the clause last above quoted:

"In acting upon such application the Federal Reserve Board shall consider the financial condition of the applying bank, the general character of its management, and whether or not the corporate powers exercised are consistent with the purposes of this act."

A comparison of this paragraph with the above quoted provisions of Regulation M, Series of 1915, will show that it was merely an adaptation of the principles previously announced by the Board as a basis for its action on the applications of State banks for membership. This demonstrates beyond a doubt that Congress did not intend to change the Board's established practice regarding the applications of State banks for membership, but rather intended to confirm and perpetuate such practice.

The tenth paragraph of Section 9, which was also added by the amendment of June 21, 1917, contains the following sentence:

"Subject to the provisions of this act and to the regulations of the Board made pursuant thereto, any bank becoming a member of the Federal Reserve System shall retain its full charter and statutory rights as a State bank or trust company, and may continue to exercise all corporate powers granted it by the State in which it was created, and shall be entitled to all privileges of member banks: * * * "

This new paragraph was also an adoption by Congress of a portion of Regulation M, Series of 1915, and Regulation H, Series of 1916, and further indicates the intent of Congress to approve the Board's construction of the Act and its established practice in acting upon applications for membership. The phraseology of this provision is substantially the same as the wording of the Board's regulation, except that the words "including any condition embodied in the certificate of approval" found in the regulations are omitted from the Act. It seems clear that Congress omitted these words from this portion of the Act, because the power to impose "conditions" was specifically confirmed elsewhere,

i. e. in paragraph 1 of Section 9.

It is obvious, therefore, that all these changes in the language of Section 9 were made, not for the purpose of changing the substance of the law as it had been construed by the Federal Reserve Board, but rather for the purpose of clarifying the law and writing into the statute itself the liberal interpretation which the Board had given it, thus assuring the State banks that the Board would not amend its regulations in this respect or adopt a different interpretation of the law.

Practice of Board subsequent to Amendments.

That this was the Board's contemporaneous construction of the amendment of June 21, 1917, is indicated by the fact that the above quoted portions of the regulations of 1915 and 1916 are to be found in substantially the same form in the new regulations issued by the Board on June 22, 1917, for the purpose of incorporating the changes made in other parts of its regulations by the amendment of June 21, 1917. The Board, therefore, at the time of the passage of this amendment must have understood that Congress intended to make no changes in these features of State bank membership. This is especially important in view of the fact that the Board had drafted and recommended this amendment to Congress, and, therefore, must have been intimately familiar with its purpose and intended effect. The provisions of the present Regulation H are substantially the same in the respects discussed, as they were when issued on June 22, 1917, the day after the amendment was signed by the President.

Furthermore, the Board has continued to prescribe many of the very same conditions of membership (including that with reference to the establishment of branches) as it prescribed prior to the amendment of June 21, 1917. At least two or three of these conditions have been

prescribed for every State bank admitted to membership since June 21, 1917.

The Board has thus been entirely consistent in construing the amendment of June 21, 1917, as approving its previously established practice of prescribing conditions of membership which go beyond the express terms of the Act.

THE LAW AS TO STATUTORY CONSTRUCTION BY EXECUTIVE DEPARTMENTS.

The consistent and well established practice of the Board in prescribing for State banks admitted to membership, any conditions which it deems necessary to carry out the spirit and purposes of the Federal Reserve Act, is to be given great weight in the construction of this statute, because the Board is the executive authority charged with the duty of administering the Act, and in such case the uniform construction of a statute by the executive authority is not to be overruled except where plainly erroneous.

This is a well settled rule of statutory construction and has been repeatedly recognized by the United States Supreme Court. It is stated in United States v. Johnston, 124 U. S. 236, by Mr. Justice Harlan:

"In view of the foregoing facts the case comes fairly within the rule often announced by this court, that the contemporaneous construction of a statute by those charged with its execution, especially when it has long prevailed, is entitled to great weight, and should not be disregarded or overturned except for cogent reasons, and unless it be clear that such construction is erroneous."

In the case of Robertson v. Downing, 127 U.S. 607, in discussing the construction of a statute by the Treasury Department, the court said:

"This construction of the Department has been followed for many years without any attempt of Congress to change it, and without any attempt, as far as we are advised, of any other Department of the Government to question its correctness, except in the present instance. The regulation of a Department of the Government is not of course to control the construction of an Act of Congress when its meaning is plain. But when there has been a long acquiescence

in a regulation, and by its rights of parties for many years have been determined and adjusted, it is not to be disregarded without the most cogent and persuasive reasons. United States v. Hill, 120 U.S. 169, 182; United States v. Philbrick, 120 U.S. 52, 59; Brown v. United States, 113 U.S. 568, 571."

As pointed out above the practice of the Federal Reserve Board in imposing conditions on State banks when admitted to membership existed prior to the adoption of the amendment of June 21, 1917, and prior to that amendment the Board imposed the very condition, which is the particular subject of consideration here, ^{that} with reference to branch banks. It is well settled that in re-enacting or amending a law the legislature must be presumed to have known of the established construction of that law by the executive department. And where the legislature, knowing of that construction, re-enacts or amends the law without in any way indicating its disapproval thereof, it must be considered to have approved that construction. Mr. Justice McKenna, speaking for the court in the case of United States v. Cercedo Hermanos y Compania, 209 U.S. 337, said:

"We have said that when the meaning of a statute is doubtful great weight should be given to the construction placed upon it by the department charged with its execution. Robertson v. Downing, 127 U.S. 607; United States v. Healey, 160 U.S. 136. And we have decided that the re-enactment by Congress, without change, of a statute, which had previously received long continued executive construction is an adoption by Congress of such construction. United States v. Falk, 204 U.S. 143, 152."

In adopting the amendment of June 21, 1917, Congress not only failed to indicate in any way disapproval of the Board's construction of Section 9 of the Federal Reserve Act as indicated by its regulations and by the practice described above, but expressly indicated its approval of this construction by incorporating them in the law itself. This it did by the use of the word "conditions" in the place of "rules and regulations" in the first paragraph of Section 9 and by adopting much of the language

of the Board's regulations in the second and tenth paragraphs, as explained above. This action on the part of Congress seems to show beyond question that it intended to sanction the Board's established practice and permit it to continue to prescribe any conditions of membership which in the exercise of its discretion it considers necessary to carry out the purpose of the Federal Reserve Act.

POWER TO PRESCRIBE CONDITIONS NOT QUALIFIED BY
TENTH PARAGRAPH.

It has been argued very earnestly that the power given in the first paragraph of Section 9 to prescribe conditions of membership is limited by the following language of the tenth paragraph of Section 9:

"Subject to the provisions of this act and to the regulations of the board made pursuant thereto, any bank becoming a member of the Federal Reserve System shall retain its full charter and statutory rights as a State bank or trust company, and may continue to exercise all corporate powers granted it by the State in which it was created, and shall be entitled to all privileges of member banks."

Specifically, it has been argued that the Board's power to impose conditions is limited by this assurance that State member banks shall retain their full charter and statutory rights under State law and may continue to exercise all corporate powers granted by State law. But these rights are to be retained and enjoyed "subject to the provisions of this Act and to the regulations of the Board made pursuant thereto." It is argued that this means that the rights enjoyed under State law are limited only by the express provisions of the Federal Reserve Act and by regulations of the Board which merely interpret and carry into effect such express provisions. One of the express provisions of the Act, however, is that the Board shall have the power to impose conditions of membership before admitting a bank to the Federal Reserve System, and it

is clear that the Board's power to impose such conditions was intended as a limitation on the exercise of the powers enjoyed by them under State law. This result is obvious when we consider the fact conclusively demonstrated above that the amendment was intended to incorporate into the law the Board's existing regulations, which provided that:

"Every State bank or trust company while a member of the Federal Reserve System -

"(1) Shall retain its full charter and statutory rights as a State bank or trust company, and may continue to exercise the same functions as before admission, except as provided in the Federal Reserve Act and the regulations of the Federal Reserve Board, including any conditions embodied in the certificate of approval."

Furthermore, the interpretation contended for by Counsel for the State banks would deprive the language of the first paragraph of Section 9 which authorizes the Board to impose conditions of membership of all meaning and effect. If the Board may impose only such conditions as are expressly stated in the law or are incorporated in regulations based upon express provisions of the Act, then it would be useless and unnecessary to prescribe conditions of membership, and thus the grant to the Board of the authority to impose conditions of membership would be an idle and meaningless provision. It is one of the fundamental rules of statutory construction, that the various provisions of a statute must be read together and harmonized, if possible, in such a way as to give some meaning and effect to all the various provisions thereof. Congress will not be presumed to have used words in a statute without intending them to have some meaning, and the sole purpose of statutory construction is to seek out and give effect to that meaning.

DISTINCTION BETWEEN "REGULATIONS" AND "CONDITIONS."

The regulations to be prescribed by the Board under the authority contained in the tenth paragraph of Section 9 must be made pursuant to the provisions of the Act, i. e., they must be based upon and intended to carry into effect some express provision of the Act. The power to impose conditions, however, is something entirely different. It was given to the Board in order to enable it to prescribe conditions before admitting a State bank to membership which would cover matters not covered by any express provision of the law and which, therefore, could not be covered by any regulation made pursuant to the express provisions of the law.

Furthermore, there is another important practical distinction between "conditions" and "regulations". Conditions of membership must always be prescribed by the Board and voluntarily agreed to by a State bank before it is admitted to membership, while regulations made pursuant to the terms of the law may be prescribed at any time and may be amended from time to time.

This is entirely in accordance with the demands of the State banks which led to the enactment of the amendment of June 21, 1917. They had represented to the Board that before coming into the Federal Reserve System they wished to know exactly what terms, conditions, and regulations they would be required to comply with and they wished to be assured before being admitted to membership that the Board would not thereafter amend its regulations in such a way as to change the terms and conditions on which they had entered the System. This desire is fully met by the interpretation which the Board has placed upon the Act. Inasmuch as the

Board's regulations regarding State member banks must be based upon express provisions of the Act, the banks know in advance what such provisions are, and they can not be substantially changed without an amendment to the law. As to conditions of membership, they are equally protected, because such conditions must be prescribed before such banks become members, and when the Board has prescribed the conditions on which it will admit a particular State bank to membership that bank has the option of voluntarily accepting those conditions and becoming a member of the System or refusing to accept the conditions and staying out of the System. If it voluntarily accepts the conditions and becomes a member, the Board can not, thereafter change the conditions without the bank's consent, and the bank can not justly complain of the conditions because it has voluntarily agreed to them.

The Federal Reserve Board, of course, has no power to prescribe arbitrary conditions or conditions which have no reasonable relation to the purposes of the Federal Reserve Act. But on the other hand, it is evident that in prescribing conditions the Board is not restricted to the express provisions of the Act. It may prescribe any condition which is reasonably necessary or incidental to carrying into effect the broad purpose and policy of the Federal Reserve Act.

POWERS OF STATE BANKS INCONSISTENT WITH ACT.

The second paragraph of Section 9 of the Federal Reserve Act provides:

"In acting upon such applications the Federal Reserve Board shall consider the financial condition of the applying bank, the general character of its management, and whether or not the corporate powers exercised are consistent with the purposes of this act."

If any of the corporate powers of the applying bank are not consistent

with the purposes of the Federal Reserve Act, then the Board is authorized to reject the application or to prescribe conditions of admission to membership to reconcile these inconsistencies. It is clear that the Federal Reserve Board is to exercise its own discretion in approving or rejecting applications or in prescribing conditions. It is also to exercise its discretion as to what conditions of membership to prescribe. If the Federal Reserve Board in the exercise of its discretion and judgment, believes that a certain condition is necessary in order to make the powers of an applying bank consistent with the purposes of the Federal Act, it may prescribe such condition. The matter is one to be decided entirely by the Federal Reserve Board. There is no other reasonable construction of the Act possible. It is not indicated in the Act what powers are inconsistent with membership and the Federal Reserve Board, therefore, must be the judge.

In the exercise of its judgment and discretion, the Board may find that the establishment of an unlimited number of branches is inconsistent with membership and with the purposes of the Act. It might base its judgment on the grounds that a large number of branches make the proper supervision and examination of the member bank impossible, or that an unlimited number of branches is inconsistent with the independent system of banking which was the basis upon which the Federal Reserve System was founded. In such cases, and in any other cases in which the Board in its discretion considers it necessary or advisable, it may legally and validly impose a condition prohibiting the establishment of branches without its consent.

POWER TO PRESCRIBE CONDITIONS NOT A POWER TO LEGISLATE.

It has been contended that if the Board's interpretation is correct the grant to it of the power to prescribe conditions of membership is an unconstitutional delegation of the power to legislate; but such contention is clearly erroneous.

, The power to prescribe the conditions on which the Board will admit a particular bank to membership is not a power to legislate. It is merely a power to enter into a voluntary agreement with each individual bank which desires to become a member of the Federal Reserve System and in that agreement to stipulate that certain conditions must be complied with or agreed to by that bank as a prerequisite of membership. The conditions prescribed necessarily vary with the different banks which apply for membership and must be made to fit the facts and circumstances of each particular case. In the case of one bank numerous conditions may be necessary in order that it may become suitable for membership in the Federal Reserve System and remain suitable after admission. In another case few conditions or no conditions may be necessary. Whether or not conditions are necessary and what conditions are necessary are questions of fact requiring the exercise of administrative judgment in each particular case. The Board must consider all facts and circumstances in each case and impose such conditions as in its judgment it believes to be necessary or advisable under the peculiar circumstances of that case. It is a matter which clearly could not be covered by general legislation.

It is not possible to have a general set of conditions which would apply equally well to all banks which make application for membership. If this were true, Congress itself undoubtedly would have prescribed a

uniform set of conditions in the law and with those conditions all applying banks would be obliged to comply. Since this was not possible, Congress has vested the Federal Reserve Board with a broad discretion in prescribing conditions of membership so that the conditions presented may fit the facts in each particular case. It is well settled that Congress may vest such discretionary power in administrative officers or bodies and that it does not constitute a delegation of the power to legislate. Field v. Clark, 143 U.S. 649; Buttfield v. Stranahan, 129 U.S. 470; United States v. Grimaud, 220 U. S. 506, and Monongahela Bridge Co. v. United States, 216 U. S. 177; Intermountain Rate Cases, 234 U.S. 476; First National Bank v. Fallows, 244 U.S. 416.

CONDITIONS AGAINST BRANCHES.

The Board being thus empowered to prescribe such conditions as in its judgment and discretion are reasonably necessary to carry out the spirit, purpose and intent of the Federal Reserve Act, it seems obvious that there are some circumstances under which it has the power to prescribe as a condition of membership that a State member bank shall not establish any branch without first obtaining its consent. If upon investigation the Board finds that a bank applying for membership has a large number of branches and that the establishment of more branches would be likely to affect its solvency, the power of the Board to impose/a ^{such} condition would seem to be beyond question. Even those who question the Board's power might admit this. The Board then has the power, under some circumstances, to prescribe the condition with reference to branches. If this is true, it must necessarily have the power to decide under what circumstances such a condition should be required. It is a matter of discretion with the Board as to when this condition is to be imposed.

And so it is a matter of discretion with the Board whether or not to permit a State member bank which has agreed to this condition regarding branches to establish a particular branch.

It has been argued recently that the question whether or not a State bank should be permitted to establish a branch is primarily a local question for the determination of the State authorities and that the Board has nothing to do with it. The question whether or not a State bank should be permitted to establish a branch and at the same time become or remain a member of the Federal Reserve System, however, is a question for the determination of the Federal Reserve Board alone. In considering this matter the Board must use its own discretion and judgment independent of the State authorities and must consider the effect which its consent to the establishment of such a branch would have upon the Federal Reserve System. It must determine whether the establishment of such a branch by the State bank would, or would not, be consistent with the spirit and purposes of the Federal Reserve Act. With this question the State authorities have no concern, and the decision of the State authorities certainly can not control the Board's decision. If the Board in its discretion finds that a possible injury to the system would result or that the establishment of a proposed branch would be inconsistent in any way with the spirit or purpose of the Federal Reserve Act, then it may decline to approve the establishment of that branch, regardless of the attitude of the State authorities as to the establishment of such branch.

CONCLUSION

I am of the opinion, therefore, that in prescribing the conditions

on which it will admit State banks to membership, the Federal Reserve Board is not limited to such conditions as are necessary to carry out the express provisions of the Federal Reserve Act, but it may impose any reasonable condition which it deems necessary or advisable to carry out the spirit and purpose of the Act, and in determining what conditions are necessary or advisable it must use its own discretion and judgment. If, in the exercise of this discretion and judgment, the Board believes that a condition should be imposed upon an applying bank prohibiting it from establishing branches without the Board's consent, then it may legally and validly prescribe such a condition as a prerequisite to membership.

Walter Wyatt
General Counsel

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FEDERAL RESERVE BOARD

827

WASHINGTON

X-3876

November 1, 1923.

SUBJECT: Federal Reserve Bulletin: Subscription Rate for
Examiners of State Banking Departments.

Dear Sir:

Referring to the Board's letter X-3554 of November 6, 1922, you are advised that the special rate of \$2.00 per annum for subscriptions to the Federal Reserve Bulletin for the use of Examiners of the State Banking Departments will apply during the ensuing year.

In order that subscriptions may begin with the January issue, please forward to the Board, not later than December 10th, a list of the State Bank Examiners in your District to whom the bulletin should be supplied.

The Board furnishes a complimentary copy of the Bulletin to the Banking Commissioner of each State and therefore the names of these Commissioners may be omitted from your list.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO ALL FEDERAL RESERVE AGENTS.

(COPY)

X-3879

Nov. 1, 1923.

To Mr. Dawes, Chairman, Examination
Committee.
From Mr. Wyatt, General Counsel, Federal
Reserve Board

Subject:
Power of the Board to Adopt
a Policy with Reference to
Branches of State Member
Banks.

You have requested my opinion as to whether or not the Federal Reserve Board would be acting within its legal rights if it should adopt the following resolution:

WHEREAS, the Federal Reserve Act contemplates a unified banking system in which State and national banks can participate on a basis fair to both, and,

WHEREAS, State banks in certain States have been permitted by law or regulation to engage in State-wide branch banking, while national banks are restricted by the Federal Statutes from establishing branches or offices beyond the limits of the city in which the parent bank is located, and,

WHEREAS, the Board believes that this results in an inequitable situation which renders it impossible for national and State banks to exist together in the Federal Reserve System on a fair competitive basis unless the powers of State and national member banks to engage in branch banking are reconciled, and,

WHEREAS, in the interest of the successful administration of the Federal Reserve System, it appears necessary and desirable to confine the operations of member banks within reasonable territorial limits, and,

WHEREAS, the Federal Reserve Board is authorized by the Federal Reserve Act to prescribe conditions under which applying State banks may become members of the Federal Reserve System,

NOW, THEREFORE, BE IT RESOLVED, that the Board continue hereafter as heretofore to require State banks applying for admission to the Federal Reserve System to agree as a condition of membership that they will establish no branches except with the permission of the Federal Reserve Board;

BE IT FURTHER RESOLVED, that as a general principle, State banks with branches or additional offices outside of the corporate limits of the city or town in which they are located or territory contiguous thereto ought not be admitted to the Federal Reserve System except upon condition that they relinquish such branches or additional offices;

BE IT FURTHER RESOLVED, that, as a general principle, State banks which are members of the Federal Reserve System ought not be permitted to establish or maintain branches or additional offices outside the corporate limits of the city or town in which the parent bank is located or territory contiguous thereto;

BE IT FURTHER RESOLVED, that in acting upon individual applications of State banks for admission to the Federal Reserve System and in acting upon individual applications of State banks which are members of the Federal Reserve System for permission to establish branches or additional offices, the Board, on and after February 1, 1924, will be guided generally by the above principles;

BE IT FURTHER RESOLVED, that the term "territory contiguous thereto" as used above shall mean the territory of a city or town whose corporate limits at some point coincide with the corporate limits of the city or town in which the parent bank is located.

BE IT FURTHER RESOLVED, that this resolution is not intended to affect the status of any branches or additional offices established prior to February 1, 1924.

As I interpret it, this resolution would not establish an absolute, hard and fast rule applicable in all cases, but would merely state certain general principles for the guidance of the Board in acting upon individual cases which are presented to it. Being merely a statement of general principles, it would not bind the Board absolutely to a definite course of action in every case that might arise in the future, and the Board could make exceptions in any individual case in which such general principles appear to be inapplicable.

After thorough investigation and careful study of the Board's power to prescribe conditions of membership, I rendered an opinion under date of July 16, 1923, in which I reached the conclusion that, in admitting State banks to membership in the Federal Reserve System, the Federal Reserve Board has power to prescribe such reasonable conditions of membership as in its discretion it deems necessary or advisable in order to carry out the broad purposes and policy of the Federal Reserve Act and is not limited to such conditions as are necessary to carry out the express provisions of the Act; and that if, in the exercise of its discretion and judgment, the Board believes that a condition should be imposed upon an applying bank prohibiting it from establishing branches without the Board's consent, then the Board may legally and validly prescribe such a condition as a prerequisite to membership. I also expressed the opinion that, when the Board has prescribed such a condition and the bank in question has accepted it and become a member of the System, the Board has a reasonable discretion in deciding whether or not to permit that bank to establish a particular branch; and that if

it believes that the establishment of a particular branch would be inconsistent with the spirit or purpose of the Federal Reserve Act, then it may properly decline to permit it.

In that opinion attention was called to the fact that in acting upon the application of a State bank for admission to the Federal Reserve System, the Federal Reserve Board is expressly required to consider "whether or not the corporate powers exercised are consistent with the purposes of this Act." That requirement of the Act was discussed in part as follows (page 17):

"If any of the corporate powers of the applying bank are not consistent with the purposes of the Federal Reserve Act, then the Board is authorized to reject the application or to prescribe conditions of admission to membership to reconcile these inconsistencies. It is clear that the Federal Reserve Board is to exercise its own discretion in approving or rejecting applications or in prescribing conditions. It is also to exercise its discretion as to what conditions of membership to prescribe. If the Federal Reserve Board in the exercise of its discretion and judgment, believes that a certain condition is necessary in order to make the powers of an applying bank consistent with the purposes of the Federal Reserve Act, it may prescribe such condition. * * * It is not indicated in the Act what powers are inconsistent with membership and the Federal Reserve Board, therefore, must be the judge."

It appears from the report of your Committee recommending the adoption of the above resolution that the principles stated in that resolution are based upon two propositions: (1) That one of the fundamental purposes of the Federal Reserve Act is to create a unified system of banking in which State and national banks can exist together on a basis fair to both; and (2) that the admission of State banks to the Federal Reserve System with the unrestricted power to engage in State-wide branch banking is inconsistent with this purpose of the Act, because it creates a competitive situation under which national banks cannot continue to exist.

If the Board thus finds that the power of a particular bank to engage in State-wide branch banking is inconsistent with the purposes of the Federal Reserve Act, it may, under the principles set forth in my opinion of July 16, refuse to admit any particular State bank having such power or it may admit it only on condition that it agree not to exercise such power except with the Board's consent.

Having the power to impose such a condition, the Federal Reserve Board must necessarily have the power to adopt general principles

for its guidance in acting upon each individual case which is presented to it. Inasmuch as the above quoted resolution purports to do nothing more than this, I am of the opinion that the Board would be acting within its legal rights in adopting such a resolution.

Respectfully,

(signed) Walter Wyatt

General Counsel.

FEDERAL RESERVE BOARD

WASHINGTON

X-3880
November 6, 1923.

SUBJECT: Administration of the Clayton Act.

Dear Sir:

The question has been raised in the past, whether a permit issued under the Kern Amendment authorizing a person to serve as director of a national bank and some other bank continues to be effective after such national bank consolidates with another national bank under the provisions of the Act of November 7, 1918. This Act provides, in part:

"Any two or more national banking associations * * may * * * consolidate into one association under the charter of either existing bank * * *. All the rights, franchises and interests of said national bank so consolidated in and to every species of property, personal and mixed, and choses in action thereto belonging, shall be deemed to be transferred to and vested in such national bank into which it is consolidated without any deed or other transfer, and the said consolidated national bank shall hold and enjoy the same and all rights of property, franchises, and interests in the same manner and to the same extent as was held and enjoyed by the national bank so consolidated therewith."

These provisions necessarily imply that the corporate existence of the consolidating or constituent banks shall be terminated, while the corporate existence of the absorbing bank continues and carries with it all the rights and interests of the defunct consolidating banks. The consolidating banks accordingly cease to exist as separate corporations and permits covering them must be deemed similarly to terminate, unless it can be said that permitted directorates in such banks are included in the rights, franchises or interests of a consolidating national bank which are transferred upon a consolidation within the meaning of the Act of November 7, 1918. The Board previously held that a permit issued under the Kern Amendment is a personal license to the applying director and does not constitute such a right, franchise or interest of the consolidating national bank. In cases of consolidation of national banks, therefore, the Board ruled that a permit will continue to be effective where the consolidation is carried out under the charter of the national bank already covered by the permit, but that the permit will lapse and a new permit will be required where the national bank covered by the permit consolidates with and under the charter of another national bank.

The Board has recently had occasion to reconsider this ruling and, after careful study of the entire question, it is now of the opinion that there is no warrant in law for the distinction made in that ruling. While a permit issued under the Kern Amendment is primarily a personal license to the applying director, giving him the right to serve in certain capacities, it also confers upon the bank involved a definite, though incidental, interest in the director's services and the Board believes that this interest of the bank should be construed as included in the rights, franchises or interests of a consolidating national bank within the meaning of the Act of November 7, 1918. The distinction drawn in the Board's former ruling was based entirely upon the question of which charter was selected as the basis for the consolidation, but the Board is now of the opinion that the mere choice of a charter should make no difference for the purposes of a Clayton Act permit, since it was the obvious intent of the Act of November 7, 1918, to transfer to the consolidated institution all the rights, interests, and privileges of all the constituent banks, irrespective of which national bank was selected to continue its charter and its corporate entity.

The Board accordingly rules that where a permit is granted to a person to serve as director of a national bank and some other bank, and the national bank subsequently consolidates with another national bank, under the Act of November 7, 1918, the permit will continue to be effective and will authorize the director in question to serve the consolidated national bank and the other bank, irrespective of which national bank charter was selected as the basis for the consolidation. Such permits, however, will be subject to revocation and, as stated in the Board's circular letter X-3603, dated January 2, 1923, the Board will consider the revocation of permits in cases where existing interlocking directorates have had the effect of lessening or stifling competition between banks which, but for the common directorate, would freely compete. Federal Reserve Agents will, therefore, report to the Board all cases of interlocking directorates involving national banks which have consolidated where, in the Agent's opinion, the question of the revocation of permits should be considered by the Board in accordance with the practice heretofore indicated.

Very truly yours,

Walter L. Eddy,
Secretary.

TO ALL F. R. AGENTS.

F E D E R A L R E S E R V E B O A R D

STATEMENT FOR THE PRESS

For Immediate Release.

X-3881
November 7, 1923.

The Federal Reserve Board, at its meeting today, adopted by a majority vote the following report and the resolution contained therein, which was submitted to it by a Committee of its members who have had under study the development of branch banking in the United States, with a view of recommending to the Board the policy which the Board should pursue in admitting to membership in the Federal Reserve System state banks maintaining branches outside the corporate limits of the city or town or contiguous territory in which the parent bank is located; as well as the policy which the Board should pursue in considering applications of state banks already members of the System to establish additional branches or offices outside the corporate limits of the city or town or contiguous territory in which the parent bank is located.

TO THE FEDERAL RESERVE BOARD:

The Examination Committee herewith submits to the Federal Reserve Board a resolution accompanied by an opinion as to its legality by the Counsel of the Board, upon which it recommends immediate and favorable action. The substance of this resolution has been a matter of long and intensive study by all of the members of the Federal Reserve Board and the Board should be, therefore, in position to express itself and to take a definite stand on the subject. The committee desires to submit the following reasons for recommending this resolution which lays down certain general principles for the guidance of the Board in acting upon the individual cases presented to it.

The organization of the Federal Reserve System was possible because of the power of the National Government to enforce the cooperation of the national banks. At its inception it was primarily an instrumentality of coordination, imposed upon the existing national system, but the full membership of the Federal Reserve System is now composed of banks which are organized under 49 different governmental authorities, operating through the National Bank Act and the banking laws of the 48 different states. The intent of the Federal Reserve Act is necessarily to compromise and reconcile the operations of the banks under these 49 different sets of laws, since a rigid and technical adherence to a detailed formula would make the Federal Reserve System impracticable of operation. Recognizing this principle the Federal Reserve Act provided for the supervisory control of the operations of the member banks by the Federal Reserve Board and clothed this Board with certain discretionary powers over the member banks in order that, amongst other things, it should have the duty of seeing that the "corporate powers exercised are consistent with the purposes of this Act".

If a bank or a group of banks is engaged in a form of banking or in practices which are prejudicial to the successful operation of the system, the Federal Reserve Act permits, and indeed requires, that the

Federal Reserve Board should assert its authority to compel conformity on the part of such member banks to the fundamental principles upon which the Act is based, as well as to the specific provisions thereof. Without passing upon the question as to whether or not branch banking is in its fundamentals antagonistic to the Federal Reserve System, the fact is indisputable that certain Member Banks are privileged in a practice which is definitely forbidden to other Member Banks and which, very naturally, has resulted in unfair competition. This disadvantage applies with special force to the National Banks which, in the opinion of two Attorneys General, have not the right to indulge in any form of corporate activities beyond the limits of the city or town in which the bank is located.

It is the opinion of your Committee that the unlimited extension of the practice of Branch Banking will give to banks operating under liberal State Charters such competitive advantages over the unit banks which are members of the Federal Reserve System, as to impair materially their usefulness, if it, in fact, does not ultimately result in their extinction.

Your committee believes that it is clearly the duty of the Federal Reserve Board to lay down a policy to the general end that all banks, National and State, may operate for the good of the System, and that the good of the System cannot be subserved by the operation within it of a group whose activities must essentially endanger the very existence of another group. "A house divided against itself cannot stand."

The responsibility to effect an adjustment on fair, broad, general lines is a very great one, and one which this Board cannot evade by a technical interpretation of the law which is not based upon sound principles of equity. It is, in the opinion of your committee, the duty of the Board to lay down principles upon which member banks may operate with a proper regard for the good of the System, and to establish a basis for a fair adjustment as between the different member banks which compose it. Whether National or State, no bank should enter or continue in the System which is not willing to

waive such of the privileges granted to it by the Act under which it is incorporated as may be inconsistent with the general purposes of the organization to which it belongs. It is the duty of the Federal Reserve Board to prescribe the basis for this compromise and in so doing to insist on the terms which may be necessary in order that the compensating advantages of membership in the System may be secured.

It is manifestly unfair for the Board in its current activities to refrain from notifying the members as to such general principles it will consider in carrying out such adjustments. It is unfair to permit a member bank unwittingly and innocently to engage in a course which may, without warning, meet with the criticism and prohibition of the Board. Therefore, the Committee submits the attached resolution and urges favorable action on the part of the Board to the end that the members of the System may know to what extent they will be limited in their activities in this important matter of branch banking, upon which the Federal Reserve Act expresses itself only by implication.

It is the opinion of the committee that, in certain specific instances, the interests of its members require at the present time a clear and definite statement as to the limitations and the privileges which will be recognized. It is necessary and only fair that those members which are engaged in this form of banking should be notified in advance of the extent to which their activities may be carried on within the System and that those member banks which are forbidden by law or have not as a matter of policy engaged in branch banking should know the extent to which other member banks may be permitted to compete with them within the System and the terms of such competition. It is the opinion of the Committee that the resolutions prepared offer as fair and reasonable a basis of compromise as is practicable under the present laws, both State and National. It will be observed that in recognition of the conditions which may exist in certain localities the State member banks would not be affected by this declaration of principle in the operation of full branch banking powers within the limits of the city in

which the parent bank is located and in contiguous municipalities, and that this privilege is not impaired and denied them in spite of the fact that National Banks may, under the law, engage in only limited activities beyond the four walls of their banking house, and those only within the limits of a single municipality. This resolution does not give the National Banks facilities equal to those of the member banks operating under the laws of certain states. It does, however, in the opinion of the Committee, relieve the National Banks from the competition of state banks operating from headquarters in remote localities. The committee does not contend that it places the State member banks and the National Banks in certain states on a basis of equality in the System, but it regards the resolution as going as far as the present laws, both National and State, permit in producing a condition of equitable adjustment. Complete equity can be established only by the modification of either State or National laws, or perhaps both.

It is the opinion of the Counsel of the Federal Reserve Board that the Board acts within its rights in passing the resolution herewith submitted. The Committee, in preparing this resolution, has recognized that the action advocated touches upon a vital principle of the Federal Reserve Act, and the fundamentals of American banking. It believes that its action will be sustained by the favorable opinion of the general public, the legislative authorities, and banking sentiment. It recognizes as undesirable, however, that in a matter of such basic importance, its action be considered as arbitrary or precipitate. It is, therefore, recommended that the date for the operation of this policy should be set forward until February 1st, 1924, in order that the member banks may have a reasonable time to adjust themselves to its provisions, and that if, in its wisdom, Congress should desire to curtail or to enlarge the powers of the Federal Reserve Board as exercised under this resolution they may have an opportunity to do so before it can be put into effect.

Respectfully submitted,

Committee on Examinations.

November 7th, 1923.

RESOLUTION

WHEREAS, under the terms of the Federal Reserve Act national banks are required to become members of the Federal Reserve System and cannot withdraw therefrom, while State banks may become members by voluntary choice and may withdraw therefrom at will, and,

WHEREAS, the Federal Reserve Act contemplates a unified banking system in which State and National banks can participate on a basis fair to both, and,

WHEREAS, State banks in certain States have been permitted by law or regulation to engage in State-wide branch banking, while national banks are restricted by the Federal Statutes from establishing branches or offices beyond the limits of the city in which the parent bank is located, and,

WHEREAS, the Board believes that this results in an inequitable situation which renders it impossible for national and State banks to exist together in the Federal Reserve System on a fair competitive basis unless the powers of State and national member banks to engage in branch banking are reconciled, and,

WHEREAS, in the interest of the successful administration of the Federal Reserve System, it appears necessary and desirable to confine the operations of member banks within reasonable territorial limits, and,

WHEREAS, the Federal Reserve Board is authorized by the Federal Reserve Act to prescribe conditions under which applying State banks may become members of the Federal Reserve System,

NOW, THEREFORE, BE IT RESOLVED, that the Board continue hereafter as heretofore to require State banks applying for admission to the Federal Reserve System to agree as a condition of membership that they will establish no branches except with the permission of the Federal Reserve Board;

BE IT FURTHER RESOLVED, that as a general principle, State banks with branches or additional offices outside of the corporate limits of the city or town in which the parent banks are located or territory contiguous thereto ought not be admitted to the Federal Reserve System except upon condition that they relinquish such branches or additional offices;

BE IT FURTHER RESOLVED, that, as a general principle, State banks which are members of the Federal Reserve System ought not be permitted to establish or maintain branches or additional offices outside the corporate limits of the city or town in which the parent bank is located or territory contiguous thereto;

BE IT FURTHER RESOLVED, that in acting upon individual applications of State banks for admission to the Federal Reserve System and in acting upon individual applications of State banks which are members of the Federal Reserve System for permission to establish branches or additional offices, the Board, on and after February 1, 1924, will be guided generally by the above principles;

BE IT FURTHER RESOLVED, that the term "territory contiguous thereto" as used above shall mean the territory of a city or town whose corporate limits at some point coincide with the corporate limits of the city or town in which the parent bank is located;

BE IT FURTHER RESOLVED, that this resolution is not intended to affect the status of any branches or additional offices established prior to February 1, 1924, either those of banks at the present time members of the Federal Reserve System or those of banks subsequently applying for membership in said System.

STATEMENT FOR THE PRESS

For Immediate Release.

X-3882
November 7, 1923.

Following is the minority report of the Board's committee with reference to the resolutions adopted by the Federal Reserve Board with relation to branch banking.

X-3882
November 7, 1923.

The resolutions submitted in the report of the majority of the Committee on Examinations are based upon the assumption that it is the duty of the Federal Reserve Board to deny to any state bank member the right to exercise any of the powers granted in its state charter that appear to give it a marked advantage over national banks in competition, even though the exercise of these powers may be to the advantage of the communities in which the banks are located and even though the powers, themselves, may be in accordance with the soundest banking principles.

If the Federal Reserve Board should adopt this attitude and pass the resolutions proposed with relation to branch banking, it would be tantamount to an attempt to force the state banks to conform to the national banking laws and would be a complete reversal of the position the Board has taken, not only in the matter of branch banking but in all matters touching competition between state and national banks where the practices of the state banks have been deemed to be sound banking.

The Board's annual reports from the organization of the Federal Reserve System bear witness to the fact that the Board has always taken a progressive position. It has not sought to repress and hold back state banks from the exercise of sound banking privileges, but has always recommended amendments to the National Banking Act, or the Federal Reserve Act broadening the powers of the National Banks.

Excepting the Act of 1900, which was chiefly an effort to increase the attractiveness of the note-issuing privilege, though it also provided for

national banks with a minimum capital of \$25,000, very few changes were made in the laws affecting national banks prior to the passage of the Federal Reserve Act. State banks by the abolition of their note issuing privilege through the 10 per cent tax, made effective in 1866, were reduced from 1562 in 1860 to 247 in 1868, and almost all of the surviving 247 were in the eastern financial centers where deposit banking had begun to assume considerable proportions. Long before the passage of the Federal Reserve Act they had overtaken and passed the National Banks in numbers, and the chief increase had taken place not in the financial centers but in the agricultural west. Nor was the increase confined to small banks. During the ten years 1899 to 1909 state banks with a capital above \$50,000 increased in practically the same numbers and at a much greater percentage than national banks. (Barnett "State Banks and Trust Companies", 222-223). The fact is that national banks had been held very narrowly to certain types of commercial banking, and nearly all progress in banking had been made by state banks, which steadily gained as the note issuing monopoly of the national banks became of less and less importance.

The Federal Reserve Act provided not only for the banding together of national banks in a cooperative system but it also liberalized the National Banking Act by adopting some of the best features of some of the best State banking legislation - notably in the recognition of a difference between time deposits and demand deposits in reserve requirements. It contained an attempt to allow the exercise of certain trust powers to national banks, and provided that the larger national banks might establish foreign branches.

Not long after the Federal Reserve System was organized the attention of the Board was directed to the fact that the competition of the state banks had not lessened and to the losses among national banks which were constantly being converted into trust companies, but instead of endeavoring to prevent state bank members from exercising trust powers the Board recommended and in fact prepared a bill for amendment to the Federal Reserve Act broadening Section 11 (k) so that national banks might exercise trust powers. This was passed in 1916.

The effort of the Board has been to make the national banking system as inclusive as possible, but it has at the same time sought constantly to add to the state bank membership and has not attempted to restrain state bank members from the exercise of proper banking powers enumerated in their charters. It has been actuated by desire to benefit the business interests of the country rather than the interests of any particular group of banks. The Board favored the amendments of 1917, which provided that state banks might be admitted to the system retaining their charter rights, and an examination of the correspondence that preceded the admission of the California state banks maintaining branches will show that they were clearly admitted with the understanding that their charter right to such branch extension as should be found consistent with sound banking would not be denied. Several times the Board as well as the Comptroller have recommended that national banks should be given branch banking privileges within the states where branch banking is permitted by state law, and the Board at one time recommended that national banks should be given branch banking privileges within city limits without regard for state law. This was at one time recommended also by the Federal Advisory Council. The Board in 1916 and 1918 recommended the enactment of a bill providing for branch banking within county limits, or within a radius of 25 miles from the parent bank.

If, now, the Board reverses itself and attempts to restrict state banks through the right to impose conditions when they apply for membership it will be in effect attempting to make state banks conform to the National banking act, and become practically national banks, so far at least as branch banking is concerned.

Limited branch banking within municipal limits has recently been extended the national banks through new regulations from the Comptroller, following a more liberal interpretation of the law by the Attorney General. If the Board had any reason for believing that branch banking beyond city limits must necessarily be unsound there would be ground for the complete reversal of its position but the majority report does not claim that it is unsound and apparently has abandoned the assumption that it is contrary to the Federal Reserve Act. Such claims, in fact, could not be sustained by the Federal Reserve Board at this time. Branch banking beyond city limits has existed in the Federal Reserve System since its organization, in national banks as well as in state banks, and the National banking act, itself, has since 1865 provided for branch banking through the authorization for the conversion of state banks with branches into national banks. State-wide branch banking is authorized in a number of southern states and in the state of Rhode Island, and limited branch banking, either by counties or in districts contiguous to cities, is authorized in a number of other states. Before the Civil War and the passage of the National banking act branch banking was common throughout the West and South. Nearly every western state before 1860 had developed systems of state-wide branch banking and some of these systems, as in Indiana and Ohio, were notably successful. In some states as many as 40 branches were maintained and these state-wide systems might all have been brought into the national banking system under the Act of 1865.

It cannot be maintained, if one may judge from the history of state banking in the United States, that branch banking necessarily implies the destruction of unit banking. The two existed side by side in Ohio and in other middle western states, as well as in the South, before the Civil War, and in the southern states branch banking has made comparatively slow progress even where fully authorized by law.

It is undoubtedly true, as the majority report says, that in branch banking beyond city limits certain member banks are engaging in a practice which is definitely forbidden to other member banks. This at once raises the question whether there is good reason to continue to forbid the practice to the other member banks. Unless the Board is willing to take a retrogressive, repressive position in a matter primarily of competition between two classes of banks, and without regard to the public convenience and the interests of the communities served, it should in my opinion instruct the Committee to work out regulations which will guide and direct the extension of branch banking in California without attempting to deny all further extensions, and to that end full consideration should be given the letter of October 3, 1923, addressed to the Board by the responsible executive officers of three of the largest State banks engaged in branch banking in that State. That letter appears to me to present frankly a sound basis for such regulations. Economic developments, such as the recent growth of branch banking in California, do not take place without a reason, and should not be arbitrarily repressed by any governmental body. They should rather be studied and guided with the purpose of determining whether they may not represent a real advance in American banking.

Branch banking has been recognized by the foremost authorities on banking in the United States as a natural method of extending banking facilities to small communities, as presenting opportunities for diffusing business risks over larger areas than at present with a gain analogous to that which such diffusion brings to insurance, and as having the advantage of ability to make loans from a common fund of capital and deposits in accordance with the unequal and varying demands of different industries and sections served. There is reason to believe that the agricultural sections of the United States would be far better served, and with the deposits of the farmers much more adequately safeguarded, under systems of branch banking, whether limited to counties or state wide, than at present. California is trying the experiment, and no evidence has so far been presented to show that it is not serving the people of the State well.

(Signed) EDMUND PLATT.

X-3885

THE TREASURY DEPARTMENT
Office of the Secretary
WASHINGTON

November 5, 1923.

The Governor
Federal Reserve Board.

Sir:

You are hereby advised that the Department has referred to the Disbursing Clerk, Treasury Department, for payment, the account of the Bureau of Engraving and Printing for preparing Federal Reserve notes during the period October 1 to October 31, 1923, amounting to \$112,412.50, as follows:

	Federal Reserve Notes, 1914				Total
	\$5	10	20	50	
Boston		108,000	54,000	- -	162,000
New York	351,000	- -	- -	- -	351,000
Philadelphia	135,000	167,000	108,000	27,000	437,000
Cleveland	135,000	54,000	135,000	27,000	351,000
Richmond	81,000	- -	27,000	- -	108,000
Chicago	594,000	289,000	130,000	- -	1,013,000
Dallas	135,000	61,000	27,000	- -	223,000
	<u>1,431,000</u>	<u>679,000</u>	<u>481,000</u>	<u>54,000</u>	<u>2,645,000</u>

2,645,000 sheets at \$42.50 per M \$112,412.50

The charges against the several Federal Reserve Banks are as follows:

	Sheets	Compen- sation	Plate Printing	Materials	Inc. Com- pensation	Total
Boston	162,000	\$2,187.00	\$ 2,227.50	\$ 1,903.50	\$ 567.00	\$ 6,885.00
New York	351,000	4,738.50	4,826.25	4,124.25	1,228.50	14,917.50
Philadelphia	437,000	5,899.50	6,008.75	5,134.75	1,529.50	18,572.50
Cleveland	351,000	4,738.50	4,826.25	4,124.25	1,228.50	14,917.50
Richmond	108,000	1,458.00	1,485.00	1,269.00	378.00	4,590.00
Chicago	1,013,000	13,675.50	13,928.75	11,902.75	3,545.50	43,052.50
Dallas	223,000	3,010.50	3,066.25	2,620.25	780.50	9,477.50
	<u>2,645,000</u>	<u>\$35,707.50</u>	<u>\$36,368.75</u>	<u>\$31,078.75</u>	<u>\$9,257.50</u>	<u>\$112,412.50</u>

The Bureau appropriations will be reimbursed in the above amount from the indefinite appropriation "Preparation and Issue of Federal Reserve Notes, Reimbursable" and it is requested that your board cause such indefinite appropriation to be reimbursed in like amount.

Respectfully,

(Signed) S. R. Jacobs,
Deputy Commissioner.

FILING PLAN000. Miscellaneous.000. General.

- 000.0 General folder (containing items not deemed of sufficient importance to justify a separate folder).
- 000.1 Travel information (railroad time tables, fares, etc.)
- 000.2 Hotel reservations.
- 000.3 Maps and charts.
- 000.4
- 000.5 Miscellaneous lists.

001. Quasi-official relations of the Federal Reserve Board.

- 001.01 Acknowledgment of receipt.
- 001.02 Letters of introduction.
- 001.03 Letters of congratulation, Christmas greetings, etc.
 - 001.1 Invitations.
 - 001.2 Photographs.
 - 001.3 Autographs.
 - 001.4 Speeches, addresses, articles, pamphlets, books, etc.
 - 001.5 Bankers association (meetings, etc.)
 - 001.6 Visits of Board members to various reserve districts and Federal Reserve Banks, Itineraries, etc.
 - 001.7 Miscellaneous interview appointments, etc., with individuals. (See also conferences with Board, etc.)

002. Newspapers and periodicals.

- 002.1 Newspaper clippings.
- 002.2 News summaries.

Government Departments.

- 010. War Department.
- 011. Treasury Department.
 - 011.01 War Relief Matters, 1914.
 - 011.02 War Risk Insurance.
 - 011.1 Secretary of the Treasury (and Chief Clerk)
 - 011.11 Announcements and statements for publication.
 - 011.12 Pan-American financial conferences.
 - 011.121 International High Commission.
 - 011.2 Comptroller of the Currency (for reports of condition of National Banks - See file 430.2)
 - 011.21 Miscellaneous statements, announcements and reports.
 - 011.3 Bureau of Engraving and Printing.
 - 011.4 Commissioner of Internal Revenue.
 - 011.5 Director of Mint.
- 012. Post Office Department.
- 013. Department of Agriculture.
 - (For crop statistics, see File 511.1)
 - 013.1 Miscellaneous statements, announcements and reports.
- 014. Department of Commerce.
 - 014.1 Bureau of the Census.
- 015. Department of State.
- 016. Department of Interior.
- 017. Department of Labor.
- 018. Navy Department.
- 019. Department of Justice.
- 020. Government Commission and Independent Bureaus.

- 021. Civil Service Commission (See also under Staff - Federal Reserve Board).
- 022. Government Printing Office (Superintendent of Documents, Public Printer - Also see Ptg. & Stat. F.R.Bd. & F.R. Bulletin).
 - 022.1 Public Documents, List of publications, etc.
- 023. Federal Trade Commission.
 - 023.1 Publications (See also Credit Bureau - F.R. Banks for publication of Fed. Tr. Com).
- 024. Interstate Commerce Commission.
- 025. Federal Farm Loan Board.
- 026. Tariff Commission.
- 027. Bureau of Efficiency (See also under Staff - Fed. Res. Bd.)
- 028. All other bureaus.

100. FEDERAL RESERVE SYSTEM.

100.0 General

- 101. History of the System.
- 102. Publication descriptive of.
 - 102.1 Corporation Trust Company service.
 - 102.2 Charts and maps showing organization of system.
- 103. Inquiries relative to general features, benefits and operations of system.
- 104. Letters of approval and assistance.
- 105. Letters of criticism.

110. Legislation.

- 111. Federal Reserve Act and enacted amendments. (Digest)
 - 111.1 Proposed amendments.

112. Related legislation.

112.1 Proposed

112.2 Enacted

112.21 Trade Commission Act, 1915.

112.22 National Bank Act.

112.23 Aldrich-Vreeland Act. (Act of May 30, 1908)
(Including all papers on National Monetary
Commission, except list of their publica-
tions of the Government Printing Office, 022.1)

112.24 Clayton Anti-Trust Act.

112.25 Federal Farm Loan Act.

112.251 Agricultural & Other Rural Credits Bills.

112.26 War Revenue Act.

112.27 Negotiable instruments law.

120. Reserve Bank Organization Committee

121. Hearings.

122. Decisions.

122.1 (Petitions and Hearings and Decisions on redistricting.
For papers relating to transfers of stock etc., re-
sulting from redistricting decisions, see under Capital
subscriptions Fed. Res. Banks, 302.1)

130. FEDERAL ADVISORY COUNCIL.

131. Functions and powers, and duties.

132. Personnel

132.1 Election and term.

132.2 Fees

133. Meetings.

134. Communications from Council

134.1 Recommendations.

134.2 Questions and interpellations.

200. FEDERAL RESERVE BOARD.

200.1 Seal design

200.2 Oath of office, members

201. Meetings.

201.1 Dockets.

201.2 Minutes

201.3 Resolutions, etc.

201.4 Orders.

202. Hearings and conferences with the Board.

203. By-laws.

204. Memoranda by offices of the Board. (Envelope for each member and Secretary and Chief Clerk)

205. Members of Federal Reserve Board. (Envelope for each member and Secretary)

210. Functions, powers, and duties.

220. Office management, and practice.

220.1 Budget, assessments for expenses, etc.

221. Expense accounts of members and staff.

222. Staff

222.1 Appointments.

222.11 Applications for appointment, endorsement.

222.12 Examinations.

222.13 List of eligibles for appointment.

- 222.2 Exports (Official reporters, etc.)
- 222.3 Authority, duties, etc. of employees.
- 222.4 Salaries (Also insurance, pensions, etc.)
- 222.5 Leaves of absence. (Sick and annual)
- 222.6 Discipline.

223. Material and supplies.

- 223.1 Bids, price quotations, etc.
- 223.2 Requisitions.
 - 223.21 Bills and vouchers.
- 223.3 Blank form for office use.
- 223.4 Mechanical devices for office use.
- 223.5 Printing and stationery.
 - 223.51 Correspondence with Public Printer and Joint Committee on printing.
- 223.6 Office furniture and fixtures.
- 223.7 Office quarters.

224. Mail.

- 224.2 Postal Regulations. (Franking privilege)
- 224.3 Mailing schedules.

225. Telephone and telegraph service and cablegrams.

- 225.1 Codes and code books.

226. Express service.

227. Bonds for officers and employees.

230. Committees.

- 230.1 Personnel and time of meeting.

230.2 Call of Committees.

231. Reports.

240. Divisions.

240.1 Accounting and other forms used by Federal Reserve Banks in reports to and requests for approval of Board, etc.

241. Division of Audit and Examination.

241.1 Examination of Federal Reserve Banks. (Branch Banks)

241.11 Examination of accounts of Federal Reserve Agents.

241.12 Memos. of Board members on such examinations.

241.2 Examination of Member Banks.

241.21 National Banks (National Bank Examiners)

241.22 State Banks

242. Bureau of credit information.

243. Division of Bank Operations.

243.1 Correspondence re reports of transactions by Federal Reserve Banks, etc.

244. Research & Statistics.

244.1 Bank Debits.

245. Division of Issue and Redemption.

245.1 Federal Reserve Notes. General and Public.

245.101 Shipment and release orders;

245.102 Reports and statements, F.R. notes.

245.103 Issue of notes (for gold and substitutions)

245.104 Notes through Treasury U.S.

- 245.11 Form of Federal reserve notes (Design)
- 245.12 Shipments of Federal Reserve Notes and currency.
 - 245.121 Postage and Insurance Rates.
 - 245.122 Form of packages for sealing etc for Federal reserve notes.
- 245.13 Redemption and destruction of F.R. notes.
 - 245.131 Reports; unfit notes received for destruction.
- 245.14 Laundering of Federal reserve notes.
- 245.15 Cost of issuing Federal reserve notes.
- 245.16 5% redemption fund.
- 245.17 Counterfeit currency.
- 245.2 Federal Reserve Bank notes.
 - 245.31 (Emergency currency)

246. Law Division

- 246.01 Miscellaneous legal opinions re F.R. system.
- 246.1 Opinions of Counsel
 - 246.11 Opinions of Consulting Counsel
- 246.2 Opinions of Attorney General.
- 246.3 Opinions of Postmaster General.
- 246.4 Opinions of Comptroller of the Treasury.
- 246.5 Court Decisions.
- 246.6 Opinions of Commissioner and Solicitor, Internal Rev.
- 246.7 Comptroller General of United States.

247. Library

248. Division of files, Office of Secretary.

249. Division of Foreign Exchange.

250. Publications of Federal Reserve Board.

250.01 General requests for publications, circulars, etc.,
of the Board.

250.02 Mailing list.

251. Annual report to Congress.

252. Circulars and regulations, rulings, etc.

252.1 Preliminary drafts.

253. Announcements and statement for publications.

254. Federal Reserve Bulletin.

254.1 Subscriptions (Mailing list, exchange list, etc.,)

254.2 Letters enclosing copy and correspondence with
banks regarding copy.

255. Rulings and decisions of Board (Digest of.)

256. Uniform Accounting

300. FEDERAL RESERVE BANKS (DISTRICTS)

301. Location. Also Location of Branch

301.1 Branches (Also temporary domestic agencies)

301.2 Foreign correspondents and agencies.

302. Organization, capitalization and seal.

302.01 Opinions and data on proper time of opening
the Federal Reserve Banks.

302.02 Execution of organization certificates.

302.1 Capital Stock (Imlay)

302.11 Subscription by public.

303. By-Laws

304. Circulars, regulations, bulletins, and annual reports
of the 12 Federal Reserve Banks.

304.1 Circulars, regulations, etc.

304.2 Annual reports from Banks in circular form.

310. Functions and Powers.

311. As fiscal agents of the United States.

311.1 Government Bonds.

320. Management and organization of force.

321. Personnel.

321.1 Directors (General) A.B.C.

321.101 Class "A" and "B" Directors.

321.101.1 Elections.

321.101.2 Oath of office

321.102 Class "C" Directors.

321.102.1 Application for position of
Class C Director, endorsements.

321.102.2 Appointments and resignation
of Class "C" Directors.

321.102.3 Biographical sketches of Class
"C" Directors.

321.102.4 Oath of office.

321.103 Branch Bank directors (Application
appointments and oaths)

321.11 Meetings of Directors (Minutes)

321.111 Joint Conference of directors.

321.12 Compensation of directors. (Fees)

321.2 Officers and employees.

321.201 Applications for employment with
Reserve banks and branches.

321.21 Office of and duties and powers of officers
and employees.

321.211 Of Federal Reserve Agents, and Deputies.

321.212 Assistants.

321.213 Of Governors and Deputies.

321.22 Salaries of officers and employees.

321.23 Bonding of officers and employees.

321.24 Travel Expense

322. Office Operations and Buildings.

322.1 Vaults and vault space.

322.10 Joint custody

322.2 (Auditing and other departments)

322.3 Credit information bureau (Credit statements)

322.4 Equipment

322.5 Bonding and Insurance.

322.6 Welfare Clubs and Publications - Pension Plan.

323. Earnings and expenses.

323.1 Dividends of Federal Reserve Banks.

324. Conference of Governors.

325. Conference of Federal Reserve Agents.

326. Membership of banks in Bankers' Association.

326.1 Membership of banks in Associations, etc.

327. Publicity Work (Advertising).

328. Conferences, miscellaneous.

330. Operations of Federal Reserve Banks.

330.1 Correspondence with Federal Reserve Agents (folder for each)

330.2 Condition of Federal Reserve Banks.

330.21 Statement of Federal Reserve Board (Weekly)

330.23 Weekly statements of Federal Reserve Banks.

330.24 Monthly Reports of Federal Reserve Banks.

330.25 Comparative yearly report.

330.26 Condition of F.R. Banks of European
Central Banks of Issue.

330.3 Federal Reserve Bank Reserves.

330.31 Reports of condition of reserves.

331. Deposits.

331.1 Member bank deposits (Reserves general)

331.2 Government deposits, Treasury warrants and checks.
Commissioner of Internal Revenue.

331.3 Deposits of gold etc., for account of foreign banks.

332. Discounts and advances.

332.1 Policy and rates.

332.11 Discount rates and rates on advances of
all F.R. Banks (Tabulated statements).

332.12 Applications for change of rates. (12 folders)

332.13 Total bills discounted and bought of all
Federal Reserve Banks (Jacobson)

332.2 Commercial Paper. Loans and Investments.

332.201 Definition of.

332.21 Bankers' Acceptances.

332.210.1 Applications for permission to accept
up to 100% of capital and surplus.

332.210.2 Weekly and monthly reports.

332.211 Based on importations and exportation
of goods.

332.212 Based on domestic bills.

- 332.22 Agriculture and livestock paper.
- 332.24 Trade Acceptances.
- 332.25 Commodity paper.
- 332.3 Fifteen-day, secured paper of member banks (advances)
- 332.4 Government Bond Paper.
- 332.5 Rediscounting between Federal Reserve Banks.
- 333. Investments. Open Market.
 - 333.1 United States Bonds.
 - 333.101 Investment bulletins, circulars, etc.
 - 333.11 Allotment and conversion of bonds, under Section 18.
 - 333.2 Municipal obligations. (Warrants)
- 334. Exchange.
 - 334.1 Foreign exchange (including Foreign Loans).
 - 334.101 Gold Exchange Fund, 1914.
 - 334.2 Domestic Exchange.
- 335. Clearings and transit operations.
 - 335.1 Definition of "Deposit at Par".
 - 335.2 Board's Regulation on Clearings (Reg. 1, Series, 1916).
 - 335.21 Data collected on clearings, tentative plans.
 - 335.22 Preliminary drafts of circular.
 - 335.3 Operation of Clearing Plan.
 - 335.31 As between Federal Reserve Banks.
 - 335.311 Gold Settlements Fund and Federal Reserve Agents Fund.
 - 335.312 Federal Reserve Exchange.
 - 335.313 Silver and legal fund.
 - 335.32 As between F.R. Banks and their member banks (letters of criticism, approval, etc.)

335.321 Collection of checks through postmaster.

337. Services for member banks.

400. MEMBER BANKS.

401. Distribution of member and non-member banks within districts.

410. Admission to or withdrawal from Federal Reserve System.

410.1 List of member banks.

411. National Banks.

411.1 Granting of charters to national banks and conversion from State Banks.

411.2 Liquidation of national banks and withdrawals from system.

411.3 Suspension (Insolvent)

412. State banks and trust companies.

420. Powers, duties, etc.

421. Branch banks,

421.1 In the United States.

421.2 In foreign countries (including joint stock banks in foreign countries)

421.21 Corporations formed under Edge Act.

422. National banks as trustees, executors, etc.

423. Time and demand deposits.

424. National bank note issues and redemptions (5% Fund)

425. Central reserve and reserve cities.

426. Loans, general.

426.1 Loans on improved city real estate.

426.2 Loans on farm lands.

427. National banks as insurance agents.

429. Fees to officers and employees (Sec. 22)

430. Condition of member banks.

430.1 From reports of Federal Reserve Banks. (Call)

- 430.2 From reports of Comptroller of the Currency. (Call)
- 431. Government depositaries.
- 450. Other banking and credit institutions (foreign banks in this country).
- 460. Interest rates charged.

500. ECONOMIC CONDITIONS.

- 501. General
 - 501.1 Reports on business and financial conditions in the United States.
 - 501.11 Trade and financial letters.
 - 501.12 Weekly statements of clearing houses.
 - 501.2 Reports on business conditions in foreign countries.
 - 501.3 Moratorium - moratoria.
- 505. German American War.
- 510. Agriculture.
 - 511. Crops - food.
 - 511.1 Crop estimates, Department of Agriculture.
 - 511.2 Crop moving.
 - 511.21 Cotton
 - 511.211 Cotton Loan Fund, 1914.
 - 512. Livestock
- 520. Mining
- 530. Manufacturing.
- 540. Transportation and Communications.
- 550. Monetary Stock (Gold)
 - 550.1 Weekly and other reports of gold imports and exports.
- 551. Silver Coin
 - 551.1 Import & Export
 - 551.2 Silver and Minor Coin

- 552. All Coin General
- 560. Foreign Trade (Imports and exports)
- 600. Foreign Banks.

November 1, 1923.

X-3387

IN THE SUPREME COURT OF THE STATE OF WASHINGTON.

O. B. WILLIAMS, sole trader,
 doing business under the
 firm name and style of
 O. B. WILLIAMS & CO.,

Appellant,

v.

JOHN P. DUKE, Supervisor of
 Banks, R. A. LANGLEY, Chief
 Deputy Supervisor of Banks,
 liquidating The Scandinavian
 American Bank of Seattle, a
 corporation, and the FEDERAL
 RESERVE BANK, Twelfth District,
 a corporation,

Respondents.

No. 17766

Department One

Filed May 25, 1923.

A general demurrer was sustained to the complaint in this case and the plaintiff, refusing to plead further, has appealed from a judgment dismissing the action.

Substantially, the complaint alleges as follows: In May, 1921, appellant executed and delivered his \$5,000.00 negotiable promissory note due August 20, 1921, to the Scandinavian American Bank of Seattle (hereinafter spoken of as the Scandinavian Bank) and in June, 1921, he executed and delivered his \$20,000.00 negotiable promissory note due September 13, 1921, to the same bank. Before maturity of the notes they were transferred and negotiated for value by the payee bank to the Federal Reserve Bank of San Francisco. On June 30, 1921, the Scandinavian Bank failed and was taken over by the supervisor of banks of the State of Washington, for the purpose of settling its affairs. At the time the bank failed the appellant had on deposit in that bank

\$11,398.52 and at that time the Federal Reserve Bank held collateral pledged by the Scandinavian Bank, under the terms of an agreement, as security for the payment of any and all indebtedness of the Scandinavian Bank to the Federal Reserve Bank, and such collateral exceeded the amount of all the liabilities of the Scandinavian Bank to the Federal Reserve Bank.

It is further alleged in the complaint that the liquidating agent of the Scandinavian Bank has been making it a practice to allow makers of notes held by the bank to offset against the notes the amounts of their deposits, and that at the time of the respective maturities of the notes in question appellant demanded that the Federal Reserve Bank and the Scandinavian Bank and its liquidating agent permit him to offset against his notes the amount of his deposit in the Scandinavian Bank at the time it failed; that the requests were refused and in order to avoid litigation and protect his credit he paid the notes in full, under protest. The appellant has presented a claim and demand to the supervisor of banks for the amount of his deposit, as a preferred claim, which was rejected as such.

It is further alleged in the complaint that the allowance of a set-off to makers of notes held by the Scandinavian Bank at the time it closed its doors and the denial of a similar privilege to makers of notes discounted and sold by the Scandinavian Bank would result in an unwarranted preference of one class over another. The prayer of the complaint is to enjoin the Federal Reserve Bank from returning to the Scandinavian Bank or its liquidating agent the collateral held generally, but that the collateral be impounded and applied, to the extent necessary, to the payment of appellant's claim in the sum of \$11,398.52.

After the sale and delivery of the notes by the Scandinavian Bank it no longer had any interest in them as owner. The Federal Reserve Bank became the owner of all interest in

them having purchased them before maturity, in good faith and for value. The case is not one wherein the payee bank pledged the notes as collateral, thus retaining an interest in them as owner, like the case of *In re. Bank*, 71 Minn. 394, 73 N.W. 1096, cited and relied on by the appellant, but it is a case identical in principle, with the case of *Munger v. Albany City National Bank et al.*, 85 N. Y. 530, wherein Munger had \$3,000.00 in a bank in Rochester represented by a certificate of deposit in his favor, which he continued to hold until the bank failed. By further dealing he gave the Rochester bank his promissory note for \$1,500.00 which that bank discounted and transferred to the Albany bank. The Rochester bank had already furnished the Albany bank general collateral assuring the payment of all discounted items. In disposing of the rights of Munger the court of appeals concluded:

"When the bank at Rochester transferred to the bank at Albany the note of the plaintiff, no equity existed empowering him to set off his deposit against that note. The Rochester bank did just what he gave it legal and equitable right to do. It transferred his note, and took the avails of the transaction, and became a debtor collateral or contingent to him. Those avails entered into its property. The securities that it had before that pledged under the general agreement were its property. All were its assets, held by it for the security of all of its creditors - other creditors as well as the plaintiff. He having no right of set-off or stoppage or application when his note was transferred, we fail to see how a paramount right thereto now arises to him from the fact that the Rochester bank had put with the Albany bank certain securities as collateral for a general indebtedness, or general contingent liability. They were put there before this note was made, as a general and continuing security for any indebtedness of the bank at Rochester arising from the failure of promisors to pay, and with the expectation that payment should first be sought from those promisors. *** And when there came insolvency and bankruptcy upon the bank at Rochester, as there were not then in fact and in law mutual debts or credits between it and the plaintiff, why did not the legal rights of other creditors and their equities, as great as those of the plaintiff, intervene or take equal rank?"

This rule has been covered by statute in this state. Sec.

191, Rem. Comp. Stat., provides:

"* * * no counter claim or offset shall be pleaded against negotiable paper assigned before due, and where the holder thereof has purchased the same in good faith and for value, and is the owner of all interest therein."

Sec. 266, Rem. Comp. Stat. also provides against set-off in actions upon negotiable promissory notes, or bills of exchange, negotiated in good faith and without notice before due.

The appellant invokes the aid of equity to relieve him from the force of the statutory rule. The case involves negotiable paper, and must be determined upon consideration of the rights of the holder of the paper as well as those of the maker. Under provisions of the negotiable instruments law, secs. 3443 and 3450, Rem. Comp. Stat., the Federal Reserve Bank became the holder in due course, before maturity and for value, of the notes in question, while under other sections of the code, already referred to, there is no right of set-off against them. There is no lack of positiveness in the law. In such situation equity does not attempt to assail or abrogate but follows and is subordinate to the law. In discussing this principle the supreme court of the United States in *Magniac et al. v. Thomson*, 56 U. S. 281, 14 L. Ed. 696, said:

"That wherever the rights or the situation of the parties are clearly defined and established by law, equity has no power to change or unsettle those rights or that situation, but in all such instances the maxim equitas sequitur legem is strictly applicable."

Upon the same subject, see also: *Beeson v. Brotherhood of Locomotive Firemen and Enginemen*, 101 Kan. 399, 166 Pac. 466; *Allen v. Kitchen*, 16 Idaho 133, 100 Pac. 1052.

Holding such to be the law, it is unnecessary to discuss the allegations of the complaint that the appellant paid the Federal Reserve Bank to avoid litigation, to save his credit and under protest. He only discharged his promise to pay to one entitled to receive it, without any right to set-off and without any accompanying right to reduce pro tanto the general collateral held by the Federal

Reserve Bank belonging to the Scandinavian Bank, the original payee in the notes.

Affirmed.

(Signed) Mitchell, J.

We concur:

(Signed) Mein, C. J.
" Mackintosh, J.
" Bridges, J.
" Holcomb, J.

X-3828

MEMORANDUM TO
AGENT'S CONFERENCE

from

FEDERAL RESERVE BOARD'S
COMMITTEE ON ECONOMY & EFFICIENCY

The Federal Reserve Board's Committee on Economy and Efficiency desires to refer the following matters to the Agents for their consideration and for such action as they may desire to take.

1. Recommendation for investigation and comparison of the expenses of the various activities carried on in all banks as a matter of policy.

A comparison of the cost of the various activities carried on as a matter of policy, most of which activities are under the supervision of the Agents, indicates a wide variation in the policy at the several banks.

It is apparent that either some of the banks are expending too much for these purposes or other banks are not expending enough.

It is reasonable to assume there will be a tendency on the part of each bank, with respect to those items for which it is expending proportionately less than the other banks to increase its activity and there is thus bound to result a substantial increase in the expenses of all the banks.

It is the judgment of this Committee that the expenditures for these purposes should be reasonably in proportion at all banks and that the policy should be reasonably uniform throughout the System.

It is therefore Recommended that the Agents give consideration to this matter and designate a Committee of two to advise with the Board's Committee on Economy and Efficiency with respect to such activities.

2. Re commendation for survey by the local Committee on Economy and Efficiency of the Agents Department of each Bank.

This Committee understands that in several banks there has been no survey made of the Agents Department by the local committee.

In the judgment of this Committee this is a mistake. It is presumed that the work of the local committees on Economy and Efficiency is carried on under the direction of the Board of Directors of each bank of which Board the Agent is Chairman and it is difficult to see how the work can be fully effective unless similar standards are applied to the Departments under the immediate control of the Agent and Chairman as are expected to be applied to the rest of the bank.

It is the view of this Committee that it is in the interest of Economy and Efficiency that all employees under the supervision of the Agent and Chairman should be subject to the same rules and regulations and measure up to the same standards as other employees of the bank and also that the work of the Agents Departments should be subjected to the same study and tests as to operating, organization, and efficiency as is the work of the rest of the bank.

This Committee Recommends that all Agents who have not already done so invite a survey of their departments by the local Committee with a view to the elimination of any duplication that may exist with other

departments of the bank, also in any cases where it has not already been done, that expenditures of all kinds incurred in connection with the operation of the Agents Departments be subjected to the same scrutiny and tests as are those incurred for other departments of the same bank.

November 12, 1923.

MEMORANDUM TO
GOVERNORS' CONFERENCE

from

FEDERAL RESERVE BOARD'S
COMMITTEE ON ECONOMY & EFFICIENCY

The Federal Reserve Board's Committee on Economy and Efficiency desires to refer the following matters to the Governors for their consideration and for such action as they may desire to take.

1. Recommendation for the appointment of an operating committee to standardize the principal supplies used, and in all cases where savings can be effected by so doing, to arrange for joint purchasing of such supplies.

In connection with the study of the Currency and Coin functions, this Committee investigated the variety and cost of the principal supplies used. The information obtained clearly indicates that there is opportunity for substantial savings through standardization of sizes and quality, and in some instances, through joint purchasing.

In the case of money bands, of which the system uses about 20,000,000 annually, there was found to be a great variety of sizes and a wide range in the quality of paper with prices ranging from 33 cents to \$4.00 per thousand, most of the banks paying from \$1.00 to \$1.50, the prices bearing very slight, if any, relation to the quality of paper.

A similar situation exists with respect to money bags, of which the System uses about 750,000 per annum.

There was also found to be a wide variation in the prices paid for some standard products such as lead seals, on which prices ranged from \$6.25

to \$13.76 per thousand, most of the banks purchasing the product of but two manufacturers.

With respect to supplies the first necessary step toward economy is to standardize both quality and size, after which probably with respect to most items, one bank can purchase as cheaply as another. On some few items, however, lower prices can be obtained through joint purchasing. There should also be some arrangement for the exchange of information concerning prices etc.

It is Recommended that the Governors designate a committee with power to standardize and to obtain the use of such standardized supplies by all banks, and also to arrange for the joint purchase of supplies in all cases where substantial economies can be effected by such standardization or purchase.

2. Recommendations concerning Insurance.

At the request of the Federal Reserve Board the Committee has investigated the Insurance carried by all banks. There has been noted a considerable variation in the amount and kinds of insurance carried, and especially in the "limits" specified for the various types of liability insurance, but the conditions under which the several banks are operating vary so greatly that the Committee considers it advisable to defer any recommendation with respect to this type of insurance until the banks are in their new buildings.

There are, however, two classes of insurance concerning which the Committee makes recommendations as follows:

(a) Employees Group Life Insurance.

The Committee has obtained considerable data on this subject. Six of the banks have practically identical policies issued by the same company, The Equitable Life Assurance Society, a mutual company issuing participating policies under which the real cost is determined by the size of the annual dividend. Four of the banks have policies issued by the Aetna Insurance Company, a stock company issuing non-participating policies where the cost is fixed by the premium rate, the rate being adjusted from time to time in line with the "experience of the group". The remaining two banks have policies in separate companies, one a stock and the other a mutual company.

The cost of group life insurance is in part determined by the experience of each separate group. The weight given the "experience" varies greatly with the size and age of the group, small groups receiving practically no benefit from a favorable experience, but the benefits gradually increase until with groups of 10,000 employees or more which have been in existence for from ten to fifteen years the cost is determined almost entirely by the year to year "experience" of the group.

It is the aim of the companies to ultimately write this insurance for large groups at a margin of about 15% above cost, that is losses.

As against this theoretical cost the cost to the twelve reserve banks has, during the past three years, averaged about 65% above losses, due to the fact that none of the groups are large enough to get the full benefit of their favorable experience, and in part to the length of time the groups have been in operation. The cost to the System is about \$100,000 per annum.

Had arrangements been made in the beginning so that the twelve banks could have been considered as one group, the cost to the banks up to this time would have been very much less than it has been.

There are two possible ways of reducing the cost of this insurance:

By placing all the insurance with one company with an arrangement under which the rate will be determined on the basis of the experience of all banks considered as one group, thus establishing a group of 12,000 lives.

By self insurance.

This Committee thinks favorably of self insurance for this risk, and, therefore, Recommends that the matter be referred to the Insurance Committee of the Governors' Conference for thorough investigation and report with a plan of operation.

(b) Automobile Insurance.

This item of insurance is costing the System approximately \$10,000 per annum. The rates vary greatly with the size of the city where the car or truck is operated.

The only way in which the cost can be reduced appears to be by placing the business entirely through one company.

If all banks will agree to place this particular insurance through one company it is believed that a saving of approximately 20% can be effected from the local manual rates now being paid by all banks.

This reduction would be obtained in part because of the amount of the insurance to be written and in part on the ground that the banks represent a preferred risk.

Each bank would of course be at liberty to fix its own limits and to come into the arrangement with the expiration of its present insurance.

This Committee Recommends the acceptance of the plan by all banks.

In the event of favorable action on the above recommendation the details can be completed either by this Committee or by the Insurance Committee of the Governors' Conference.

3. Recommendation for the Investigation of the Cost of securing Credit Information.

In connection with the study by the Committee of the "Loans, Rediscounts and Investment" functions of the banks it was noted that there is a wide variation in the cost of operating the several Credit Departments.

This Committee obtained from each bank a statement of its policy in securing credit information, and from this data it would appear that either some of the banks are doing too much in this respect, or others are not doing enough.

The Committee does not consider that it can make any definite suggestions on this subject and Recommends therefore that the matter be referred by the Governors to a Committee of Federal Reserve Credit men for investigation and report.

4. Recommendations concerning cost of free services and other activities carried on as a matter of policy.

The Committee has found upon an analysis of the cost of the free services and other activities carried on as a matter of policy that there is a wide variation in the policies of the several banks with respect to these expenses, some banks expending much more than others on certain items and near-

ly every bank expending a comparatively large sum on at least one item.

This condition leads to the conclusion that eventually, as these services are more uniformly used in all districts, every bank will, with respect to each separate item, level up proportionately to the high bank, in which case the expenses coming under these heads will increase very materially in every bank.

It is not the province of this Committee to make recommendations for the reduction of present activities of the banks in this connection. It does believe it is its duty, however, to point out that a continuance of the present policy is bound to result in a very great increase in these expenses over a period of years and that the banks should know how much they are likely to be ultimately obliged to expend, so that if it is considered necessary, steps may be taken to control these items.

It is therefore Recommended that the Governors take steps to determine for each bank and for the System as a whole, what may be the approximate ultimate total cost of each free service now being given, assuming each service is used to the fullest extent by all banks.

With this information available it should be possible to determine whether or not the total for any item is more than the System would be warranted in expending for the purpose, and in the event that the total for any item is considered excessive, steps could at once be taken to control it.

November 12, 1923.

REPORT OF
COMMITTEE ON ECONOMY AND EFFICIENCY
TO THE
FEDERAL RESERVE BOARD

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X-3890

This Committee was appointed by the Federal Reserve Board on September 20th, 1921, for the purpose of initiating a program for greater economy and efficiency in the operation of the Federal Reserve System.

During the two years of its existence much information has been gathered and a number of definite objectives accomplished.

In this, the first formal report of the Committee, there is presented a history of the work up to this time, together with a number of conclusions that have been reached, and a statement of the problem as it now exists.

Respectfully submitted.

A. C. MILLER

Chairman.

November 12, 1923.

PERSONNEL OF COMMITTEES:

The original Committee as appointed by the Board consisted of:

- Mr. A. C. Miller, Chairman
- Mr. J. R. Mitchell

There was subsequently appointed on November 8, 1921, an Auxiliary Committee representing the banks, as follows:

- Mr. D. C. Wills, Chairman, Federal Reserve Bank of Cleveland.
- Mr. G. W. Norris, Governor, " " " Philadelphia.
- Mr. J. U. Calkins, " " " San Francisco.

Still later an Advisory Committee was named consisting of the following:

- Mr. J. F. Herson, Chief, Federal Reserve Examiner.
- Mr. W. W. Paddock, Deputy Governor, Federal Reserve Bank of Boston.
- Mr. E. L. Smead, Chief, Division of Bank Operations, Federal Reserve Board.

CHANGES IN PERSONNEL OF COMMITTEES:

Mr. J. R. Mitchell resigned as a member of the Federal Reserve Board in May, 1923. He was succeeded by Mr. G. R. James who was appointed to this Committee in June, 1923.

Mr. J. U. Calkins resigned as a member of the Auxiliary Committee early in 1922 as he felt it was not practicable for him to attend meetings of the Committee from so great a distance. He was succeeded by Mr. S. B. Cramer, Deputy Governor, Federal Reserve Bank of Chicago, who was subsequently elected Secretary of the Board's Committee and served in this capacity until March 1, 1923, when he resigned as Deputy Governor of the Chicago Bank.

Mr. A. H. Vogt, Controller of Accounting, Federal Reserve Bank of Chicago succeeded Mr. Cramer on the Auxiliary Committee and also as Secretary on March 1, 1923, resigning one month later.

In January, 1923, Mr. L. R. Rounds, Controller of Accounts, Federal Reserve Bank of New York, was added to the Advisory Committee, and in April, 1923, he was elected Secretary of the Board's Committee and a member of the Auxiliary Committee.

PRESENT PERSONNEL OF COMMITTEES:

The Committees at this time consist of the following:

Board's Committee:

Mr. A. C. Miller, Chairman
Mr. G. R. James

Auxiliary Committee:

Mr. D. C. Wills, Chairman, Federal Reserve Bank of Cleveland.
Mr. G. W. Norris, Governor, " " " Philadelphia.
Mr. L. R. Rounds, Acting General Auditor, Federal Reserve
Bank of New York.

Advisory Committee:

Mr. J. F. Herson, Chief Federal Reserve Examiner.
Mr. W. W. Paddock, Deputy Governor, Federal Reserve bank of
Boston
Mr. E. L. Smead, Chief, Division of Operations, Federal Re-
serve Board.

THE EXPENSES OF THE FEDERAL RESERVE SYSTEM:

The operating expenses of the twelve banks for each full year since their organization have been as follows:

1915	\$1,961,782.
1916	2,459,439.
1917	5,465,656.
1918	12,177,938.
1919	20,341,798.
1920	29,889,307.
1921	36,066,065.
1922	30,347,587.

The expenses increased rapidly from 1915 to and including 1921, when the expenses of the twelve banks had reached a total of more than \$36,000,000. per annum, the providing of which, together with the amount required for dividends and other necessary charges, compelled the constant investment of more than \$1,000,000,000., regardless of credit conditions or other considerations, this amount being approximately one-third of the greatest amount of credit the Federal Reserve System has ever been called upon to provide at one time.

It is at once apparent that a fixed charge of so huge a sum might

easily be a serious handicap to the exercise of the real functions of a reserve banking system.

The Committee has considered itself charged with a responsibility, not only with respect to the economical and efficient operation of the System, but also to study the expenses of the System to determine to what extent they are increased because of policies and the carrying on of work which, while desirable, may not be absolutely necessary.

There is attached a statement (Exhibit C) showing the expenses of the twelve banks classified according to functions, a summary of which is as follows:

(These figures are on an annual basis converted from the actual expenses for the first quarter of 1923 and include a pro rata distribution of overhead.)

	<u>PRESENT ANNUAL EXPENSE</u>	<u>PER CENT OF TOTAL</u>
<u>Expenses of Functions essential to the operation of the System under the Federal Reserve Act.</u>	\$17,757,904.	53.30
<p>(This total includes cost of the following functions: Loans, Rediscounts and Investments Currency and Coin Check Collection Federal Reserve Agent and the expenses of the Federal Reserve Board.)</p>		
<u>Expenses incurred as Fiscal Agent of the U. S. Government.</u>	8,018,676.	24.07
<u>Expenses incurred as a Depository of the U. S. Government.</u>	624,276.	01.87

(This represents the cost of handling Government checks and coupons.)

	<u>PRESENT ANNUAL EXPENSE</u>	<u>PER CENT OF TOTAL</u>
<u>Expenses incurred as a Matter of Policy in Connection with Services Rendered to Member Banks.</u>	\$ 4,426,468.	13.28

(This represents the cost of the following services:
 Securities for safe-keeping.
 Non-cash collections.
 Transfers of Funds.
 Currency and Coin Shipments.
 Shipping Charges on Securities.
 Purchase & Sale of Securities, etc.)

<u>Expenses of Activities Carried on as a Matter of Policy.</u>	2,492,688.	07.43
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(This includes the cost of the following:
 Bank Relations.
 Bank Examinations.
 Statistical & Analytical.
 Publications.
 Employees Group Life Insurance.)

GRAND TOTAL	\$33,320,012.	100.00
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The above figures, which were not available at the time this Committee began its work, are presented at this point as being of special interest.

METHOD OF PROCEDURE:

Following its appointment, the Committee gave serious consideration to the choice of a method of procedure for the accomplishment of its task. While several methods were considered, the final choice rested between the two following:

- (a) The establishment possibly with assistance from without the System, of a standard and uniform practice in all banks with respect to each and every operation, thus permitting of an arbitrary determination of costs more or less in line with commercial practice.

- (b) The assignment to each bank of the task of dealing with its own problem, the Committee giving assistance in the way of providing comparisons of costs of one bank with another and in so far as practicable securing the adoption in all banks of those methods which had proven merit and in generally coordinating the effort of all the banks to as nearly as possible the same degree of efficiency in all operations.

After careful consideration it was felt there were objections to the adoption of the first method, among others the following:

- (a) The considerable difference in the size of the bank organizations ranging from about 350 to nearly 3,000 clerks, making it unwise to adopt uniform methods in all banks.
- (b) The probability that in many cases the banks were already following the procedure best suited to their conditions with respect to many operations, although such procedure in the different banks might vary greatly.
- (c) The fact that nothing would be accomplished by insisting upon a change for the sake of uniformity in cases where different banks, although following quite different methods with respect to a given operation, were accomplishing the task with equal efficiency.

It was therefore decided to follow the second plan for the following reasons:

- (a) The belief of the Committee that the real responsibility for the efficient and economical operation of each bank must, in the final analysis, rest upon the Directors of the several banks.
- (b) The opinion of the Committee that it could best accomplish its objective by acting as a clearing house of information, both of methods and costs, of similar operations in the several banks, so that every bank would have an opportunity of comparing its methods and costs with those of the other banks.
- (c) The belief of the Committee that there probably would be found already in operation in one or more of the banks the procedure which would prove most efficient in a majority of the banks with respect to most, if not all, of the functions performed, and that the securing of comparative cost figures would automatically compel the adoption of the most efficient methods in any case where less efficient methods were in use.

- (d) The securing of the competitive effort and cooperation of the officers and department heads in all banks and the utilization of the experience and ability which the Committee believed existed within the organizations of the several banks.

HISTORY OF THE COMMITTEE'S WORK:

Very shortly after its organization the Committee requested the Governor of each bank to designate a local committee for the purpose of making a survey of each department of the respective banks with a view to increasing the efficiency and reducing the expense of operation.

It was requested that the Chairmen of these Committees report to this Committee from time to time with respect to the progress of the work and the results accomplished.

REPORTS:

The Committee was faced at the beginning with a problem in securing what it has considered from the first to be essential, a comparative statement of the expenses of all Reserve Banks and Branches. Without such figures it would be impossible to draw conclusions as to the comparative efficiency of the operation of the several banks.

Prior to the appointment of this Committee, the Federal Reserve Board had received monthly reports in detail of the current expenses of each bank arranged according to the object of expenditure, (Form 96). This report permitted of comparisons between banks only in the most general way, as there was no relation of the expenditures to the work of the bank, and no attempt had been made to secure from the banks reports of expenses along either organization or functional lines.

It was apparent that any figures obtained to be of value would have to reflect the cost in each bank and branch of each of the major operations or functions.

The first attempt to secure any such figures was made in December, 1921, when all banks were requested to report on forms provided for the purpose, the expenses for the year 1921 classified according to certain prescribed operations and departments.

Prior to this time a few of the banks had prepared for their own use departmental classifications of expenses, but in most of the banks this had not been attempted.

A study of the reports received for the year 1921 indicated such apparently wide variations in the expenses of the several banks as to make the reports of very little value. Upon investigation these variations were found to be due very largely to differences in the organizations of the banks, the allocation of the work and also wide differences in the interpretation of the work intended to be covered under the several headings or departments.

There was then appointed in March, 1922 a Sub-Committee consisting of Messrs. Wills and Cramer, with Messrs. Paddock and Herson acting in an advisory capacity, to prepare a uniform form of report for the use of all banks and also to prepare a manual defining the expenses to be included under each head.

SCHEDULE "E":

In the preparation of the new report, known as Schedule E, it was decided to disregard entirely the departmental organizations of the banks and to secure, if possible, accurate cost figures for each complete operation of the system, regardless of whether or not performed in corresponding departments in all banks.

A meeting of the representatives of all banks was called for the purpose of discussing the proposed report and manual. This meeting was held in Chicago, April 24 and 25, 1922, and was attended by Messrs. Miller and Mitchell of the

Board's Committee, Messrs. Wills and Cramer of the Auxiliary Committee, Messrs. Herson and Paddock of the Advisory Committee and also by one representative from each Reserve Bank. At this meeting the proposed form of report and manual was thoroughly discussed and finally adopted, with the understanding that the first report would be prepared by all banks for the month of July, 1922.

Reports were subsequently received on this form from all banks for each month from July to December, 1922, inclusive.

In December, 1922 a second conference of the representatives of the banks with the Board's Committee was held at which a revised form of report and manual was approved which has been in use since January, 1923.

COMPARISON OF METHODS IN PRINCIPAL FUNCTIONS:

At the December, 1922, conference with the representatives of the banks, there was also discussed and approved a proposed plan for a study and comparison of methods and expenses in the four principal functions of the banks, namely:

- Currency and Coin
- Check and Collections
- Loans, Rediscounts and Investments
- Accounting

This plan provided for a study of each function separately through representatives to be designated by each bank for each of the four functions. For the study of each function it was proposed to divide the banks into three groups, each group to include the banks doing most nearly the same volume of business and under most similar conditions.

Each bank through its representative was requested to prepare a statement in detail of its procedure, together with a set of the forms used and a flow chart of the work.

One representative in each group was designated as chairman of the group for the purpose of collecting the data and reporting the progress of the work.

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A conference of the Group Chairmen with the Committee was held in Washington, January 29 and 30, 1923, at which a definite program for the work was approved.

Following the preparation of the data by each bank, there were held between April 5 and 17, 1923, twelve group meetings at which the representatives of each of the four banks in each group met for a study and comparison of detailed methods and expenses. The chairman of each group was requested to prepare a report of his group meeting, to include such recommendations as the group might have agreed upon and to prepare himself generally for a meeting of the group chairmen with the Board's Committee for a discussion of the work of each function separately.

During the weeks of May 7 and 14 the Board's Committee held a series of conferences with the three group chairmen for each of the four functions, at which time the reports of the chairmen were gone over in detail, the problems were discussed and a number of recommendations made which have since been transmitted to the banks for their information and attention.

CONTACT WITH THE BANKS:

The Committee has endeavored to maintain a close contact with the banks through the officer designated by each bank as Chairman of its local Committee on Economy or Procedure. Several communications have also been addressed to the Chairmen and Governors informing them of the progress of the work. Copies of the Comparative Exhibit of the Functional Expenses have been furnished regularly for the information of all banks.

All the banks have manifested interest in the work of the Committee and the promotion of economy within their own organization, and it is apparent that by bringing together in conferences the representatives of the banks, and also by making available the comparative exhibits of the expense figures of all

banks, a great deal has been accomplished in the way of economy. It is believed also that there has been a considerable improvement in methods and in the efficiency of certain operations entirely apart from the economies that have been effected.

RESULTS:

It is difficult to state in figures with any degree of accuracy just what results have been obtained from the Committee's work.

Prior to February, 1923 when the Committee initiated the study and comparison of the work of the four principal functions already referred to, its influence on the expenses of the banks had been almost entirely such as resulted from the distribution of the comparative exhibit of expenses in creating among the officers of the several banks a spirit of competition.

As a result of the study and comparison of the four principal functions of the banks, a number of important changes in procedure have taken place which will result in considerable economy. It was found that several banks were carrying on expensive operations which other banks had been able to eliminate. The economies resulting from voluntary changes in procedure during the course of this study and later will amount to a considerable sum.

There is attached a statement (Exhibit A) showing in comparative form the expenses of all banks combined for the year 1921 and 1922, from which it will be noted that the total current expenses of the banks were reduced from \$36,066,065 in 1921 to \$30,347,587 in 1922 (the last figure including the item of furniture and equipment in order that it may be comparable with 1921), a decrease of \$5,718,478, which is equivalent to 15.86%. More than half of this saving appears in the items representing the cost of currency, but a very substantial amount, \$2,210,674, appears in those items of expense^{over} which the system has direct control.

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There is attached another statement (Exhibit B) in which the total expenses of each bank are shown for the year 1922 in comparison with the year 1921. This statement shows that every one of the twelve banks succeeded in reducing its expenses very materially.

This decrease in expenses has no doubt in part resulted from the more steady volume of work being performed. It is also in no small measure due to the effort which has been made in all of the banks to bring about greater economy in operation.

This result was accomplished in the face of a constantly increasing volume of business, for while the total volume of work at the banks has not increased in the last two years, at anywhere nearly so rapid a rate as the increase which occurred up to about two years ago, there has nevertheless been, and there still continues to be a steady increase in the total work of the banks as represented by volume of currency, cash and collection and other items handled. The decrease in work in the Loan and Fiscal Agency departments is considerably more than offset by the increase in other departments.

During the year beginning with July 1922 the Committee has received regular reports of the expenses of all banks classified along functional lines as already described. This method of classification was an experiment, and, while it is still far from satisfactory as giving a true picture of expenses, it has nevertheless very largely accomplished the results for which it was designed. Large variations in expense and numerous apparent inconsistencies continue to appear for the following reasons:

- (a) Marked differences in the departmental organization of the banks due to the difference in their size, and resulting differences in the allocating of operations.

- (b) The difficulty of securing a comparable unit of measurement as to the volume of actual work performed.

There are marked differences in the departmental organization of the several banks and as a result of this, in the allocation of work to the departments. These differences are no greater than might be reasonably expected in organizations which vary in size from a staff of 350 to a staff of nearly 3,000, for it is at once obvious that methods of doing work in the smaller organization will not prove to be efficient or economical in the larger organization, or vice versa.

While it is possible to measure with reasonable accuracy a considerable proportion of the work in any reserve bank, it is not possible, except in a very few instances, to secure a measure which will be exactly comparable in all banks. To illustrate it might be assumed that the cost of handling 10,000 checks should be substantially the same in all banks, but it is found that there are a number of factors affecting the cost, such as:

- (a) The number of banks that have deposited the items.
- (b) The time the items are received on deposit (which in many cases is a matter of local custom).
- (c) The time items are cleared at the local clearing house.
- (d) The number of banks in the local clearing house.
- (e) The extent of the sort required for branches, etc.

and in the case of country checks, the cost is very greatly affected by -

- (f) The number of banks to which items are routed.
- (g) The proportion of items sent to banks in the same district in comparison with the items sent to the other reserve banks, the items sent to other reserve banks requiring considerably more labor in the listing than those sent to banks in the same district.

There are similar conditions affecting practically all of the operations of the banks, and it is differences of this character which account for many of the apparent inconsistencies in the reported cost figures.

It is necessary to remember, therefore, that the exhibit of the

expenses of all banks as compiled is not an entirely true comparison of the relative efficiency of the several banks.

ANALYSIS OF EXPENSES:

By the use of the functional expense reports, to which reference has already been made, it is now possible for the first time to secure reasonably accurate costs of the several operations carried on by the banks. There is attached a statement (Exhibit C) showing the functional expenses for all twelve banks for the three months ending March 31, 1923. Assuming that the figures for the balance of the year 1923 will be approximately in the same proportion, there have been extended on this statement the annual expenses as estimated for the year 1923 for each function and operation of the banks.

The expenses of the several functions of the banks have been grouped under five heads, after the distribution on a pro rata basis of the "Administrative and General Expenses", as shown in the following summary:

S U M M A R Y

	<u>Direct Expenses Before Dis-</u> <u>tribution of Administrative</u> <u>and General Expenses</u>		<u>After distribution of</u> <u>Administrative and</u> <u>General Expenses</u>	
	<u>Annual Expense</u>	<u>Per Cent</u> <u>of Total</u>	<u>Annual Expense</u>	<u>Per Cent</u> <u>of Total</u>
<u>Administrative & General</u> Including Expenses incident to Provision of Space, Personnel, Service and Overhead	\$11,952,738.	35.86	0	0
<u>Expenses of Functions</u> essen- tial to the operation of the Federal Reserve System under the Federal Reserve Act	11,640,468.	34.94	\$17,757,904.	53.30
<u>Expenses Incurred as Fiscal</u> <u>Agent</u> of the United States Government	4,686,240.	14.06	8,018,676.	24.07
<u>Expenses Incurred as a De-</u> <u>pository</u> of the United States Government	364,900.	01.10	624,276.	01.87
<u>Expenses Incurred as a matter</u> <u>of Policy in connection with</u> <u>Services</u> rendered to Member Banks.	3,173,816.	09.53	4,426,468.	13.28
<u>Expenses of Activities carried</u> on as a matter of Policy	1,501,800.	04.51	2,492,688.	07.48
<u>G R A N D T O T A L</u>	\$33,320,012.	100.	\$33,320,012.	100.

From the above it will be noted that 53% of the present expenses of the System represents the cost of those functions or duties imposed upon the banks by law. Approximately 26% represents the expense of the work performed for the United States Government either as fiscal agent or as depository. The remainder of the expenses, nearly 21%, is controlled almost entirely by policy representing the cost of those services for member banks

which have been voluntarily assumed, and the cost of various activities which have been assumed as a matter of policy.

The expenses grouped together as representing the cost of services performed for member banks amount to a little more than 13% of the total and it is an item which is steadily increasing. It has been observed that certain of these free services have been made available to the member banks in some districts to a much greater extent than in others. This applies particularly to "securities for safekeeping," the handling of "non-cash collections", the furnishing of "wrapped coin" and the "purchase and sale of securities". The use of the transfer privilege and the absorption of the cost of currency and coin shipments appear to be reasonably uniform throughout the System. It is apparent, however, that should all of the banks in the System perform all of these services to the extent that they are now performed in a few of the districts, this expense would be very materially increased.

Particular attention is called to the detailed statements comprising Exhibit C showing an analysis of these expenses; also to Exhibit D showing the expenses of each bank for each of the free services rendered to member banks and for each of the activities carried on as a matter of policy.

PROGRAM

The Committee has referred to the Governors and Agents several matters which in its judgment require their consideration as follows:

1. Recommendation for an operating committee to standardize supplies used and to arrange for joint purchasing where economies can be effected by so doing.
2. Recommendations concerning Employees Group Life Insurance and Automobile Insurance.

3. Recommendation for an investigation of the cost of securing Credit Information.
4. Recommendation concerning cost of free services and other activities carried on as a matter of policy.
5. Recommendation for a survey by the local Committees on Economy and Efficiency of the Agents Departments at each Bank.

The Committee has secured data concerning the cost of express shipments of currency and coin and is petitioning the Interstate Commerce Commission for a reduction in the rates being charged.

The express charges on money shipments were increased throughout the country a year ago by 50% and the System is now paying the Express Companies approximately \$300,000. - per annum. The Committee believes the banks have a good case and hope that a very substantial reduction may be obtained.

The Committee has not as yet made any survey with respect to cost of providing - Space, Personnel, or General Service believing consideration of these functions should be deferred until the banks have moved into their new buildings after which conditions should be reasonably comparable.

The functions which the Committee is proposing to next consider are:

- Fiscal Agency
- Agents Departments
- Auditing
- Custody of Securities

The last mentioned the Committee considers of especial importance as it is apparent that the activities of the banks in this respect are likely to increase greatly as they move into new quarters with ample vault facilities.

It is important that this work be done not only economically but efficiently and with safety to the banks.

BRANCH BANKS

The question of the operation of branch banks is an important one and has a very material effect upon the expenses of the System. There are now being operated 23 branches and one agency at a cost of approximately \$6,000,000. per year, which is about 18% of the total cost of operating the System.

The primary object in the opening of branches has been to extend the service of the Federal Reserve System and there can be no question but that the operation of the branches brings this service much closer to a number of member banks, undoubtedly resulting in advantage to them.

There is a considerable variation in the functions performed by the different branches, some branches performing practically every function that is performed by the parent bank, while in others the operations are restricted to the handling of currency, and checks and in some cases the making of loans. Some branches maintain the accounts of the members in their immediate districts while others do not.

It is apparent that in cases where the branch territory is within approximately 15 hours' mail time from the parent bank, the benefits of the branch bank are practically restricted to those banks located in the same city with it, for if the country banks can reach the parent bank with overnight mail service they can do no better with the branch. Where the branch territory is more than 15 hours' mail service from the parent bank there are also some additional benefits to those member banks located outside the branch city.

The benefits derived by the member banks through the establishment of branches may be stated briefly as follows:

- (a) The banks in the same city with the branch can very materially reduce the amount of their vault cash and in cases where the branch territory is more than overnight mail service from the parent bank, the outside banks can also benefit to a lesser extent in the same way.
- (b) The banks located in the same city with the branch will save a day's time in the handling of transit items on all country points within the same reserve district. This advantage would also be shared by the country banks in the branch territory provided they are more than overnight mail service from the parent bank.
- (c) Such benefits as will result from the closer contact that the member bank can have with the branch bank, and in the case of those branches operating a loan department, some saving in time in the making of loans.

In the operation of branches there is a certain amount of duplication of expense with the parent bank. In many instances probably the entire overhead expenses of the branch including the provision of space and general service, represent an additional cost. A study of the expenses of the branches would seem to indicate that if the work now being done at the branches was performed at the main banks, it could be done at a cost not exceeding two-thirds the cost of operating the branches and possibly for as little as one-half the present branch expense.

The geographic extent of a number of the districts makes the operation of branches a practical necessity. There can be no question, however, but that the total cost of operating the System is very materially affected by the number of branches operated, and that serious consideration should be given to this problem before additional branches are authorized. This Committee intends to make a study of the cost of branch bank operations and will later submit additional data on this subject.

FUTURE COURSE OF EXPENSES

While the Committee believes there are further substantial

economies that can be effected, it is very much doubted if the total expense accounts of the banks will again show a decrease from a preceding year if the banks continue to perform the same functions, for the following reasons:

1. The economies already effected have removed the opportunity for further large savings.
2. The work of the banks is continuing to increase in most departments, which increase will be sufficient to take up whatever economies can be effected in operation.
3. Within another year practically all of the banks will be occupying their own buildings and it is probable that in every case the actual expense of operation will be increased thereby: the items of taxes, building upkeep and operation being considerably in excess of the rent previously paid.

It is of interest to note in this connection that the two banks showing the smallest percentage of reduction in expenses in 1922, as compared with 1921 (Exhibit B), are the two (Boston and Chicago) which moved into new buildings during 1922.

In going into these new buildings the banks will secure many advantages which cannot be measured in dollars, the principal one of which is greatly increased safety of operation and there will probably be obtained some economy in departmental operations, but the total expenses of the banks will be considerably increased.

There will probable be a gradual decrease for some time in the expenses incurred as Fiscal Agent which now amount to about 24% of the total. There is slight possibility of a decrease in any other item, but on the other hand there is bound to be a substantial increase under the present policy in the expenses representing services to member banks, which now amount to about 13% of the total.

RECOMMENDATIONS:

The expenses included under the two heads:

Expenses Incurred as a Matter of Policy in Connection
with Services Rendered to Member Banks.

Expenses of Activities Carried on as a Matter of Policy
amounting in the aggregate to nearly 21% of the total expenses of the
System, are the only expenses susceptible of any considerable reduction.

The policies of the several banks differ greatly with respect to
the expenses coming under both of these heads.

It is therefore RECOMMENDED that consideration be given to the
several items of expense included under these heads for the purpose of -

- (a) formulating a definite policy for all banks with respect
to those items of service now being performed free of
charge for member banks
- (b) determining the value of the activities included under
the second head in relation to their cost and establishing
a definite policy for all banks with respect thereto.

COMPARATIVE EXHIBIT OF CURRENT EXPENSES
TWELVE FEDERAL RESERVE BANKS COMBINED
1921 AND 1922

EXHIBIT -A

Salaries	1921	1922	Increase	Decrease
Bank Officers	\$2,383,994.	\$2,461,323.	\$77,329.	
Clerical staff	15,201,393.	14,222,021.		\$979,372.
Special officers and watchmen	789,879.	818,772.	28,893.	
All other	1,102,984.	1,310,524.	207,540.	
Governors' Conferences	7,751.	5,515.		2,236.
Fed. Res. Agents' Conferences	4,443.	4,029.		414.
Federal Advisory Council	10,522.	9,063.		1,459.
Directors' Meetings	168,556.	146,084.		22,472.
Traveling Expenses	357,962.	293,236.		64,726.
Assessment for F.R. Board Expenses	741,436.	722,545.		18,891.
Legal Fees	48,166.	63,322.	15,156.	
Insurance (Life, fidelity, casualty, workmen's compensation and general liability)	532,307.	433,273.		99,034.
Banking House				
Taxes	178,178.	270,915.	92,737.	
Fire Insurance	20,073.	9,238.		10,835.
Light, heat and power	119,408.	175,908.	56,500.	
Repairs and alterations	163,655.	89,638.		74,017.
All Other	70,231.	33,122.		37,109.
Furniture and Equipment	1,508,923.	788,244.		720,679.
Rent	1,312,799.	1,040,949.		271,850.
Fire. Ins. - Furn. & Equip.	17,492.	11,099.		6,393.
Office and Other Supplies	593,742.	443,193.		150,549.
Printing and Stationery	1,022,540.	739,715.		282,825.
Telephone	201,997.	203,023.	1,026.	
Telegraph	610,763.	573,858.		36,905.
Postage (Other than on money and security shipments)	1,085,206.	1,118,151.	32,945.	
Expressage (Other than on money and security shipments)	46,024.	49,084.	3,060.	
Security Shipments	118,592.	139,392.	20,800.	
Currency and Coin Shipments	928,387.	1,078,518.	150,131.	
All Other Expenses	893,826.	776,801.		117,025.
TOTAL	\$30,241,229.	\$28,030,555.		\$2,210,674.
Federal Reserve Currency:				
Original cost, including shipping charges	4,208,211.	1,578,592.		
Cost of redemption, including shipping charges	924,286.	434,179.		
Tax on Federal Reserve Bank Note Circulation	692,339.	304,261.		
	5,824,836.	2,317,032.		3,507,804
GRAND TOTAL - CURRENT EXPENSES	\$36,066,065.	\$30,347,587.		\$5,718,478.

COMPARATIVE EXHIBIT

CURRENT EXPENSES OF TWELVE FEDERAL RESERVE BANKS

1921 AND 1922.

	<u>1921</u>	<u>1922</u>	<u>Decrease</u>	<u>of Decrease</u>
Boston	\$2,239,007.	\$2,155,506.	\$83,501.	.0373
New York	8,167,780.	6,826,702.	1,341,078.	.1642
Philadelphia	2,766,443.	2,096,850.	669,593.	.2420
Cleveland	2,956,802.	2,504,045.	452,757.	.1531
Richmond	2,127,174.	1,696,066.	431,108.	.2027
Atlanta	1,580,585.	1,310,440.	270,145.	.1709
Chicago	4,852,258.	4,318,980.	533,278.	.1099
St. Louis	1,961,250.	1,667,977.	293,273.	.1495
Minneapolis	1,325,867.	1,109,582.	216,285.	.1631
Kansas City	2,411,079.	2,070,948.	340,131.	.1411
Dallas	1,860,856.	1,548,101.	312,755.	.1681
San Francisco	3,816,964.	3,042,390.	774,574.	.2029
	<hr/>	<hr/>	<hr/>	<hr/>
	\$36,066,065.	\$30,347,587.	\$5,718,478.	.1588
	<hr/>	<hr/>	<hr/>	<hr/>

EXHIBIT OF CURRENT EXPENSES
Classified according to Functions
TWELVE FEDERAL RESERVE BANKS COMBINED
Actual Figures for Quarter Ending March 31, 1923.
(From Schedule E)
Annual Figures Estimated in Proportion

S U M M A R Y

	<u>Direct Expenses Before Dis-</u> <u>tribution of Administrative</u> <u>and General Expenses</u>		<u>After Distribution of</u> <u>Administrative and</u> <u>General Expenses</u>	
	<u>Annual Expense</u>	<u>Per Cent</u> <u>of Total</u>	<u>Annual Expense</u>	<u>Per Cent</u> <u>of Total</u>
<u>Adm. & Gen'l Expenses</u>				
Inc. Expenses incident to Provision of Space, Per- sonnel, Service & Overh'd	\$11,952,738.	35.86	0	0
<u>Expenses of Functions</u>				
essential to the opera- tion of the F.R. System under the F.R. Act.	11,640,468.	34.94	\$17,757,904.	53.30
<u>Exp. Incurred as Fiscal Agt</u> <u>of the U.S. Government</u>	4,636,240.	14.06	8,018,676.	24.07
<u>Exp. Incurred as a Depository</u> <u>of the U.S. Government</u>	364,900.	01.10	624,276.	01.87
<u>Exp. Incurred as a matter of</u> <u>Policy in connection with</u> <u>Services rendered to Member</u> <u>Banks</u>	3,173,816.	09.53	4,426,468.	13.28
<u>Expenses of Activities carried</u> <u>on as a matter of Policy</u>	1,501,800.	04.51	2,492,688.	07.48
<u>G R A N D T O T A L</u>	\$33,320,012.	100.	\$33,320,012.	100.

ADMINISTRATIVE AND GENERAL EXPENSES
Including Expenses incident to Provision of
Space, Personnel, Service & Overhead.

	Actual Expenses First Quarter 1923	Annual Basis	Per Cent of Total Expenses
<u>General Overhead</u>	<u>\$439,813.</u>	<u>\$1,759,252.</u>	.0528
Administration	435,144.	1,740,576.	
Governors' & F. R. Agts. Conferences	497.	1,983.	
Federal Advisory Conferences	4,172.	16,688.	
<u>Provision of Space.</u>	<u>755,236.</u>	<u>3,020,944.</u>	.0906
Administration	16,785.	67,140.	
Banking House	455,603.	1,822,412.	
Rented Property	282,848.	1,131,392.	
<u>Provision of Personnel</u>	<u>131,682.</u>	<u>526,728.</u>	.0158
Administration	16,042.	64,168.	
Hiring Emp. & Emp. Records	43,899.	175,596.	
Education and Training	23,531.	114,124.	
Welfare and Medical	32,619.	130,476.	
Cafeteria	10,591.	42,364.	
<u>General Service</u>	<u>695,921.</u>	<u>2,783,684.</u>	.0835
Administration	18,301.	73,204.	
Purchasing	24,710.	98,840.	
Stock Room	24,974.	99,896.	
Telephone	55,004.	220,016.	
Telegraph	10,695.	42,780.	
Coding	23,147.	92,588.	
Mail	82,546.	330,134.	
Registered Mail & Express	49,003.	196,012.	
Filing & Old Records	75,903.	303,612.	
Duplicating	24,150.	96,600.	
Protection	225,334.	901,336.	
Office boys and pages	31,119.	124,476.	
Automobile	10,849.	43,396.	
Equipment and Repairs	40,186.	160,744.	
<u>Postage</u>	<u>228,697.</u>	<u>914,788.</u>	.0275
<u>Insurance</u>	<u>71,329.</u>	<u>285,316.</u>	.0086
<u>Accounting</u>	<u>410,395.</u>	<u>1,641,580.</u>	.0492
Administration	35,099.	140,396.	
General Books	70,850.	283,400.	
Member Bank Accounts (Including Reserve Deficiencies)	148,224.	592,896.	
Federal Reserve Bank Accounts	86,166.	344,664.	
Expenditures	49,366.	197,464.	
Planning	20,690.	82,760.	
<u>Legal</u>	<u>30,153.</u>	<u>120,612.</u>	.00
<u>Auditing</u>	<u>224,971.</u>	<u>899,384.</u>	.0270
Administration	39,873.	159,492.	
All Other	185,098.	740,392.	
<u>GRAND TOTAL</u>	<u>\$2,988,197.</u>	<u>\$11,952,788.</u>	<u>.3586</u>

EXPENSES OF FUNCTIONS ESSENTIAL TO THE OPERATION
OF THE FEDERAL RESERVE SYSTEM UNDER THE FEDERAL RESERVE ACT.

	Actual Expenses First Quarter 1923	Annual Basis	Per Cent of Total Expenses
<u>Loans, Rediscounts & Inv.</u>	<u>\$353,501.</u>	<u>\$1,414,004.</u>	.0424
Administration	53,761.	235,044.	
Maintaining Cr. Information	74,554	293,216.	(.0090)
Recording Loans & Rediscounts	146,671.	536,634.	
Recording Investments (Proportion Custody of Disc. Collateral (Including provision of Adm))	42,204.	163,816.	
	31,311.	125,244.	
<u>Failed Banks</u>	<u>71,842.</u>	<u>237,363.</u>	.0036
<u>Currency & Coin</u>	<u>1,183,025.</u>	<u>4,732,100.</u>	.1420.
Administration	33,982.	135,923.	
Currency-Rec. & Sorting	359,495.	1,437,930.	
" -All Other	120,320.	463,230.	
Coin	71,775.	237,100.	
Cost of Currency (Incl. all Transportation chgs. except to and from member and non-member banks.)	596,953.	2,337,812.	(.0717)
<u>Check Collection</u>	<u>1,102,456.</u>	<u>4,409,324.</u>	.1324
Administration (Proportion)	36,746.	146,934.	
Receiving & Proving Checks	323,110.	1,312,440.	
City Checks (Clearings)	92,653.	370,612.	
" " (Other than Clearings)	32,427.	129,708.	
Country Checks	531,736.	2,127,144.	
Return Items	30,734.	322,936.	
<u>Federal Reserve Agent</u>	<u>36,521.</u>	<u>146,034.</u>	.0044
Administration	26,533.	106,332.	
Federal Reserve Note Issues	9,933.	39,752.	
<u>Assessment for F.R. Board Expenses</u>	<u>162,772.</u>	<u>651,033.</u>	.0196
TOTAL DIRECT EXPENSES	2,910,117.	11,640,463.	.3494
Add a proportion of Adm. and General Expenses	1,529,359.	6,117,436.	
GRAND TOTAL	\$4,439,476.	\$17,757,904.	.5330

EXPENSES INCURRED AS A MATTER OF POLICY
IN CONNECTION WITH SERVICES RENDERED TO MEMBER BANKS.

	Actual Expenses First Quarter <u>1923</u>	<u>Annual Basis</u>	<u>Total Expenses</u>
Securities for Safekeeping (Incl. proportion of Adm)	<u>\$60,377.</u>	<u>\$241,508.</u>	.0072
<u>Non-Cash Collection</u>	<u>246,643.</u>	<u>986,572.</u>	.0296
Administration (Proportion)	11,989.	47,956.	
Non-Cash City Collection	58,955.	235,820.	
" " Country "	133,034.	432,136.	
Coupon Collections (Except Govt.)	42,665.	170,660.	
<u>Transfers of Funds</u> (Including proportion of Adm.)	<u>108,821.</u>	<u>435,284.</u>	.0131
<u>Cost of Currency & Coin Shipments</u> to and from Member and Non-Member Bks	<u>306,061.</u>	<u>1,224,244.</u>	.0367
<u>Cost of Wrapping Coin</u>	<u>5,999.</u>	<u>23,996.</u>	.0007
<u>Shipping chgs. on Securities</u>	<u>45,626.</u>	<u>132,504.</u>	.0055
<u>Gold Abrasion</u>	<u>1,459.</u>	<u>5,836.</u>	.0002
<u>Supplies furnished to Member Banks</u>	<u>5,417.</u>	<u>21,663.</u>	.0007
<u>Purchase & Sale of Securities and Commer- cial Paper</u>	<u>13,051.</u>	<u>52,204.</u>	.0016
 TOTAL DIRECT EXPENSES	 793,454.	 3,175,816.	 .0953
Add a prop'n of Adm. and General Expenses	<u>313,163.</u>	<u>1,252,652.</u>	
 <u>G R A N D T O T A L</u>	 <u>\$1,106,617.</u>	 <u>\$4,428,468.</u>	 .1328

EXPENSES OF ACTIVITIES CARRIED ON AS A MATTER OF POLICY

	Actual Expenses First Quarter 1923	Annual Basis	Per Cent of Total Expenses
<u>Bank Relations</u>	<u>\$67,031.</u>	<u>\$268,124.</u>	.0079
Administration	20,989.	83,956.	
Office Expense	7,122.	28,488.	
Road Men & Traveling Expenses	38,920.	155,680.	
<u>Bank Examinations</u>	<u>132,510.</u>	<u>530,040.</u>	.0159
Administration	18,467.	73,868.	
All Other	114,043.	456,172.	
<u>Statistical and Analytical</u>	<u>140,581.</u>	<u>562,324.</u>	.0169
Administration	13,022.	52,088.	
Statistical	81,422.	325,688.	
Monthly Letter	22,613.	90,452.	
Library	23,524.	94,096.	
<u>Publications</u>	<u>8,139.</u>	<u>32,556.</u>	.0010
<u>Employees Group Life Insurance</u>	<u>27,189.</u>	<u>108,756.</u>	.0033
TOTAL DIRECT EXPENSES	375,450.	1,501,800.	.0451
Add a proportion of Administrative General Expenses	<u>247,722.</u>	<u>990,888.</u>	
<u>G R A N D T O T A L</u>	<u>\$623,172.</u>	<u>\$2,492,688.</u>	.0748

EXPENSES INCURRED AS FISCAL AGENT OF THE UNITED STATES GOVERNMENT.

	Actual Expenses First Quarter 1923	Annual Basis	Per Cent of Total Ex- penses.
Administration	\$43,197.	\$172,788.	
Government Issues	335,214.	1,340,856.	
Accounting	50,405.	201,620.	
War Finance Corporation	63,278.	253,112.	
Custody of Securities	28,140.	112,560.	
Treasury Savings Securities	587,342.	2,349,368.	
Government Sales Organization	63,984.	255,936.	
TOTAL DIRECT EXPENSES	\$1,171,560.	\$4,686,240.	.1406
Add a proportion of Administrative and General Expenses	833,109.	3,332,436.	
GRAND TOTAL	\$2,004,669.	\$8,018,676.	.2407

EXPENSES INCURRED AS A DEPOSITORY OF THE UNITED STATES GOVERNMENT

Government Checks (Including proportion of Ad- ministrative)	\$ 37,453.	\$ 149,812.	.0045
Government Coupons (Including proportion of Ad- ministrative)	53,772.	215,088.	.0065
TOTAL DIRECT EXPENSES	\$ 91,225.	\$ 364,900.	.0110
Add a proportion of Administrative and General Expenses	64,844.	259,376.	
GRAND TOTAL	\$156,069.	\$ 624,276.	.0187

EXPENSES INCURRED AS A MATTER OF POLICY IN CONNECTION WITH SERVICES
 RENDERED TO MEMBER BANKS - FIRST THREE MONTHS OF 1923 ONLY

X-3890a
 Exhibit D

TOTAL FOR SYSTEM	BOSTON	NEW YORK	PHILADEL- PHIA	CLEVE LAND	RICH- MOND	ATLANTA	CHICAGO	SAINT LOUIS	MINNE- APOLIS	KANSAS CITY	DALLAS	SAN FRAN- CISCO	
<u>Securities for Safekeeping</u>													
(Including proportion of Adm)	\$60,377	\$2,648	\$29,365	\$9,276	\$3,555	\$1,187	\$ 736	\$3,889	\$3,053	\$1,366	\$1,541	\$1,554	\$2,207
<u>Non-Cash Collection</u>	246,643	20,661	80,942	13,507	25,938	10,074	4,000	30,950	10,773	7,605	12,036	7,355	22,802
Administration (Proportion)	11,989	1,005	3,935	657	1,261	489	194	1,505	524	369	585	357	1,108
Non-Cash City Collection	58,955	2,909	10,367	3,603	5,915	1,980	1,692	12,233	3,713	2,934	4,008	2,472	7,129
" " Country "	133,034	12,123	43,600	8,534	15,014	6,984	1,946	13,049	4,964	4,257	7,437	4,520	10,606
Coupon Collec'ns (Except Govt)	42,665	4,624	23,040	713	3,748	621	168	4,163	1,572	45	6	6	3,959
<u>Transfers of Funds</u>													
Including proportion of Adm)	108,821	1,965	18,258	5,090	6,336	6,123	7,761	18,250	6,997	4,462	11,756	7,174	14,649
<u>Cost of Currency & Coin Shipts.</u>													
to and from Banks	306,061	41,334	61,189	44,232	33,446	19,573	13,472	37,408	11,987	5,365	8,566	13,419	16,070
<u>Cost of Wrapping Coin</u>	5,999	1,185	4,814										
<u>Shipping Chgs. on Securities</u>	45,626	4,094	6,600	2,440	4,396	2,022	805	10,341	3,464	1,400	4,114	846	5,104
<u>Gold Abrasion</u>	1,459	98		70		30	44	558	1			122	536
<u>Supplies furnished to Members</u>	5,417	1,224	1,004	625	672		190	250	449	306	456	143	98
<u>Purchase & Sale Transactions</u>	13,051	275	7,965	2,040	90	45	889	668	452	149	150	278	50
TOTAL DIRECT EXPENSES	\$793,454	\$73,484	\$210,137	\$77,280	\$74,433	\$39,054	\$27,897	\$102,314	\$37,176	\$20,053	\$38,619	\$30,891	\$61,516

EXPENSES OF ACTIVITIES CARRIED ON AS A MATTER OF POLICY
FIRST THREE MONTHS OF 1923 ONLY

X-3809-a
Exhibit D-1

	TOTAL FOR SYSTEM	BOSTON	NEW YORK	PHILADEL- PHIA	CLEVE- LAND	RICH- MOND	ATLANTA	CHICAGO	SAINT LOUIS	MINNE- APOLIS	KANSAS CITY	DALLAS	SANFRAN CISCO
<u>Bank Relations</u>	\$67,031	\$1,135	\$15,484	\$1,366	\$7,590	\$9,458		\$16,756	\$7,213	\$1,492	\$ 639	\$5,624	\$ 274
Administration	20,989		8,399	225	1,753	3,013		3,166	1,394	1,193		1,843	3
Office Expense	7,122	35	1,684	384	25	933		2,105	885	294		777	
Road Men & Traveling	33,920	1,100	5,401	757	5,812	5,512		11,485	4,934	5	639	3,004	271
<u>Bank Examinations</u>	132,510	8,071	17,086	17,756	9,218	8,739	6,265	16,682	6,164	6,416	8,730	8,337	19,046
Administration	13,467	633	1,845	2,627	1,507	908	1,623	3,455	526	1,095	756	605	2,887
All Other	114,043	7,438	15,241	15,129	7,711	7,831	4,642	13,227	5,638	5,321	7,974	7,732	16,159
<u>Statistical & Analytical</u>	140,581	13,445	36,606	19,432	10,790	4,032	3,546	21,951	4,727	3,411	5,022	5,149	12,470
Administration	13,022	676	5,292	179	1,135	217	413	2,046	350	461	559	488	1,206
Statistical	81,422	8,437	23,719	12,585	3,761	2,392	2,078	12,975	2,158	1,466	1,809	3,081	6,911
Monthly Letter	22,613	2,396	8,686	3,044	2,829	740	891	2,538	1,423	727	1,450	678	3,211
Library	23,524	1,886	4,909	3,624	3,065	683	164	4,392	796	757	1,204	902	1,142
<u>Publication</u>	\$1,139	2,459	1,231		259	281		1,929	699	167	1,114		
Employees Group Life Ins.	27,189	2,101	8,387	37*	2,552	1,948	1,597	3,567	1,181*	1,523	1,395	1,357	3,430
TOTAL DIRECT EXPENSES	\$375,450	\$27,211	\$78,794	\$38,517	\$30,409	\$24,458	\$11,408	\$60,885	\$17,622	\$13,009	\$17,400	\$20,467	\$35,270

*Credit

1004

905

FEDERAL RESERVE BOARD

WASHINGTON

X-3891

November 14, 1923.

SUBJECT: Code Words for use between Federal Reserve Banks, in
Telegrams incident to Purchases and Sales of U. S.
Certificates of Indebtedness and Treasury Notes.

Dear Sir:

In Board's circular letter X-3873, dated October 31st, you were advised that code words "Nunerate" and "Nuchion", as supplied from the Federal Reserve Telegraphic Code, might be used by your bank in connection with telegraphic purchases and sales of U. S. Certificates of Indebtedness and Treasury Notes.

With reference to the use of such words, the Board has received a further suggestion from one of the banks that additional code words be furnished to cover certain other advices incident to such transactions. Investigation of the number of these items which are routed through the Board's telegraph office, the nature of which is indicated below, appears to fully warrant coded phrases being furnished for use in such transactions, and you are advised that, commencing with December 1st, the following code word may be used by Federal Reserve Banks in telegrams to other Federal Reserve Banks, requesting delivery of certain securities for their account:

"NUMERIC: Upon receipt of authority Commissioner of Public Debt, deliver to _____ on _____ Certificates or Notes Series _____ upon payment of _____ in federal funds. Our transaction No. _____."

In the same manner, the following code word may be used by banks in telegrams requesting that certain securities be received for their account:

"NUMEROUS: Accept delivery _____ from _____, _____ Certificates or Notes Series _____, at _____ and interest. Total charge _____. Forward authority Commissioner of Public Debt."

It is requested that the code words "Numeric" and "Numerous" be added to the bottom of page 165 of the Federal Reserve Telegraphic Code, to follow the supplemental code word "Nuchion."

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS

907

FEDERAL RESERVE BOARD

WASHINGTON

X-3892

November 14, 1923

SUBJECT: EXPENSE MAIN LINE, Leased Wire System, October, 1923

Dear Sir:

Enclosed herewith you will find two mimeograph statements, X-3892a and X-3892b, covering in detail operations of the main line, Leased Wire System, during the month of October, 1923.

Please credit the amount payable by your bank in the general account, Treasurer, U. S., on your books, and issue C/D Form 1, National Banks, for account of "Salaries and Expenses, Federal Reserve Board, Special Fund", Leased Wire System, sending duplicate C/D to Federal Reserve Board.

Very truly yours,

Fiscal Agent.

(Enclosure)

TO GOVERNORS OF ALL BANKS

X-3892a

REPORT SHOWING CLASSIFICATION AND NUMBER OF WORDS TRANSMITTED OVER MAIN LINE OF THE FEDERAL RESERVE LEASED WIRE SYSTEM FOR THE MONTH OF OCTOBER, 1923.

From	Bank Business	Percent of Total Bank Business (*)	Treasury Dept. Business	War Finance Corp. Business	Total
Boston	\$ 40,238	3.17	\$ 4,814	-	\$ 45,052
New York	238,625	18.79	15,833	-	254,458
Philadelphia	70,696	5.57	5,869	-	76,565
Cleveland	101,853	8.02	4,109	-	105,962
Richmond	79,213	6.24	3,889	-	83,102
Atlanta	87,672	6.90	4,384	-	92,056
Chicago	161,799	12.74	7,294	-	169,093
St. Louis	103,718	8.17	4,644	-	108,362
Minneapolis	63,193	4.97	4,106	28	67,327
Kansas City	96,510	7.60	5,011	-	101,521
Dallas	90,838	7.15	2,081	58	92,977
San Francisco	135,602	10.68	8,223	-	143,825
Total					
F. R. Banks	1,269,957	100.%	70,257	86	1,340,300
Washington	<u>304,372</u>		<u>70,235</u>	<u>701</u>	<u>375,308</u>
Grand Total	1,574,329		140,492	787	1,715,608
Percent of Total	91.76%		8.19%	.05%	
Bank Business	1,574,329	words or 91.81%			
Treasury	<u>140,492</u>	" " 8.19%			
TOTAL	1,714,821	100. %			

(*) These percentages used in calculating the pro rata share of leased wire expenses as shown on the accompanying statement (X-3892b)

FEDERAL RESERVE BOARD, Washington, D. C. November 14, 1923.

REPORT OF EXPENSE

X-3892b

MAIN LINE

FEDERAL RESERVE LEASED WIRE SYSTEM OCTOBER, 1923.

Name of Bank	Operators' Salaries	Operators' Overtime	Wire Rental	Total Expense	Pro Rata Share of Total Expense	Credits	Payable to Federal Reserve Board
Boston	\$ 250.00	\$ -	-	\$ 250.00	\$ 675.30	\$ 250.00	\$ 425.30
New York	1,274.42	-	-	1,274.42	4,002.81	1,274.42	2,728.39
Philadelphia	190.83	-	-	190.83	1,186.57	190.83	995.74
Cleveland	388.00	-	-	388.00	1,708.49	388.00	1,320.49
Richmond	315.00	-	-	315.00	1,329.30	315.00	1,014.30
Atlanta	240.00	-	-	240.00	1,469.90	240.00	1,229.90
Chicago (#)	4,876.51	2.00	-	4,878.51	2,713.99	4,878.51	(*) 2,164.52
St. Louis	225.53	2.00	-	227.53	1,740.44	227.53	1,512.91
Minneapolis	275.00	-	-	275.00	1,058.75	275.00	783.75
Kansas City	346.64	-	-	346.64	1,619.02	346.64	1,272.38
Dallas	251.00	-	-	251.00	1,523.15	251.00	1,272.15
San Francisco	360.00	-	-	360.00	2,275.15	360.00	1,915.15
Fed. Res. Board			\$17,021.76	17,021.76			
TOTAL	\$8,992.93	\$ 4.00	\$17,021.76	\$26,018.69	\$21,302.87	\$8,996.93	\$14,470.46
				(a) 4,715.82			(&) 2,164.52
				\$21,302.87			\$12,305.94

(#) Includes salaries of Washington operators.

(&) Amount reimbursable to Chicago.

(*) Credit.

(a) Received \$15.82 from War Finance Corporation and \$4,700.00 from Treasury Dept. covering business for month of October, 1923.

FEDERAL RESERVE BOARD

Washington, D. C.

November 14, 1923.

6 910

FEDERAL RESERVE BOARD

WASHINGTON

X-3893
November 22, 1923.

SUBJECT: Code Words incidental to telegraphic purchases and sales of U. S. Certificates of Indebtedness and Treasury Notes.

Dear Sir:

With reference to code words "Nuchion" and "Numeric", indicated in Board's circular letters X-3873 and X-3891, dated October 31st and November 14th respectively, which were supplied from the Federal Reserve Telegraphic Code for use by Federal Reserve Banks in telegrams incident to the purchases and sales of U. S. Certificates of Indebtedness and Treasury Notes, you are advised that translations of these code words, as indicated below, have been so amended as to more fully meet the requirements of some of the Banks with reference to such transactions:

"Nuchion: Upon authority Commissioner of Public Debt (and payment federal funds) please sell at (amount or market) \$_____. Certificates or Notes Series_____, Transaction No. _____."

"Numeric: Upon receipt of authority Commissioner of Public Debt, deliver \$_____ to _____ on _____ Certificates or Notes Series _____ (payment \$_____ federal funds) (without payment) Our transaction No. _____."

It is requested that necessary corrections be made on page 165 of your copies of the Telegraphic Code, in order to conform with the above changes.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL FEDERAL RESERVE BANKS.

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS

For Release in Morning Papers
Wednesday, November 28, 1923.

X-3896

The following is a summary of general business and financial conditions throughout the several Federal Reserve Districts, based upon statistics for the months of October and November, as contained in the forthcoming issue of the Federal Reserve Bulletin.

Production of basic commodities and retail trade increased during October, and the volume of freight shipments and wholesale trade continued large. The level of wholesale prices and the volume of employment showed but little change.

PRODUCTION:

The Federal Reserve Board's index of production in basic industries advanced 3 per cent in October, after having declined for four months. The increase for the month, while due in part to the resumption of anthracite coal mining, also reflected increases in textiles, lumber, and sugar, and most other industries included in the index. Employment at industrial establishments showed practically no change between September and October.

Contract awards for new buildings increased throughout the country considerably more than is usual at this season, and were 25 per cent larger than in September. Residential projects formed a larger proportion of the total than in any earlier month of the year.

Crop estimates by the Department of Agriculture on November 1 indicated a substantial reduction from the September forecast in the yield of cotton, but larger yields of corn, potatoes, and apples.

TRADE:

Heavy movement of miscellaneous merchandise and live stock resulted in October in the largest railroad shipments of any month on record. Wholesale trade was 12 per cent larger than a year ago and sales in all leading lines except shoes showed increases. Department store sales were 13 per cent larger than last October and sales of mail order houses were the largest of any month since 1919.

PRICES:

Wholesale prices declined less than one per cent in October, according to the index of the Bureau of Labor Statistics and stood approximately at the level of a year ago. The principal changes for the month were declines in the prices of fuel, clothing, metals, and animal products, while wholesale prices of crops, particularly cotton, increased. During the first half of November the prices of wheat, hogs, pig iron, and hides receded, and prices of cotton and cotton goods, cement, and copper advanced.

BANK CREDIT:

Since the middle of October there has been a slight decline in demand for credit for commercial and agricultural purposes at member banks in leading cities. Considerable decreases in borrowings for these purposes in the New York and Chicago districts were partially offset by increases in other districts. Loans secured by stocks and bonds increased somewhat, while investments continued to decline and reached the low point for the year.

The total member bank accommodation at Federal reserve banks

declined between October 17 and November 21 and on the latter date was the lowest since the middle of the year. The total volume of Federal reserve bank credit outstanding, however, remained relatively constant because of increased purchases of bills in the open market. The volume of Federal reserve note circulation declined by about \$50,000,000 during the period, while other forms of money in circulation increased.

Money rates showed an easier tendency and during the early part of November the open market rate on commercial paper in New York declined from 5 - 5 1/4 to 5 per cent.

FEDERAL RESERVE BOARD

WASHINGTON

X-3897
November 26, 1923

SUBJECT: Circulars of Federal Reserve Banks.

Dear Sir:

Under date of August 4, 1921, the Board sent a circular letter (X-3180) to the Federal Reserve Banks requesting that there be forwarded to the Board as issued six copies of all circular letters addressed to member banks. Recently some of the Federal Reserve Banks have not been furnishing the Board with the required number of copies of their circular letters, and the purpose of this communication is to renew the request contained in the Board's letter of August 4, 1921.

Very truly yours,

J. C. Noell,
Assistant Secretary

TO GOVERNORS OF ALL FEDERAL RESERVE BANKS

FEDERAL RESERVE BOARD

Statement for the Press

For Immediate Release

X-3898

CONDITION OF ACCEPTANCE MARKET

October 11 to November 14.

After a period of dullness, which had characterized the acceptance market since mid-summer, the volume of new bills which became available during the period ending November 14 showed a substantial increase. Seasonal drawings for funds to finance the marketing and exportation of cotton contributed to the increased supply of acceptances offered in October. Bills were also issued to provide funds for financing the storage and exportation of grain, the importation of sugar and silk, the domestic financing of provisions, and to provide dollar exchange. While some improvement was noted in the demand for bills, it did not increase to the same extent as the supply, and at the end of the period, dealers' aggregate portfolios showed considerable increases. Banks in both the financial centers and the interior were the principal purchasers of bills with short maturities and commercial demand centered in bills maturing within 60 and 90 days. Rates remained unchanged throughout the period at $4\frac{1}{8}$ to $4\frac{1}{4}$ bid, and 4 to $4\frac{1}{8}$ offered for 30 to 90 day bills. This is practically the same level at which rates have been maintained since mid-summer.

Washington, D. C.
November 18, 1923.

910

FEDERAL RESERVE BOARD

WASHINGTON

November 28, 1923.

X-3899

SUBJECT: Administration of Clayton Act.

Dear Sir:

Reference is made to the Board's circular letter of January 2, 1923, (X-3603). In that letter the Board stated that after careful consideration of the question of what policy it should adopt as to revoking Clayton Act permits theretofore granted, it had decided not to revoke permits in any case where the interlocking directorate had resulted in the growth of competition between the banks involved.

Some criticism has been made of what is called the anomalous situation thereby created, resulting from the fact that the Board allows previously granted permits to remain in effect, although it will not grant new permits to serve the same banks.

You are directed, therefore, to forward to the Board not later than December 7, 1923, a comprehensive review of the situation affecting interlocking directorates in your district, designed to inform the Board in detail whether the terms of Section 8 of the Clayton Act are being complied with, and with particular reference to all cases involving banks having interlocking directorates which were granted at a time when no substantial competition existed, but which could not now be granted under the terms of the Kern Amendment to the Clayton Act because the institutions affected have since become substantial competitors.

By direction of the Federal Reserve Board.

Walter L. Eddy,
Secretary.

TO ALL FEDERAL RESERVE AGENTS.

517

FEDERAL RESERVE BOARD

WASHINGTON

X-3900

November 28, 1923.

CONFIDENTIAL.

Subject: Extra Compensation Payments.

Dear Sir:-

By direction of the Federal Reserve Board, I have to advise you of the following resolution adopted by the Board, and to request that you bring this letter to the attention of the directors and officers of your bank:

"BE IT RESOLVED, That all Federal reserve banks be notified that no bonus or extra compensation payments of any character will be approved by the Federal Reserve Board, and that the Federal Reserve Board is of the opinion that the proper method of compensating its own employees and the employees of the Federal reserve banks is by payment to them at regular intervals - weekly, semi-monthly, or monthly - of the full amounts earned by them on the basis of their fixed annual compensation."

Very truly yours,

Walter L. Eddy,
Secretary.

TO ALL CHAIRMEN

918

FEDERAL RESERVE BOARD

WASHINGTON

X-3902

December 1, 1923.

SUBJECT: Stocks of Unissued F. R. Notes.

Dear Sir:-

You are requested to prepare and submit to the Federal Reserve Board, before January 1, 1924, an estimate of the amount of each denomination of the Federal Reserve notes of your bank you may be called upon to issue during the calendar year 1924. This information is desired for the purpose of regulating the production of Federal Reserve notes during the coming year.

For your guidance, I would state that the Board is of the opinion that its stock of unissued Federal Reserve notes should at all times include approximately a twelve months' supply of each denomination of the notes of each bank, and that not more than a six months' supply of each denomination of unissued notes should be in the custody of the Federal Reserve Agents.

By direction of the Federal Reserve Board,

Yours very truly,

Walter L. Eddy,
Secretary.

TO ALL FEDERAL RESERVE AGENTS.

A D D R E S S

X-3903

by

E. H. CUNNINGHAM, MEMBER

FEDERAL RESERVE BOARD.

WASHINGTON, D. C.

Delivered December 12th, 1923.

AMERICAN FARM BUREAU FEDERATION CONVENTION

Chicago, Illinois.

Released for Publication December 12th, 1923. (noon).

The general purposes of the Federal Reserve System are well defined in the title of the Federal Reserve Act, which was passed in 1913 and approved on December 23 of that year. The full title of this Act reads as follows:

"An Act to provide for the establishment of Federal Reserve Banks, to furnish an elastic currency, to afford means of rediscounting commercial paper, to establish a more effective supervision of banking in the United States, and for other purposes."

The two principal functions mentioned in the title of the Act are thus to furnish an elastic currency and to afford means of rediscounting commercial paper. Both of these purposes clearly indicate that the Federal Reserve System is intended primarily to supply short-term credit, because elastic currency must necessarily be based on current transactions, and the rediscounting of "commercial" paper means the extension of credit on paper arising out of the current needs of production or distribution in agriculture, industry and trade. Both functions, therefore, indicate that the Federal Reserve System is a commercial banking system organized to finance current short term operations, as distinguished from the Farm Loan System and the Intermediate Credit Banks, which were organized for the purpose of providing longer term credit. The limitations upon the character and maturity of the paper eligible for discount by the Reserve Banks, therefore, arise from the fundamental purposes for which the System was created.

MEMBERSHIP

For purposes of Reserve Banking the United States is divided into

twelve districts, each district having a Federal Reserve Bank, which in many respects is entirely independent of the other Reserve Banks and of the Federal Reserve Board. All the national banks in a district belong to the Federal Reserve System and must subscribe as their share to the bank's capital an amount equal to six per cent (6%) of their own capital and surplus, three per cent (3%) of which must be paid in cash at the time the membership is acquired; the remainder being subject to call. Banks having state charters are permitted to join the Federal Reserve System if they so desire and if their capital and the character of their business are such as to make them eligible for membership. Upon joining the System they are required to subscribe to the capital stock of the Reserve Bank on the same ratio as national banks. State banks which join the System retain all their charter privileges so far as they are not in conflict with the Federal Reserve Act and State banks may withdraw from membership at any time upon six months' notice. The Federal Reserve System, therefore, is owned by its member banks who are the stockholders and no part of the stock belongs to the Government. It is not a Governmental institution, but a co-operative enterprise of bankers owned and largely controlled by them.

ORGANIZATION

The Federal Reserve Banks are administered by a Board of nine (9) Directors divided into three classes: Class "A" Directors are selected from among leading bankers in the district; Class "B" Directors represent commercial, industrial, and agricultural interests in the district, and Class "C" Directors are appointed by the Federal Reserve Board to represent the Government and the general public. Class "A" and Class "B" Directors

are elected by the Member Banks, the Government appointing only one-third of the Directors. For the purpose of selecting Class "A" and Class "B" Directors the banks in each Federal Reserve District are divided into three groups, consisting respectively of large, medium and small banks, each class having in the aggregate an equal number of votes. This insures the Federal Reserve Banks from being controlled largely by the big banks as they would be if the votes were in proportion to resources, or by small banks as would be the case if every member bank had one vote regardless of its size. This plan assures the banks of a directorate representative of the business interests and of the various classes of banks in the district.

The Federal Reserve Board consists of eight members, the Secretary of the Treasury and the Comptroller of the Currency ex-officio, and six other members appointed by the President of the United States and confirmed by the Senate. "In selecting the six appointive members of the Federal Reserve Board, not more than one of whom shall be selected from any one Federal Reserve District, the President shall have due regard to a fair representation of the financial, agricultural, industrial, and commercial interests, and geographical divisions of the country." So that the Federal Reserve Board is a body of men selected from various parts of the United States who are representative of the various activities of the country, and to these men is entrusted the function of welding the twelve regional Reserve Banks into one System which is operated on consistent principles and can be depended upon for united action when emergency arises.

There is a clear distinction between the Federal Reserve Banks and

the Federal Reserve Board. This distinction is very often overlooked when criticisms are offered as against the function or operation of the System as the Board is often criticised for action taken, when, in reality, it is the action of the Federal Reserve Bank, and vica versa. As the Federal Reserve Banks are held responsible for their capital stock, and as the business of banking varies in different sections of the country, Congress deemed it advisable to make each Federal Reserve Bank a separate corporation and defined the limits of a bank's corporate powers in the act, while it left to the Federal Reserve Board the determination of broad questions of policy in order that the banks might function harmoniously as a unit and rally to the aid of each other in times of special stress or combine their force in case of a national emergency.

FUNCTIONS OF THE BANKS.

The chief functions of the Federal Reserve Banks may be briefly described as follows: (A) Rediscounting for Member Banks. When a member bank finds that its customers are in need of more credit than it is able to give them on the basis of its own resources, it can turn to the Federal Reserve Bank and rediscount with it some of the paper upon which it has made loans to its customers. This paper, however, in order to be eligible under the law must generally arise out of an actual transaction connected with the production or distribution of commodities. Paper cannot be rediscounted with a Federal Reserve Bank if the proceeds were used for speculation; for permanent investment, or for carrying stocks and bonds, except obligations of the United States Government. So that the Federal Reserve Banks' operations are specifically intended to serve current credit needs. Another limitation upon the paper, having the same

general purpose, is in connection with the length of time for which Reserve Banks are permitted to discount paper. For ordinary commercial and industrial paper the maturity is limited to 90 days and for agricultural paper to nine (9) months. The reason that agricultural paper is allowed longer maturity is that agricultural operations generally require a longer time for their completion than do commercial and industrial operations. There is in this no departure from the principle that Reserve Bank credit must be employed to finance short-term current operations rather than long-term enterprises. In extending credit to their members the Reserve Banks are guided by their Boards of Directors and by loan committees appointed by Directors who have complete discretion in the matter under the law. In rediscounting paper or obtaining advances from the Federal Reserve Banks, the Member Banks deal only with the Federal Reserve Banks and the Federal Reserve Board cannot interfere so long as they act within the law. The Federal Reserve Board cannot require any Federal Reserve Bank to make any loan or rediscount any paper nor can it require any Federal Reserve Bank to refuse any loan or to refuse to rediscount any paper which is eligible for rediscount.

(B) The Federal Reserve Banks are authorized to issue Federal Reserve Notes in exchange for gold or for paper eligible for discount. Through this power of note issue the Reserve Banks are able to supply the Member Banks with liquid currency that allows them to meet every legitimate demand of the district for additional credit beyond the banks' own resources. If I might presume to give you a clear picture of this idea in practice I would assume that a given community has an actual need for additional credit. The need is apparent by the requests for loans at the local bank. The bank, in order to meet the needs of its customer, turns

1. 975

to the Reserve Bank and borrows say \$100,000 from its Federal Reserve Bank by rediscounting some of its eligible paper. The Federal Reserve Bank needing additional funds to take care of the needs of its Member Banks, pledges this \$100,000 of rediscounted paper with the Federal Reserve Agent and obtains \$100,000 in Federal Reserve notes, which it pays over to its Member Bank for the paper rediscounted by it. The Member Bank lends or pays out this \$100,000 of Federal Reserve notes in its community, and thus they are put into circulation and the total volume of currency in circulation increased or "expanded" in the amount of \$100,000. When the rediscounted paper pledged as security for the Federal Reserve notes matures and is paid off, the Federal Reserve Bank must either substitute other collateral (eligible paper or gold) or retire the notes. If the credit needs of the community have decreased in the meantime, the notes probably will have been returned to the Federal Reserve Bank, either through its Member Bank or through other Federal Reserve Banks, and it will retire them. Possibly some of them will be paid to the Federal Reserve Bank in payment for the very paper which it had pledged as collateral for their issuance, and their retirement will be practically automatic. When the underlying commercial paper is paid off and the Federal Reserve notes are retired the total value of currency in circulation will have been decreased or "contracted" \$100,000. In this way the total volume of Federal Reserve note currency automatically expands and contracts to accommodate the changing needs of commerce, industry and agriculture. A Federal Reserve Bank cannot get Federal Reserve notes without putting up 100% commercial or agricultural paper or gold itself as security, and when the volume of available commercial or agricultural paper decreases it must

either retire the currency or put up gold as security.

If I have made myself clear you have in your mind a picture of how the elastic currency of the Federal Reserve works in practice. You have seen (1st) where the necessity for it originated out in the district; (2nd) how the Member Bank acquired it by offering eligible paper of its customers equal to 100% as security; (3rd) how the money went into general circulation through the channels of trade and industry; (4th) how the currency is retired automatically when the credit needs of the community no longer require its circulation.

The Reserve Banks have no power to issue notes except in exchange for gold or eligible paper. They cannot create currency out of nothing. The need for the notes must arise out of the actual requirements of the community. The Federal Reserve Notes are first liens on the assets of the Reserve Banks and are also obligations of the United States Government. They are redeemable in gold at the Treasury of the United States and in gold or lawful money at any Reserve Bank, and a 40 per cent minimum gold reserve must always be maintained against them.

In the early periods of the system, the use of Federal Reserve Notes as additional currency credit was not generally resorted to in times of increased demand or necessity for additional credit, but as the World War continued and finally involved America the demand for currency with which to carry on and adequately finance the business needs on account of the great inflation in prices, increased very rapidly. On January 1st, 1917, just before we went into the war, the outstanding Federal Reserve Notes amounted to \$17,588,100. On January 1st, 1918, the amount was \$1,350,764,225.

On January 1st, 1919, the amount had increased to \$2,859,843,920.

On January 1st, 1920, this amount had increase to \$3,295,789,145.

And on December 23rd, 1920, it reached its peak of \$3,404,931,000. in actual circulation.

Since that date the tendency in the main has been downward and on November 28th, 1923, it stood at \$2,246,000,000.

The high discount rate of six per cent (6%) effected by the Reserve Banks in January and February, 1920, was undoubtedly to be taken as a warning that expansion was reaching a high point and having its effect on legal reserves which were declining, with the thought, undoubtedly, that this high rate of discount would have the effect of slowing down the demand for money. On the contrary - and to the surprise and astonishment of all, past experiences and practices reversed themselves and the demand for money began to increase. Early in June the rate was increased in four of the Reserve Banks to 7% without any apparent effect upon the demand for money which reached its high point in December, 1920, when the total amount of Reserve notes issued and in circulation totaled - \$3,404,931,000.

The statement made by a former Comptroller of the Currency to the effect that the largest amount the National Banks of the country had ever borrowed in one year prior to 1913 through rediscounts and bills payable was - \$100,000,000 brings most forcibly to our attention the almost incomprehensible figures to which the country's credit had been expanded since the inauguration of the Federal Reserve System.

The discount rates of the System have varied greatly at different times, However, when we recall the conditions through which the country has passed since the System was established in 1914, it does not appear in any sense unjustified. In view of the abnormal conditions resulting

from the World War with its attendant inflation, so natural to carrying on war activities, the Post-War period when every line of production was more or less over-stimulated together with the tendency toward extravagance and speculation and added thereto, the further obligation of the Federal Reserve System to act as Fiscal Agents for the Government in financing the war which required the floating of over \$20,000,000,000 of Bonds together with a large amount of short time government obligations, it quite naturally was to be expected that discount rates should or would vary quite materially.

The discount rate of six per cent (6%) was established with the System in 1914. Between 1914 and January, 1920, the rate varied but never again reached 5% until the latter part of January, 1920, and later in 1920, went up to 7% in Boston, New York, Chicago and Minneapolis.

(C) The Federal Reserve Banks hold all the lawful reserves of the Member Banks, that is, nothing that a Member Bank holds, not even gold or other cash in its vaults, counts as reserve by law, except the amounts held on deposit with the Federal Reserve Bank. The concentration of reserves and making them available at any point within the System, and at any time, has made it possible to reduce reserve requirements and at the same time renders banking much safer throughout the country. The Reserve Act has reduced the requirements for reserves on demand deposits from twenty-five per cent (25%) in reserve cities to ten per cent (10%), and on time deposits from twenty-five per cent (25%) to three per cent (3%); and in country banks the reduction has been from fifteen per cent (15%) to seven per cent (7%) on demand deposits and from fifteen to three per cent (3%) on time deposits.

There is no doubt that the Federal Reserve System through its reserve policy is rendering the country a great service in maintaining the integrity

of deposit reserves, and in pooling these reserves in order that they may be available in time of need to the Member Banks and to any other function of the System.

One of the greatest deficiencies in the old banking system prior to the enactment of the Federal Reserve Act, was the system of maintaining bank reserves consisting partly of cash in vault and partly of balances with correspondent banks which in turn carried part of their reserves in the form of balances with other banks which were permitted to lend a large part of such reserve deposits to their customers so that the ultimate reserves of the country were invested in loans which might not be collectible in the time of need. And the greatest deficiency in our present banking system results from the continuance of this very same practice by banks which are not members of the Federal Reserve System. A reserve intended to protect the depositors of a bank which consists largely of loans to the patrons of the correspondent banks cannot in its final analysis be considered any more of a reserve than the notes in the portfolio of the original bank, and it cannot compare as a deposit protection to the reserves held in the Federal Reserve System, which must always be protected by a gold reserve of not less than thirty-five (35%) and in addition having the advantage of being available for use at any point of emergency.

The history of past financial panics which have caused so much trouble and worry to bankers and depositors will show in practically every instance that the reserves which were intended as a protection to depositors, had in nearly every case, been dissipated and as a consequence reserve protection was not available in the time of need. This cannot happen under Federal Reserve Banking.

(D) In addition to clearing intra-district checks the Federal Reserve

System has set up a machinery by which balances between districts can be settled by book entries without the shipment of cash. This is done through the gold settlement fund in Washington held in custody by the Federal Reserve Board. Each reserve bank has placed with the Reserve Board a part of its reserves and whenever one reserve bank wishes to transfer funds to another it does so by wiring to the Board to make an appropriate entry on the books of the gold settlement fund. The Board daily notifies each Reserve Bank of the total debits and credits to its account and of the amount of gold it owned at the end of the previous day's business. This plan has done away with exchange charges for drafts within the country; has eliminated much time lost and expense incurred in the shipment of currency and has made business dealings between different parts of the country more expeditious and economical.

EARNINGS.

Par. 55 - Section 7.

"After all necessary expenses of a Federal Reserve Bank have been paid or provided for, the stockholders shall be entitled to receive an annual dividend of six per centum on the paid-in capital stock, which dividend shall be cumulative. After the aforesaid dividend claims have been fully met, the net earnings shall be paid to the United States as a franchise tax except that the whole of such net earnings, including those for the year ending December 31, 1918, shall be paid into a surplus fund until it shall amount to 100 per centum of the subscribed capital stock of such bank, and that thereafter 10 per centum of such net earnings shall be paid into the surplus."

The plan for providing a surplus equal to 100% of the subscribed capital was not a part of the original Act but came as an amendment in March 1919. At this time the Federal Reserve Banks with the exception of the Federal Reserve Bank of Dallas, Texas, have a reserve of not less than 100% built up out of net earnings. The last statement as to net earnings and their

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distribution was as follows for the System:

Dividends paid	\$ 37,395,205.
Transferred to surplus	218,369,549.
Franchise tax to Govt.	135,387,941.

Under this system of a fixed dividend, the incentive for earning unusually large profits is largely removed. The earnings of the Reserve Banks are largely governed by the volume of credit needs of the country and necessarily will vary in accordance with the volume of business.

During the years when the Reserve Banks were handling the governmental war finance activities 1920-1921, the Reserve Banks paid the Government \$120,000,000; in 1922 they paid about \$10,000,000. The necessity of meeting all overhead expense of the Federal Reserve System including the expense of the Federal Reserve Board at Washington, is a direct obligation of the Reserve Banks; as the Government is under no expense for or on account of the Federal Reserve System or any of its branches. The surplus which the Banks accumulate belongs to the Government in case the bank or banks should be liquidated. The member banks under the law can under no circumstances receive more than the return of their capital and six per cent (6%) interest on their investment.

I hope I have made this point clear to you. The earnings in this institution to its stockholders can in no event exceed six per cent (6%). The earnings during the years America was actually engaged in the war were very heavy on account of the large volume of Government financing that was cleared through the Reserve System, and in addition thereto, the profit that naturally accrued to the system through the large volume of note issues and

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rediscounting necessary to care for the increased volume of business that on account of high prices necessarily required a greater volume of credit in order to function. Observations of the past few months as to the tendency of income would lead one to the conclusion that under normal conditions the problem of the future will be how to meet the overhead expenses of the system, rather than one of curtailment of net earnings.

To go into minute detail of the operation of the Federal Reserve System would take a great deal of time and in the end would no doubt leave you so confused as to query, what is it all about. I have endeavored to give you a clear picture of the fundamental principles and how they operate:

- 1st As to the purpose of the Act
- 2nd As to the membership of banks in the system
- 3rd The organization of the twelve original banks
- 4th As to the class of paper eligible for rediscount

- 5th. The power of note issue.
- 6th. The method of note issue.
- 7th. The purpose of the rediscount rate.
- 8th. The reserves and how the Act changed the legal requirements.
- 9th. Distribution of Earnings.

If I might ask your further indulgence without encroaching too largely upon the time of others, it would be for the purpose of commenting briefly on the System both from the standpoint of its shortcomings as well as its advantages as I have come to understand them during the past few months' experiences.

Many complaints have come to me especially from the Middle West with respect to the high interest rates prevailing in many States. The remedy for the criticism which in many instances is warranted must come from the hands of the legislators of those states where exorbitant rates are exacted. Many, if not all, states have an established maximum legal rate and the custom in the States is to adopt it as the current rate for loans. The remedy is- the State; as the Federal Reserve Board has no power to control interest rates charged borrowers by member banks.

The Federal Reserve Banks at this time have a uniform discount rate of $4\frac{1}{2}$ percent. The rate is the same to all banks in the System. No discrimination is permitted in the established rate of the Federal Reserve Bank as against any of its members. The rate to the borrower, however, in many States, appears to be very much in excess of the reserve rate and in some instances, the spread between the Federal Reserve rate and the legal rate is so wide that it tends to encourage banks in borrowing from the Federal Reserve and loaning to their customers for the profit that can be made on the spread. Where the practice is followed of loaning money at maximum legal rates as fixed by State laws, naturally follows that a low Federal Reserve rate could have no bearing on the rates paid by the customer of the bank, as they are governed by the State Law.

It must be said, however, in fairness to the banker that the practice of holding closely to a maximum legal state rate does not appear to be the general rule as there are many evidences in different parts of the country that money is loaned on a very small margin, while, in others the criticisms made are justified as the spread appears to be too wide.

The principle underlying the Federal Reserve System is not one that encourages profiteering by member banks. The evident intent of Congress was that the Federal Reserve Bank should be regarded as an institution to be used in times of emergency, or to meet seasonal requirements for additional credit and finance whenever local banks were unable to do so out of their own resources.

It is not inconceivable that the custom of following legal state rates as a guide for current rates, may have contributed largely to the expansion in our credits that developed so rapidly in 1919 and 1920. The evident intent of the Federal Reserve Board in increasing the rate to 6% in January, 1920, was to warn the country of the dangers that would follow if the expansion of credit continued, as the reserves, at that time, indicated a rather material reduction in the ratio. But, contrary to all precedent or expectation, the reverse of what was hoped for happened, as the increase in the rate did not lessen the demand for credit. And a few months later the rate was raised to 7% in four banks of the System; evidently, with the same intent and purpose in mind. Here again the increase in the rate was without immediate results as the expansion continued for several months following; and it might not be an unreasonable deduction to infer that the borrowers in the country (the Middle West and South were heavy borrowers) were not fully informed of the serious expansion that was taking place throughout the country and could not be disturbed by any increase in the

discount rates they were and had been paying, the maximum state rate which could not have the effect of acting as a note of warning as the rate was not unusual. It did, however, serve as a warning to the bankers of the country. They were men of experience who knew that this great increase in the Federal Reserve rate had for its purpose but one object and that was: to, in some manner, effect a slowing down in the demand for credit. This warning should have been heeded, and in all probability, was to some extent; but in many instances the natural prudence and caution that was to be expected from the conservative banking class was either submerged in their desire for profits; or the situation had gone beyond their control.

The record shows that the Federal Reserve System was quite generally used by the member banks for rediscounting paper after America entered the war and later on member banks discounted very extensively for non-member banks. In the Mississippi Valley, where production is heavy and the marketing of farm commodities, including live stock, assumes large proportions, there is a great necessity for heavy financing throughout seasonable portions of the year. This is especially true where co-operative marketing has developed to the point where it is handling the larger portion of farm products of that area. The Middle West section was a heavy borrower throughout the years of 1919 and 1920 which at its height became very embarrassing to some members of the Federal Reserve System. The records of membership disclose the fact that not over one-third of the banks in the Mississippi Valley were members of the Federal Reserve System and that many of those that were members of the Federal Reserve System were not discounting any paper, consequently, were giving no extra service to the community beyond their own resources.

The Seventh District, which is served by the Chicago Federal Reserve Bank, showed that on December 30th, 1920, that bank had a membership of 1421 banks in the district; 358 of which were state banks and 1063 were national

banks. There may have been some slight increase in the membership at this date, but the records will show that since the 1923 Amendment to the Act there are 3074 eligible banks in the Seventh District. The high point for loans in this district was reached in October, 1920, and on that date there was a total of 813 banks borrowing and located in the following states of the District: Illinois - 175; Indiana - 103; Iowa - 369; Michigan - 104; and Wisconsin - 64; thus we have at the time of emergency only 813 out of approximately a total of 2000 eligible banks in the district that were endeavoring to be of service to the district at a time of national emergency such as prevailed in 1920. This lack of membership contributed greatly to the embarrassment of the discounting banks and curtailed very materially the efforts of the Reserve Bank to serve the district. The disinclination of the country banks to become members of the system worked a hardship on such banks as attempted to serve the country in that they were obliged to rediscount or borrow to such an extent that their condition soon became over-extended and dangerous. The practice of country banks functioning through correspondent city banks has grown enormously and it is not unusual for city banks to act as correspondent for hundreds of individual country banks. And in order to retain the country bank accounts, the city banks pledge themselves to come to the financial aid of the country banks in times of need, and, in order to do so, often find it necessary to borrow very heavily from the Federal Reserve Banks in amounts wholly out of all proportion to their capital and surplus.

Under the old system of national banking, banks were permitted to rediscount to the amount of their capital stock and surplus; under present conditions the reserve banks have fixed the basic line for borrowing member

banks at considerably beyond that point. To illustrate, take a hypothetical case - The basic line in most cases would be $2\frac{1}{2}$ times its capital, or \$1,500,000 for a bank with a capitalization of six hundred thousand dollars. Its individual deposits total seven million dollars. (\$7,000,000). This bank borrowed from the Federal Reserve Bank of its district Four and One-half Million Dollars (\$4,500,000), or seven times its capital. Common sense and ordinary business prudence would cause any man in this audience to inquire as to how the Directors in a bank of that kind could justify this condition. While the illustration is not an actual picture of any bank, it is typical from the standpoint of Reserve and Capital to its rediscount liabilities. To illustrate further, suppose this bank had, approximately, two hundred country banks as clients. Would it not have been the better part of wisdom for those two hundred country banks to have joined the System and placed their institutions in a position to make their loans direct with the Federal Reserve Bank and by so doing avoid the additional charge to the correspondent bank and allowed this charge to accrue to the benefit of borrower, which in itself would have been a substantial saving, when considered in the light of the large volume of rediscounting necessary in this country? The liability to the Federal Reserve Bank would have been no greater than it was to the city bank, and the local bank would have been in a much better position to serve its customers according to their needs and the needs of the community.

The incentive of the borrower should be to undertake to procure his necessary loans at the very lowest rate and his bank should be willing to offer every facility that would enable him to do so. It should be the purpose of the local bank to reach as directly and cheaply as possible the

fountain-head of its emergency resources and this can be done through a membership in the Federal Reserve System.

There are, as I view it, many obstacles to overcome before the membership in the system will reach the point that will enable every community to get the most direct benefit. Some non-member banks, in many instances, have not reached the point where they can see any advantage in being a member. Others are not members because of reasons that apply only to the material side of business - profits. It is perfectly natural that any banking institution should be alive to the necessity of earning dividends on its capital, but the necessity for giving service and protection to its patrons is a prerequisite to earnings. When the customers of a bank have knowledge that their deposits are protected by a reserve that cannot be dissipated, it becomes more of an asset to the bank than could possibly accrue to it from 2% on the small reserve now required.

The most serious drawback to the Federal Reserve System at this moment is the attitude of many of our people toward the Federal Reserve Board and the Federal Reserve Banks. It is regrettable that the business and farming interests and borrowing public generally have not been taken into a more intimate confidence and more fully informed on the objects, purposes and intent of this system, in order that they might intelligently understand its functions and comprehend its effectiveness. The majority of letters I receive indicate very clearly that the Federal Reserve System in its policies and functions is not understood and many people are wholly uninformed or misinformed as to its objects. If we were dealing with an ordinary piece of legislation or some academic problem the matter would right itself because it would have the support of the interested classes who would see that it was properly presented, but here we have a corporation -

semi-public in its nature (by reason of governmental supervision). It is probably the most powerful and at the same time, the most far-reaching in its function of any system that the world has ever known, and, in a word, it is least understood. I, personally, can lay no claim to any great amount of superior knowledge of the System but it can be understood and should be understood by all the people through the best of information that can be had as well as the widest distribution of same. I have no thought of going into a discussion over the charge so often made that the Federal Reserve Board had arbitrarily ordered deflation. I deem it my duty, however, to leave with you the information I have on the subject which I obtained largely from the records of the Reserve Board and without going into details, I will say that I find no record in the official minutes of the Board where an order was promulgated or acted upon in any manner. I have repeatedly had assurance from two members who were members of the Board in 1920 that no action of any kind having for its object a demand for liquidation, was ever taken.

The Conference of May 18, 1920, which many people claim was called for the purpose of demanding liquidation, was one of the conferences which are held each year in accordance with the provisions of the Reserve Act, and, in order that you might have the full text of the Conference at first hand and be able to study it at your leisure, I have brought every available copy with me and same can be had at the Secretary's table.

It would be well to keep always in mind the thought that the Federal Reserve Members are only human and subject to human limitations, experience proves that humanity is prone to err. There is no doubt but what the

Federal Reserve Board made mistakes; the Federal Reserve Banks have made mistakes; the bankers of the country make mistakes; business men make mistakes and farmers are not immune from mistakes. No one who had to do with the eventful times and conditions can claim absolute immunity from blame. What the attitude of the individual Reserve Banks was during those eventful days is unknown to many. What the Member Bank demanded from its customers, I have no way of knowing. What the correspondent city bank demanded of the local country bank will probably never be made public. What the country bank told its customer can only be imagined. What the status of the borrower was and whether his loan was essential or non-essential, he alone must be the judge. But, in the course of time the history of our age will be recorded. To a great extent it will be a repetition of the experiences of war periods that our country has passed through since its existence as a nation. We have been told of the experiences of the Revolutionary period and the disastrous conditions that followed the war.

The history of the War of 1812 records the same identical experience and the same after-war disastrous effects. In 1837 the agitation and subsequent legislation which disorganized the United States Bank brought about a national calamity.

Following the Civil War we had the usual period of contraction and the record of our own time will show that the ages had not been able to teach the American people how to profit by experience and that they have not come to an appreciation of the disaster they would encounter in the post-war years of the World War and which are now known to have been the most disastrous that America has ever experienced.

That something out of the ordinary must have added incentive to the deflation in commodity prices in 1920 seems reasonable to believe. Personally, I have had many men of unquestionable integrity assure me that arbitrary demands were made for liquidation and that liquidation to them meant bankruptcy. I hope that those who have had such an experience will speak up and tell how and by whom and under what circumstances, they were required to liquidate in order that full responsibility for any unjust deflation could be established. Nothing can come from any further agitation on the subject except as it serves as the means of enabling us to create such safe-guards as will obviate and prevent such disastrous results.

My statement as to what was said and who said it and when and where, will always be a subject for discussion without a solution as to who was at fault unless those who had such experience will speak up and tell what happened. The Federal Reserve System is recognized as an established institution and its value to the country in times of emergency and financial need is acknowledged even by its enemies. That it is the last word in finance and credit and that it has functioned efficiently in every instance is not our contention. Many suggestions are offered from time to time and many amendments have been made by Congress in order to increase the efficiency of the System to the borrowing public. It is entirely probable that additional changes will be made in the System from time to time and these will be largely based upon the knowledge we have gained from our past experiences.

To one who has been privileged to observe the operations of the

Federal Reserve System in practice and compare it with the financial machinery of other nations, there comes the thought that the mind that conceived the idea was that of a genius. It not only has stood the test of the World War which involved the most severe credit strain that history has ever known, but also brought our country to a financial position far above that of the other nations engaged in the conflict.

I hold that the first essential to the maintenance of a successful credit and currency system is a loyalty of its members that will command the confidence of the people with whom they deal.

The Federal Reserve Board at Washington and the Directors of the different Federal Reserve Banks do not deal directly with the public, consequently, have nothing but indirect contact and second hand information as to what is actually transpiring. This is unfortunate in one respect in that it does not give the Federal Reserve Board or the Directors of the Federal Reserve Banks the personal contact with people of the country that is necessary to a thorough understanding and more intimate knowledge of conditions at first hand. The inability or neglect of the Member Bank to make clear to its customers on every occasion the reasons for the bank's inability to meet requests for credit has created a situation that will be years in the undoing.

In order that this statement might not be misinterpreted or that the impression might go forth that it was a personal feeling and more or less prejudicial, I want to quote you verbatim what a very prominent banker of Chicago has said on this subject in a speech delivered at Atlantic City, in September, 1923, to the assembled delegates of the American Bankers' Association:

"Nevertheless, the harm done by the publicity given to the conditions of those engaged in agriculture is almost immeasurable and all of us are to some extent responsible, because in some way most of us have contributed to the farmers' feeling that he is not so much the victim of the circumstances of his own industry, as of the machinations of all elements of business, finance and government.

"As bankers, we contributed to this feeling when we sought to blame our demands upon the farmer for payment on the cruel activities of the Federal Reserve Bank and the Federal Reserve Board. Our cowardly action in failing to tell our farmer friends the truth, which was that we had loaned too much money and were hard up and needed to collect rather than that we were being made to do so by some government agency, is bearing abundant fruit today, and we have ahead of us a tremendous task to correct the false impression for which we are responsible."

If the System cannot have the most loyal support and hearty co-operation of its members, it will be difficult, indeed, to hope for a permanent continuance of its success. Its efficiency will always depend upon the manner in which the banks as well as the public support it. It is recognized by many as the institution in America that is to act at all times as a barometer of finance and credit and its efficiency in serving the people will always depend upon the manner in which all of the agricultural and business interests

of the country are willing to be guided by its warnings.

In conclusion, I, personally, can see nothing in the present credit situation that in any way appears alarming. The country as a whole appears to be in an easier situation financially than a year ago.

Agriculture, on the whole, has made substantial progress toward recovery and while there are many reasons for the optimistic feeling over the partial return of a more prosperous condition, the situation is not one to warrant the farmer in indulging in any extraordinary extravagance. That there has been a large amount of liquidation on the part of the farmer is conceded; however, this has not been due entirely to profits on current operations, as the mortgage indebtedness on farms has been materially increased during the process of liquidation that has been going on, and this gave color to the thought that farmers have to some extent reduced the loans made for current obligations by increasing mortgage indebtedness on farms which is literally true in many cases, and until that problem has been met and permanently adjusted, agriculture cannot be said to have met all post-war readjustments.

ARTICLE APPEARING IN THE NEW YORK JOURNAL OF COMMERCE
Tuesday, December 4, 1923.

RESERVE BANKS TO
BUY U. S. SECURITIES

HOLDINGS ARE FOUND TO BE
ALMOST AT MINIMUM.

Open Market Committee Confers
With Board - May Obviate the
Necessity for a Change in the
Rediscount Rates.

WASHINGTON, Dec. 3 - Renewed purchasing of Government securities in the open market by the Federal Reserve Banks on a considerable scale was expected tonight to result from the meeting of the Federal Reserve Board with its special committee on open market operations. The Reserve system's holding of Government securities were found to be almost at a minimum.

The open market committee, which includes in its membership Governor Strong, of the New York Reserve Bank, and Governor Harding, of the Boston Reserve Bank, the former governor of the board, met today with the board and was understood to have gone over the Government security holdings of the various Reserve banks in the light of the probable extent of future purchases under the system's uniform open market policy.

MAY OBVIATE RATE CHANGE

Open market operations of the Reserve system are particularly important in that their effect holds the possibility of producing results which obviate a necessity for a change in rediscount rates.

According to the board's latest reports, as of November 30, the entire holdings of Government securities of the twelve reserve banks is only about \$84,000,000, which is very near the low point for these assets, as compared with about \$300,000,000 on approximately the same date last year. Moreover, probably as much as \$50,000,000 of the present holdings of Government securities represent bonds which the banks would be virtually unable to sell except at a loss, as bonds taken to secure circulation are included in the total holdings.

Hence the shelves of the Reserve banks are getting bare of marketable Government securities and it is expected that the banks will shortly resume

purchasing to replenish their stocks. Purchases probably will be devoted in the main to Treasury certificates of indebtedness.

HOLDINGS OF ACCEPTANCES.

Holdings of bankers' acceptances by the Reserve banks aggregate the respectable figure of \$289,000,000, as compared with \$259,000,000 a year ago, but sales of these bills on any appreciable scale would probably involve a change in the rate, so that if the Reserve banks are to continue the free use of the uniform market policy it will be necessary to stock up on open Government securities.

Despite the failure of the Federal Reserve Council at its recent conference with the Reserve Board to discuss the rediscount rate levels, there is a feeling in some quarters that a reduction of rates is in order. However, a resumption of purchasing in the open market by the reserve banks would result in more money being put on the market, or in other words, the extension of credit facilities by the reserve banks in the nature of an equivalent to a reduction in rates.

FEDERAL RESERVE BOARD

WASHINGTON

X-3906
December 7, 1923.

SUBJECT: Schedule of Federal Reserve Bank Personnel for 1923
Annual Report.

Dear Sir:

For use in the forthcoming annual report of the Federal Reserve Board covering operations during the calendar year 1923, it is requested that as soon after January 1, 1924, as practicable, you furnish the Board with a statement relating to the personnel of your bank (including branches, if any), corresponding in form to the tables printed on pages 235-237 of the annual report of the Board for 1922, showing figures as at close of business on December 30, 1922, and December 31, 1923.

This statement should be made up on the same basis as the statement sent in response to the Board's circular letter X-3581, December 12, 1922.

It is requested that the figures for 1922 be reconciled with those appearing in the Board's annual report for 1922, pages 235-237, before the statement is forwarded to the Board.

Very truly yours,

Walter L. Eddy,
Secretary.

TO ALL CHAIRMEN.

TREASURY DEPARTMENT
WASHINGTON

December 6, 1923.

The Governor
Federal Reserve Board.

Sir:

You are hereby advised that the Department has referred to the Disbursing Clerk, Treasury Department, for payment, the account of the Bureau of Engraving and Printing for preparing Federal Reserve notes during the period November 1 to November 30, 1923, amounting to \$102,552.50, as follows:

	Federal Reserve Notes, 1914				Total
	\$5	\$10	\$20	\$50	
Boston	200,000	150,000	---	---	350,000
New York	100,000	---	---	---	100,000
Philadelphia	186,000	150,000	75,000	25,000	436,000
Cleveland	150,000	100,000	96,000	25,000	371,000
Richmond	103,000	50,000	100,000	---	253,000
Chicago	400,000	183,000	150,000	---	733,000
Dallas	96,000	50,000	24,000	---	170,000
	<u>1,235,000</u>	<u>683,000</u>	<u>445,000</u>	<u>50,000</u>	<u>2,413,000</u>

1,235,000 sheets at \$42.50 per M. \$102,552.50

The charges against the several Federal Reserve Banks are as follows:

	<u>Sheets</u>	<u>Compen- sation</u>	<u>Plate Printing</u>	<u>Materials</u>	<u>Inc. Com- pensation</u>	<u>Total</u>
Boston	350,000	\$4,725.00	\$4,812.50	\$4,112.50	\$1,225.00	\$14,875.00
New York	100,000	1,350.00	1,375.00	1,175.00	350.00	4,250.00
Philadelphia	436,000	5,886.00	5,995.00	5,123.00	1,526.00	18,530.00
Cleveland	371,000	5,008.50	5,101.25	4,359.25	1,298.50	15,767.50
Richmond	253,000	3,415.50	3,478.75	2,972.75	885.50	10,752.50
Chicago	733,000	9,895.50	10,078.75	8,612.75	2,565.50	31,552.50
Dallas	170,000	2,295.00	2,337.50	1,997.50	595.00	7,225.00
	<u>2,413,000</u>	<u>\$32,575.50</u>	<u>\$33,178.75</u>	<u>\$28,352.75</u>	<u>\$8,445.50</u>	<u>\$102,552.50</u>

The Bureau appropriations will be reimbursed in the above amount from the indefinite appropriation "Preparation and Issue of Federal Reserve notes, Reimbursable", and it is requested that your board cause such indefinite appropriation to be reimbursed in like amount.

Respectfully,

(signed) S. R. Jacobs,
Deputy Commissioner.

FEDERAL RESERVE BOARD

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WASHINGTON

X-3908
December 8, 1923.

SUBJECT: January 1924 Par List.

Dear Sir:-

This will advise that data for the January (complete) Par List should be mailed to reach the Board not later than December 20. Telegraphic changes may be made up to and including December 31. The lists should be made up as follows:

When items drawn on all banks in any given town or city are collectible at par, opposite the name of such town in the Par List will appear the words "All banks." Where there are several banks in any given town, one or more of which will not remit at par, opposite the name of the town in question will appear the words "All national banks," if any, and thereunder the name of each State institution which remits at par. Below is an outline of the form to be used:

GEORGIA.

DISTRICT NO. 6 --- ATLANTA

Albany	- - - - -	All banks.
Bainbridge	- - - - -	All national banks.
		Citizens Bank & Trust Co.
		Decatur County Bank.
Camilla	- - - - -	Bank of Cemilla.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO GOVERNORS OF ALL FEDERAL RESERVE BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

X-3910
December 12, 1923.

SUBJECT: EXPENSE MAIN LINE, Leased Wire System, November, 1923.

Dear Sir:

Enclosed herewith you will find two mimeograph statements, X-3910-a and X-3910-b, covering in detail operations of the main line, Leased Wire System, during the month of November, 1923.

Please credit the amount payable by your bank in the general account, Treasurer, U. S., on your books, and issue C/D Form 1, National Banks, for account of "Salaries and Expenses, Federal Reserve Board, Special Fund", Leased Wire System, sending duplicate C/D to Federal Reserve Board.

Very truly yours,

Fiscal Agent.

(Enclosure)

TO GOVERNORS OF ALL BANKS

X-3910-a

REPORT SHOWING CLASSIFICATION AND NUMBER OF WORDS
TRANSMITTED OVER MAIN LINE OF THE FEDERAL RESERVE
LEASED WIRE SYSTEM FOR THE MONTH OF NOVEMBER, 1923.

From	Fed. Res. Bank Business	Percent of Total Bank Business (*)	Treasury Dept. Business	War Finance Corp. Business	Total
Boston	41,229	3.42	4,904	-	46,133
New York	225,605	18.74	11,865	204	237,674
Philadelphia	64,035	5.32	5,089	-	69,124
Cleveland	95,559	7.94	3,382	-	98,941
Richmond	75,865	6.30	2,974	-	78,839
Atlanta	88,387	7.34	3,669	-	92,056
Chicago	149,870	12.45	7,625	-	157,495
St. Louis	96,069	7.98	4,007	-	100,076
Minneapolis	59,863	4.97	2,956	-	62,819
Kansas City	91,464	7.59	4,285	-	95,749
Dallas	80,803	6.71	2,129	-	82,932
San Francisco	135,299	11.24	8,024	-	143,323
TOTAL	1,204,048		60,909	204	1,265,161
Board	277,164	100.00	74,500	202	351,866
Total	1,481,212		135,409	406	1,617,027
Percent of Total	91.60%		8.37%	.03%	
Bank Business	1,481,212 words	or 91.62%			
Treasury Dept.	<u>135,409</u>	" "	<u>8.38%</u>		
TOTAL	1,616,621	100. %			

(*) These percentages used in calculating the pro rata share of leased wire expenses as shown on the accompanying statement (X-3910b)

FEDERAL RESERVE BOARD,
Washington, D. C.
December 12, 1923.

REPORT OF EXPENSE

X-3910-b

MAIN LINE

FEDERAL RESERVE LEASED WIRE SYSTEM NOVEMBER, 1923.

Name of Bank	Operators' Salaries	Operators' Overtime	Wire Rental	Total Expense	Pro Rata Share of Total Expense	Credits	Payable to Federal Reserve Board
Boston	\$ 250.00	\$ -	-	\$ 250.00	\$ 726.16	\$ 250.00	\$ 476.16
New York	1,100.82	25.00	-	1,125.82	3,979.02	1,125.82	2,853.20
Philadelphia	190.83	-	-	190.83	1,129.58	190.83	938.75
Cleveland	388.00	-	-	388.00	1,685.88	388.00	1,297.88
Richmond	315.00	-	-	315.00	1,337.67	315.00	1,022.67
Atlanta	240.00	-	-	240.00	1,558.49	240.00	1,318.49
Chicago (#)	4,830.68	2.00	-	4,832.68	2,643.48	4,832.68	(*) 2,139.20
St. Louis	250.00	-	-	250.00	1,694.38	250.00	1,444.38
Minneapolis	276.13	-	-	276.13	1,055.27	276.13	779.14
Kansas City	346.68	-	-	346.68	1,611.57	346.68	1,264.89
Dallas	251.00	-	-	251.00	1,424.72	251.00	1,173.72
San Francisco	360.00	-	-	360.00	2,386.57	360.00	2,026.57
Fed. Res. Board			\$17,113.86	17,113.86			
TOTAL	\$8,799.14	\$ 27.00	\$17,113.86	\$25,940.00	\$21,232.79	\$8,826.14	\$14,595.85
				(a) 4,707.21			(&) 2,139.20
				\$21,232.79			\$12,406.65

(#) Includes salaries of Washington operators.

(&) Amount reimbursable to Chicago.

(*) Credit.

(a) Received \$7.21 from War Finance Corporation and \$4,700.00 from Treasury Dept. covering business for month of November, 1923.

FEDERAL RESERVE BOARD,
Washington, D. C.
December 12, 1923.

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FEDERAL RESERVE BOARD

WASHINGTON

X-3911
December 15, 1923.

SUBJECT: Weekly statements of transactions in Banks' Gold Settlement Fund and Federal Reserve Agents' Fund.

Dear Sir:

Commencing with January 2, 1924, the Board will issue thereafter its weekly statements of transactions in the Banks' Gold Settlement Fund and Federal Reserve Agents' Fund as of the close of business each Wednesday, rather than Thursday as at present, transmitting therewith to both Banks and Agents the usual signed reconciliation of balances accredited to their respective accounts, as of those dates.

Very truly yours,

Walter L. Eddy,
Secretary.

TO ALL GOVERNORS AND FEDERAL RESERVE AGENTS.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-3912

Receipt is acknowledged of your remittance amounting to \$ _____, covering subscription to the Federal Reserve Bulletin.

The subscription price of the Bulletin, effective with the January 1924 issue, is reduced from \$4.00 to \$2.00 per annum. Your remittance is therefore returned with the request that you send your check, payable to the order of the Federal Reserve Board, to cover subscription at the rate of \$2.00 per annum.

Very truly yours,

J. C. Noell,
Assistant Secretary.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-3914
January 5, 1924.

SUBJECT: Foreign and International Banking Institutions;
Report of Condition as at the Close of Business,
December 31, 1923.

Dear Sir:

Under authority of the agreement entered into by your corporation with the Federal Reserve Board, you are hereby respectfully requested to furnish the Board with a report of condition, as at the close of business December 31, 1923, giving in detail all assets and liabilities of your corporation and the data asked for in the accompanying memorandum.

Kindly arrange to file the report of your Head office and domestic branches combined as soon as possible. Separate reports of foreign branches and affiliated banks should be sent as soon as they are received by you. It will be appreciated if, after the reports have been received from all of your foreign branches and affiliated banks, you will have prepared a consolidated statement of your corporation to be sent to the Board.

While the Board has ruled that no specific reserve has to be carried by foreign branches or affiliated institutions of American banking corporations against deposits abroad, it, nevertheless, wishes to be advised as to the average reserve carried by all such branches and affiliated institutions or corporations which are operating under agreement with the Federal Reserve Board. You are, therefore, requested to have each of your foreign branches, agencies, offices and subsidiary banks furnish you, for transmission to the Board, a report of the average reserve carried during the month of December, 1923, against deposit liabilities in the form shown in the accompanying memorandum.

Kindly acknowledge receipt.

Very truly yours,

Governor.

(Enclosure)

REPORT OF CONDITION TO FEDERAL
RESERVE BOARD.

The following information is desired in connection with the report of condition to be made as at close of business

HEAD OFFICE AND DOMESTIC BRANCHES COMBINED

1. Detailed balance sheet showing all assets and liabilities, including contingent liabilities. It is requested that the items for which detailed schedules are requested below be shown as separate accounts on the balance sheet.
2. Amount of loans and discounts, divided: Secured - Unsecured
 - (a) Demand
 - (b) Time
 - (c) Overdrafts and other advances
 - Total
3. Detailed list of investments (including stock of affiliated institutions) showing:
 - (a) Issuing Government or corporation
 - (b) Interest rate
 - (c) Maturity
 - (d) Par value
 - (e) Book value
 - (f) Approximate market value
4. Ownership of stock of affiliated institutions:
 - (a) Per cent owned by yourselves
 - (b) Per cent owned by foreign Governments
 - (c) Per cent owned by individuals and corporations
5. List of banks, branches, etc. having balances due to your corporation with amount for each bank separately:
 - (a) Government bank
 - (b) Domestic banks
 - (c) Foreign banks
 - (d) Foreign branches, agencies and affiliated institutions
6. List of banks, branches, etc. having balances due from your corporation with amount for each bank separately:
 - (a) Domestic banks
 - (b) Foreign banks
 - (c) Foreign branches, agencies and affiliated institutions

7. Bills payable: (Primary obligations of reporting corporation representing money borrowed)
- (a) Payable to:
 - (b) Amount
 - (c) Interest rate
 - (d) Maturity
 - (e) Collateral - give list
8. Rediscounts (other than acceptances sold with endorsement):
- (a) Amount
 - (b) Maturity
 - (c) Rate
 - (d) With whom
 - (e) Secured or unsecured - if secured, give detailed information regarding security.
9. Total liability for acceptances sold with endorsement:
10. Deposits in the United States:
- (a) Net demand deposits (after deducting uncollected demand items payable within United States - exchanges)
 \$ _____ Reserve Required \$ _____
 - (b) Time Deposits \$ _____ Reserve Required \$ _____
 - (c) Total Reserve required against deposit liability \$ _____
- Reserve held:
- (d) Cash on hand \$ _____
 - (e) Bank balances \$ _____
 - (f) Total cash reserve held \$ _____
 - (g) Excess or deficit of cash reserve held over reserve required \$ _____
11. Acceptances:
- (a) Acceptances outstanding:

1. Maturing in 30 days or less	\$ _____
2. Maturing after 30 days	\$ _____
Total outstanding acceptances	\$ _____
 - (b) Subscribed capital and surplus

Excess <u>a</u> over <u>b</u>	\$ _____
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- Acceptances secured \$ _____
- Acceptances unsecured \$ _____
- Amount required to be secured under agreement with Federal Reserve Board \$ _____
 (Give list of security held as required above giving description and approximate amount)

- (c) List of drawers of drafts accepted, with total aggregate liability in excess of 10 per cent of subscribed capital and surplus showing:

<u>Name</u>	<u>Address</u>	<u>Business</u>	<u>Aggregate Liability</u>	<u>Security* or Guaranty</u>
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- (d) Amount of acceptances outstanding drawn for the purpose of furnishing dollar exchange.

- (e) Reserve against outstanding acceptances:
 - 1-Required: 15% against all acceptances outstanding which mature in 30 days or less: \$ _____
 - 3% against all acceptances outstanding which mature in more than 30 days: \$ _____
 - Total reserve required against acceptance liability \$ _____
 - 2-Held: Cash and Bank balances (**): \$ _____
 - Bankers acceptances \$ _____
 - Securities approved by Federal Reserve Board (List in detail) \$ _____
 - Total reserve held \$ _____

12. General limitations:

Per cent deposits and acceptances outstanding to subscribed capital and surplus _____

13. List of officers and directors.

14. List of stockholders, showing number of shares owned by each.

15. List of branches, sub-branches, agencies, offices and affiliated institutions - date of opening of each and the location.

16. Date of last examination or audit - by whom made.

(*) If security, state what the security consists of, giving quantity and approximate value; if a bank guaranty, give name and location of bank.

(**) Excess amount as shown in 10-(g) not required for reserve against deposit liability.

B. FOREIGN BRANCHES, AGENCIES AND SUBSIDIARY BANKS AND CORPORATIONS.

1. Balance sheet to be furnished by each, showing in detail all assets and liabilities, including contingent liabilities. It is requested that the items for which detailed schedules are requested below be shown as separate accounts on the balance sheet.
2. Amount of loans and discounts, showing: Secured - Unsecured
 - (a) Demand
 - (b) Time
 - (c) Overdrafts and other advances
3. Detailed list of investments, showing:
 - (a) Issuing Government or corporation
 - (b) Interest rate
 - (c) Maturity
 - (d) Par value
 - (e) Book value
 - (f) Approximate market value
4. List of banks having balances due to your branch with amount for each bank separately:
 - (a) Government bank
 - (b) Banks and bankers
 - (c) Head Office
 - (d) Other branches, agencies and affiliated institutions
5. List of banks having balances due from your branch with amount for each bank separately:
 - (a) Banks and bankers
 - (b) Head Office
 - (c) Other branches, agencies and affiliated institutions
6. Bills payable: (Primary obligations of reporting corporation representing borrowed money)
 - (a) Payable to
 - (b) Amount
 - (c) Interest rate
 - (d) Maturity
 - (e) Collateral (Give detailed list)
7. Rediscounts:
 - (a) Amount
 - (b) Maturity
 - (c) With whom
 - (d) Rate
 - (e) Secured or unsecured - if secured, give detailed data

8. Deposits.

	<u>Dollar Equiva- lent</u>
(a) Government deposits (if secured give list of collateral)	
1. Demand	
2. Time	
Other deposits	
3. Demand	
4. Time _____	
Total	
(b) Deposits - now payable	
1. Local Currency	
2. Dollar	
3. Sterling	
4. Otherwise _____	
Total	

9. Special Reserve Statement - average for month of

(a) Net deposits:		
1. Payable in local currency		
2. Payable in dollars		
3. Payable in sterling		
4. Payable Otherwise _____		
Total		
(b) Reserve:		
1. Amount, if any, and composition required by local laws.		
2. Amount held:	<u>Amount</u>	<u>Per cent to net deposits</u>
(a) Gold and Silver\$		%
(b) Local currency		
(c) Other cash		
(d) Balance in local ... Govt. bank		
(e) Other reserve funds _____		
Total		

10. Date of last examination or audit - by whom made.

- NOTE:
1. Where a schedule does not refer to your corporation, please indicate this by inserting the word "None".
 2. Reports for foreign branches, agencies, etc., should be in terms of United States dollars, stating the rate of exchange at which they were converted.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-3915
January 5, 1924.

SUBJECT: Edge Act Corporations;
Report of Condition as at the Close of Business,
December 31, 1923.

Dear Sir:

Under the provisions of the Board's Regulation K, Series of 1923, governing banking corporations authorized to do foreign banking business under the terms of Section 25 (a) of the Federal Reserve Act, you are hereby respectfully requested to furnish the Board with a report of condition, as at the close of business December 31, 1923, giving in detail all assets and liabilities of your corporation and the data asked for in the accompanying memorandum.

Kindly acknowledge receipt.

Very truly yours,

Governor.

(Enclosure)

TO EDGE ACT CORPORATIONS.

REPORT OF CONDITION TO FEDERAL
RESERVE BOARD.

The following information is desired in connection with the report of condition to be made as at close of business.

HEAD OFFICE AND DOMESTIC BRANCHES COMBINED

1. Detailed balance sheet showing all assets and liabilities, including contingent liabilities. It is requested that the items for which detailed schedules are requested below be shown as separate accounts on the balance sheet.
2. Amount of loans and discounts, divided: Secured - Unsecured
 - (a) Demand
 - (b) Time
 - (c) Overdrafts and other advances
 - Total
3. Detailed list of investments (including stock of affiliated institutions) showing:
 - (a) Issuing Government or corporation
 - (b) Interest rate
 - (c) Maturity
 - (d) Par value
 - (e) Book value
 - (f) Approximate market value
4. Ownership of stock of affiliated institutions:
 - (a) Per cent owned by yourselves
 - (b) Per cent owned by foreign Governments
 - (c) Per cent owned by individuals and corporations
5. List of banks, branches, etc. having balances due to your corporation with amount for each bank separately:
 - (a) Government bank
 - (b) Domestic banks
 - (c) Foreign banks
 - (d) Foreign branches, agencies and affiliated institutions
6. List of banks, branches, etc. having balances due from your corporation with amount for each bank separately:
 - (a) Domestic banks
 - (b) Foreign banks
 - (c) Foreign branches, agencies and affiliated institutions

7. Bills payable: (Primary obligations of reporting corporation representing money borrowed)

- (a) Payable to:
- (b) Amount
- (c) Interest rate
- (d) Maturity
- (e) Collateral - give list

8. Rediscounts (other than acceptances sold with endorsement):

- (a) Amount
- (b) Maturity
- (c) Rate
- (d) With whom
- (e) Secured or unsecured - if secured, give detailed information regarding security.

9. Total liability for acceptances sold with endorsement:

10. Deposits in the United States:

- (a) Net demand deposits (after deducting uncollected demand items payable within United States - exchanges)
\$ _____ Reserve Required \$ _____
- (b) Time Deposits \$ _____ Reserve Required \$ _____
- (c) Total Reserve required against deposit liability \$ _____

Reserve held:

- (d) Cash on hand \$ _____
- (e) Bank balances \$ _____
- (f) Total cash reserve held \$ _____
- (g) Excess or deficit of cash reserve held over reserve required \$ _____

11. Acceptances:

- (a) Acceptances outstanding:
 - 1. Maturing in 30 days or less \$ _____
 - 2. Maturing after 30 days \$ _____
 - Total outstanding acceptances \$ _____
- (b) Subscribed capital and surplus \$ _____
- Excess a over b \$ _____
- Acceptances secured \$ _____
- Acceptances unsecured \$ _____
- Amount required to be secured" under regulations of Federal Reserve Board \$ _____
(Give list of security held as required above giving description and approximate amount)

- (c) List of drawers of drafts accepted, with total aggregate liability in excess of 10 per cent of subscribed capital and surplus showing:

<u>Name</u>	<u>Address</u>	<u>Business</u>	<u>Aggregate Liability</u>	<u>Security* or Guaranty</u>
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- (d) Amount of acceptances outstanding drawn for the purpose of furnishing dollar exchange.

- (e) Reserve against outstanding acceptances:
 - 1-Required: 15% against all acceptances outstanding which mature in 30 days or less: \$ _____
 - 3% against all acceptances outstanding which mature in more than 30 days: \$ _____
 - Total reserve required against acceptance liability \$ _____
 - 2-Held: Cash and Bank balances (**): \$ _____
 - Bankers acceptances: \$ _____
 - Securities approved by Federal Reserve Board (List in detail): \$ _____
 - Total reserve held: \$ _____

12. General limitations:

Per cent deposits and acceptances outstanding to subscribed capital and surplus _____

13. List of officers and directors.

14. List of stockholders, showing number of shares owned by each.

15. List of branches, sub-branches, agencies, offices and affiliated institutions - date of opening of each and the location.

16. Date of last examination or audit - by whom made.

(*) If security, state what the security consists of, giving quantity and approximate value; if a bank guaranty, give name and location of bank.

(**) Excess amount as shown in 10-(g) not required for reserve against deposit liability.

NOTE: Where a schedule does not refer to your corporation, please indicate this by inserting the word "None."

FEDERAL RESERVE BOARD

WASHINGTON

X-3916
December 21, 1923.

SUBJECT: Schedule of Federal Reserve Bank Personnel
for 1923 Annual Report.

Dear Sir:

Referring to the Board's letter X-3906 of December 7, 1923, on the above subject, I beg to say that it has been decided to show separately employees whose salaries are reimbursed to the Federal reserve bank, including building employees such as janitors, charwomen, etc., taking care of space rented to tenants. Accordingly, it will be appreciated if the personnel schedule requested in letter X-3906 is prepared in the form outlined below:

	Officers and Employees			
	Number		Annual Salaries	
	1923	1922	1923	1922
Officers:				
Chairman and Federal Reserve Agent				
Governor				
Other officers				
Employees by departments:				
Banking department				
Federal Reserve Agent's department				
Auditing Department				
Fiscal Agency Department				
Total				
Fiscal Agency department employees whose salaries are reimbursed by the Treasury Department				
Other employees whose salaries are reimbursed to bank, including building employees in space rented to tenants				
Total				

In transmitting the schedule, kindly indicate the number and salaries of temporary employees in the Fiscal Agency department whose salaries are reimbursable by the Treasury Department.

Very truly yours,

Walter L. Eddy,
Secretary.

TO ALL CHAIRMEN OF F. R. BANKS

CONFIDENTIAL: Written for publication in Journal of Commerce,
New Year's Edition, 1924.

BRANCH BANKING

"Branch banking has been recognized by the foremost authorities on banking in the United States as a natural method of extending banking facilities to small communities, as presenting opportunities for diffusing business risks over larger areas than at present with a gain analagous to that which such diffusion brings to insurance, and as having the advantage of ability to make loans from a common fund of capital and deposits in accordance with the unequal and varying demands of different industries and sections served. There is reason to believe that the agricultural sections of the United States would be far better served, and with the deposits of the farmers much more adequately safeguarded, under systems of branch banking, whether limited to counties or state wide, than at present. California is trying the experiment, and no evidence has so far been presented to show that it is not serving the people of the State well."

This is the concluding paragraph of a report made to the Federal Reserve Board on November 7th by a minority of a committee which had been making a study of branch banking with particular reference to California. The majority of the committee, and the Board itself by majority vote, decided upon a policy of restriction with respect to further extension of branch banking, except within the limits of cities where in accordance with a recent opinion of the Attorney General National Banks are permitted to open additional offices with somewhat limited powers.

Branch banking is authorized in 17 states, exists to some extent in

more than half of the 48 states of the Union, and has established itself also in the District of Columbia. State wide branch banking has been authorized for many years in several southern states, but has made little progress except in California and Rhode Island. Country bankers throughout the United States have been considerably agitated about it, and have passed vehement resolutions denouncing it at meetings of the American Bankers' Association - but experience shows that they have nothing to fear if they are well managed, large enough to meet the needs of their communities, and can spread their risks over a sufficient variety of industries to make them safe. No system of branch banking can grow unless there is real demand for it, unless it meets the needs of the people better than independent unit banks can meet them. On the other hand, if in any community it becomes evident that unit banking is not meeting the needs of the people or involves too much risk of failure, nothing can long prevent the people from obtaining a system that will serve them better. Branch banking and independent unit banking will exist together, with very little replacement of the one by the other, as has long been the case in the southern states, unless unit banks have failed to meet the need of the people or some special conditions make necessary a change.

City branch banking has made rapid progress during the past ten years because of special conditions, the chief of which is the congestion of the streets in the business and financial centres of our large cities due to the enormous number of automobiles in use. The banks in the business centres have been losing deposits because many of their depositors find it increasingly difficult to get to them. Since the people cannot get to the banks it has been necessary to bring the banks to the people. The argument is exactly the

same as the argument for branch post offices, and is unanswerable. A few cities, the chief of which is Chicago, are still resisting the inevitable, or endeavoring to meet it by the subterfuge of surrounding themselves with outlying chain banks, nominally independent but in reality controlled by downtown institutions. In some way or other the conditions must be met and branch banking from the large, well established institutions offers undoubtedly the best solution, both from the standpoint of the people who demand the best service and the greatest security for their deposits, and from the standpoint of the stability of the banking system of the cities and of the country. New York, Boston, Buffalo, Cleveland, Detroit, New Orleans, Los Angeles and San Francisco are cities in which branch banking has made most progress, and there are a few branch banks in Philadelphia, Providence, Baltimore, Cincinnati, Indianapolis, Atlanta and some other cities, including nearly all the cities in states which authorize state wide or county branch banking.

The argument for branch banking beyond city limits, whether state wide or by counties or limited districts, is very different from the argument for branch banking within city limits and contiguous territory. Many branch banks within the limits of large cities, and suburban residence territory, are properly described as "tellers' windows", conveniences for receiving deposits, cashing checks, etc. They receive money but make few loans, because they have little demand for loans. Branches outside of these limits, particularly in great agricultural states like California, are more often loaning branches. At times when there is a great seasonal demand for financing the fruit growers, or the cotton growers, or wheat growers, such branches loan much more than they have received in deposits, obtaining their

funds from the surplus deposited in the city branches. In older, thickly settled eastern states, where there is much wealth in all the small cities and villages, there would seldom be the same contrast between city and country and branch banking would be of comparatively small advantage. If authorized by counties it would enable a few communities to obtain banking facilities where now none exist, because the communities are too small to support independent banks. Even if state wide branch banking were authorized in such states as New York or Massachusetts or Pennsylvania I do not believe it would make much progress unless forced by a drastic increase in the amount of capital required for organizing banks. The present country banks are generally old institutions, with a considerable accumulation of surplus, and are serving their communities well and at low rates. Cities are close together and if the needs of a large industry in one place cannot be fully met by the banking resources of the town it is easy to arrange for additional accommodation from larger banks in larger places. It should be remembered always that in Canada branch banking is practically required by law. No bank can be organized within the Dominion with a capital less than \$500,000, and if banking facilities are to be extended to small communities at all it must be by branches.

In the absence of laws permitting branch banking several middle western states have passed laws allowing the organization of banks with a capital as small as \$5,000. Prof. Charles F. Dunbar, who was for many years the leading authority on banking in the United States, pointed out as long ago as 1892, referring to the Nebraska banking act of 1889, that in authorizing banks with so small a capital "the sparsely settled states are attempting to secure by the multiplication of independent banks, the same advantage that

England and Scotland have obtained through the multiplication of branches by a limited number of banks." "These considerations," he adds, "undoubtedly show that the state banking systems, in the present condition of the country, have an important sphere to fill; and they raise the question, moreover, whether the national banking system might not be adapted by judicious amendment to meet wants which it cannot now supply." Professor Dunbar did not, however, advocate the reduction of the limit of capital for national banks, then \$50,000, but declared that "the greatest possible diffusion of banking facilities, under an admirably guarded system, might be secured if the establishment of branches were encouraged and facilitated by law." He recognized that in the present state of opinion branch banks "would have to contend with some local jealousies; but any real improvement in commerce or finance is tolerably sure to make good its footing. It is obvious also that if the multiplication of branches were once fairly recognized again in the United States as a natural method, as it has been in the past, it would be available for central banks under the state systems as for national banks." There follows a summing up of the advantages of branch banking much as I have given them in the opening paragraph. It would be "unnecessary to provide a full board of directors for every establishment, large or small - a necessity which is often embarrassing in small places." It would "tend to diffuse business risks over somewhat larger areas than at present, with a gain analagous to that which such a diffusion brings to insurance." It would be possible "to apply banking capital at a given moment according to the unequal and variable needs of the different parts of any section covered by a given institution and its agencies."

A. B. Hepburn, Comptroller of the Currency in 1892, recognized the advantages of branch banking, but had other and more pressing reforms to advocate.

His successor, James H. Eckles, whose administration felt the full force of the very serious panic of 1893, advocated in 1896 an amendment to the National Banking Act, permitting national banks to locate branches "in places not having national banks already established." As this privilege would be open to all national banks he did not believe it could lead to monopoly - the bugaboo always held up by opponents of branch banking whenever the subject is brought forward.

Congress, however, did not enact the proposed amendment, but contented itself in 1900 with lowering the limit of capital required for national banks from \$50,000 to \$25,000, and provided that national bank notes could be issued to the par value of government bonds deposited with the Comptroller to secure circulation. The national banking system lost the opportunity to take the lead, the measures adopted in 1900 turning out just as Dunbar had predicted, "palliatives," which did not go to the root of the evils complained of. Enough \$25,000 national banks were organized to make a fair showing in numbers, and the profits of all national banks from the note issue monopoly were sufficiently increased to check for a time the tendency to convert into state banks, but the smallest national banks were not small enough to reach out to the people of the agricultural states in anything like even competition with the \$5,000 and \$10,000 state banks, nor were the larger national banks in the cities able to do more than hold their own in number. In the ten years 1899 to 1909 state banks with a capital above \$50,000 increased in practically the same numbers and at a much greater percentage than national banks, and during that period state banks were beginning to take advantage of the opportunity to obtain another long lead in some of the cities by establishing branches. It was in 1909 that California revised its banking laws providing for state wide

branch banking.

The attempt to diffuse banking facilities among the people of agricultural states by the multiplication of small independent unit banks had already been recognized as a failure in 1907 and 1908, and the campaign of 1908 for the guarantee of bank deposits was an effort to bolster it up, so that the small banks could command sufficient confidence from the farmers and merchants of the smaller towns to keep their deposits. When the campaign for guaranteeing deposits failed as a national proposition many of the middle western and a few southern states took it up and for a time the state guarantee systems seemed reasonably successful, and became an additional means of building up state banks at the expense of the national system.

California, developing with unprecedented rapidity its wonderfully diversified agricultural resources, would have none of the new panacea but put her banking structure on a firm foundation, in accordance with the principles of banking which had proved their soundness and efficiency. Departmental banking, the separation of savings departments and trust departments from commercial banking, though carried on by the same institution, was one of the leading features of the new law, and state wide branch banking was another. Only one institution has taken full advantage of the state wide provisions of the law and its development, though remarkable, was not sufficiently rapid to attract much outside attention until the past few years. Other institutions in San Francisco and especially in Los Angeles have entered the field and although their branches do not cover so much of the state they have approached or surpassed it in numbers. According to the recent report of the Comptroller of the Currency 82 State banks in California are operating a total of about 475 branches. "In the State one bank operates 28 branches, one bank 19

branches, another about 71 branches in 48 different cities, another about 72 branches. Four banks in California operate a total of 190 out of the 475 branches in the State." The Comptroller does not explain, however, that a very large proportion of the branches of the largest institutions are within city limits. The largest banking institution in Los Angeles has 16 branches within the city and 12 outside. Nor has he said anything about the service which the branch banking institutions have been able to render the state in the crisis through which the country has passed. Recent testimony has shown that the two branch banking institutions which maintain the most outside branches have loaned in a dozen different agricultural communities more than the total deposits of each of those districts - in some of them more than double their deposits. No unit banking system can do that, even if borrowing to the limit from the Federal Reserve System or from correspondent city banks. Furthermore, it has been shown that in many cases they have lowered the rate of interest the farmers pay to something approaching eastern rates (generally from 8% to 7%) and have done away with various exchange charges and commissions that were vexatious and sometimes burdensome.

The Comptroller wants to restrain the State banks of California from any further extension of this excellent service because national banks are not allowed to engage in it except in limited degree and at a marked disadvantage. I disagree with him. Congress has had the same opportunity to enact progressive banking legislation that the California legislature has had, and the Federal Reserve Act does not cure all the ills of unit banking. The California banking act of 1909 has so far at least proven itself better adapted to the needs of California than the national banking laws, and it is a significant fact that there have been less state bank failures in California not only

since August 1920, but since 1909, than of national banks (three state, six national since 1909). I doubt if there is any other state in the Union of which that can be said. Besides the branch banking institutions approximately 263 national banks and 348 state banks have no branches.

The leading branch banking institutions of California are members of the Federal Reserve System, but have not at any time been large borrowers from the System. One of the largest has never borrowed, and one or two of the others have never borrowed except to carry Liberty bonds. They not only weathered the recent financial crisis better than the independent banks, but furnished nearly a third of the reserve deposits from which the Reserve Bank of San Francisco helped the unit banks which were hard pressed. The agricultural crisis was as severe, when the great fall of prices occurred, in California as anywhere else in the country, but there was no lack of credit from the branch banking systems. These systems are well managed, and are able to give extraordinary service to the people through their ability to spread their risks over a wide area, so that they obtain the advantage "which such diffusion brings to insurance," as Dunbar said, and "can apply their banking capital at a given moment according to the unequal and variable needs of the different sections." California is doubtless peculiarly adapted to branch banking because of its great extent, its variety of climate and of agricultural products, which mature at different times, and because of the large demands of its great cooperative marketing organizations. The country branches have the same loaning power as the head offices in San Francisco and Los Angeles, and can make just as large loans to cotton growers in the Imperial Valley, to citrus growers in the southern counties, or to rice growers in the Sacramento Valley as to the merchants in the big cities. The independent unit banks have been frequently unable to meet the demands of the growers

cooperative organizations, and have suffered from inability to spread their risks. A unit bank in a citrus growing territory may fail because an untimely frost has destroyed a large part of the crop, but the losses of a branch bank in similar territory are easily absorbed because of gains in other territory.

The dangers of independent unit banking in one crop territory are well illustrated by present conditions in the northwestern spring wheat states. There have been about 400 bank failures in the Ninth Federal Reserve District since August 14, 1920, a large proportion of them having occurred during the present year and many of them since the harvest of the present year. Hugh McCulloch, the first Comptroller of the Currency, declared that all bank failures are fraudulent and that in every case the bank's officers should be prosecuted. Such an extreme statement might have much justification, if banks always had a fair change for success, but these failures in the spring wheat territory are an inevitable result of a faulty banking system. The effort to diffuse banking facilities among the people in sparsely settled agricultural states by the multiplication of small independent banks has broken down. Its failure has been more disastrous in the spring wheat territory than elsewhere, but it has been a failure nevertheless throughout the great agricultural sections of the middle west. More than one thousand banks have failed in the United States in the past three years, a record which, it seems to me, is a disgrace to a great commercial country, especially as nearly all of these failures have been small banks in agricultural states, where the losses have caused the greatest distress.

The effort to bolster up the system of small independent state banks through deposit guarantee funds has proven a failure. Oklahoma, the pioneer

in this interesting experiment, has definitely abandoned it during the past year, and in several other states the guarantee funds have long been practically bankrupt. Doubtless the Federal Reserve System was expected by some enthusiasts to function as a sort of deposit guarantee fund, but the experience of the past three years has shown that you cannot save a small institution which has all its resources invested in eggs carried in one basket by lending it money, if the basket happens to drop and break the eggs, and that is exactly what happens to the small bank in a one-crop neighborhood when the crop fails.

A last effort might be made to safeguard the small banks in agricultural states by limiting the amount of their loans to one industry. National banking laws, and most state laws, have long recognized the danger of loaning too large a proportion of a bank's resources to one individual, firm or corporation, but have not yet recognized the fact that exactly the same risk is involved in loaning all or the greater part of a bank's funds to one industry. If banking facilities are going to continue to be extended to neighborhoods solely dependent upon wheat or cotton by means of small independent unit banks with reasonable safety such banks must be prohibited from loaning more than a safe proportion of their funds to wheat or cotton growers even though their deposits come wholly from such growers. Such a law would require that a considerable portion of the deposits of the people in such neighborhoods must be sent away from home for investment. It doesn't seem likely that Congress or any legislature would enact such a law.

There remains then only one method of diffusing banking facilities among the people in sparsely settled communities - the method advocated by Dunbar in 1892, carefully guarded branch banking. It has been proven successful in

other countries and California has done much to prove its success in this country. It spreads banking facilities among the people much more widely than is possible even with our small unstable banking units. Canada has more than 4,000 banks, or banking offices, with a population of less than 10,000,000. If we had as many in the United States in proportion to population we should have 40,000, instead of 30,000 banks. Our people are therefore short twenty-five per cent of the banking facilities they might well have under a better system.

Nor is that all. The overhead expenses of the independent banking system of the United States are inordinately high, and the small independent banks in agricultural states are forced to pay too much to obtain deposits. This inevitably results in high interest rates in communities where money is naturally scarce and the demands high, and in low interest rates in the money centres. In short, popularly expressed, our system makes for cheap money in Wall Street and dear money in the agricultural states, and the queer part of it is that the West or Middle West seems to like to have it so. The chief opposition to branch banking comes from the very sections which would be most benefitted by adopting it. At some time in the not distant future, it seems to me, the farmers of the Middle West, from which California was settled, are going to ask why it is that they in an older community have to pay higher interest rates than the farmers of California pay, and also have to run greater risk of having their deposits lost or tied up in closed banks.

In Dunbar's remarks of 1892, he says "if the multiplication of branches were once fairly recognized again in the United States as a natural method,

as it has been in the past," etc. The italics are mine. Branch banking is not new in the United States. It was generally recognized as natural before the Civil War, and was more generally developed in the West and South, which needed it most, than in the East. Indiana, Ohio, Iowa, Kentucky, Missouri, and several other states at the time of the outbreak of the war had established after many vicissitudes, sound branch banking systems. The State Bank of Indiana had as its President Hugh McCullough, who became the first Comptroller of the Currency. Hepburn in his "History of Currency in the United States" calls this institution "a model bank in every respect" and adds "It is an exemplary illustration of the efficacy of branch banking as a system". The banks of those days were all note-issuing banks. Deposit banking had not yet come into its own, though making progress in the big cities. It has been said that notes of the Bank of Indiana and of the Bank of Ohio were just as good as national bank notes and might be in existence today if they had not been forced out of existence by the 10 per cent tax that came into effect in 1866.

How did it come about that branch banking, though common throughout most of the West and South was excluded from, or at least not distinctly authorized in the National Banking Act? The explanation is to be found in the fact that New York and some New England States prohibited branch banking, and the New York free banking act as amended in 1848 was the model for the National Banking Act - in fact whole sections of the New York law were simply copied in the federal act. It is significant, however, that the prohibition of branch banking was not copied, and the Act was amended in 1865 so as to allow state banks to be nationalized and retain their branches.

None of the large western systems took advantage of this provision, but some small banks did, and there are today a few national banks with branches dating back to the early days of the National Banking system, notably a couple of national banks in Camden, N. J., which maintain branches in Philadelphia. Apart from the national banks which have recently acquired branches by absorbing state banks with branches in some of the large cities, there are in several states national banks which maintain branches similarly acquired beyond city limits. One such system with nine branches, all outside of the city of the parent bank, and covering several parishes, is in successful operation in Louisiana.

Space will not permit a discussion of chain banking, a device for getting around the laws against branch banking that has been very widely used in the West and South. No comprehensive study of chain banking in this country has ever been made, I think, but sufficient information is at hand to show that thousands of the small banks, including some of the same banks whose officers vote for resolutions denouncing branch banking at meetings of the American Bankers' Association, are not really independent banks. They are separately incorporated but are controlled in chains or systems by holding companies or by individuals. Probably the largest system of chain banks is the so-called Withem chain, comprising over 200 small banks, some of them national banks, controlled from Athens, Georgia. The Middle West and the South, and the Mountain states of the far West are full of such chains of banks. Such a wide-spread development could not have arisen without some strong economic demand. It proves the necessity of some kind of branch banking. Such evidence as there is seems to show that the chain banks while sometimes in trouble are on the whole rather better managed than independent banks of the same size

and in similar territory. Chain banking may be defined as branch banking without the responsibilities of branch banking and with only a few of the advantages. The loaning power of each bank in a chain is only that of a small independent bank. They obtain some advantage through unified management, often by able bankers, and obtain some spread of risk by swapping paper among themselves. On the other hand they have not the opportunities for applying banking capital according to the unequal and variable needs of the different sections served possessed by real branch banking systems, and they have some special weakness of structure. A chain is only as strong as its weakest link, and generally when one bank in a chain fails the others also go down. Chain banking is at best but a clumsy and inefficient substitute for branch banking.

In conclusion I shall quote a few words written by J. Laurence Laughlin in 1912, at a time when he was professor of Political Economy at Chicago University, chairman of the executive committee of the National Citizens League and very active in the preliminary work that led to the passage of the Federal Reserve Act. "At present there seems to be little chance that the establishment of branches will be permitted. This means that there will be a permanent retention of conditions in which many very small banks must exist in order to meet the needs of the communities they serve, and in which there will be no direct control by one institution, or group of institutions, over another. The maintenance of such conditions necessarily involves some rather serious suffering."
The italics are mine.

EDMUND PLATT

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-3920

SUBJECT: Discontinuance of Brief Edition, Federal Reserve Bulletin.

Dear Sir:

Effective January 1, 1924, the Federal Reserve Board will discontinue the publication of the brief edition of the Federal Reserve Bulletin. The publication of the final edition of the Bulletin will be continued and distribution will be made shortly after the first of each month.

The subscription price of the Bulletin has been reduced, effective January 1st from \$4.00 to \$2.00 per annum, single copies being similarly reduced in price from 40 cents to 20 cents each.

For the benefit of those who have unexpired subscriptions for the brief edition, the Bulletin will be furnished without additional charge throughout the period covered by their subscriptions, renewals to be accepted at the rate of \$2.00 per annum.

Very truly yours,

J. C. Noell,
Assistant Secretary.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-3921

SUBJECT: Reduction in Subscription Price of Federal Reserve
Bulletin.

Dear Sir:

Effective January 1, 1924, the Federal Reserve Board will discontinue the publication of the brief edition of the Federal Reserve Bulletin. The publication of the final edition of the Bulletin will be continued and distribution will be made shortly after the first of each month.

The subscription price of the Bulletin has been reduced, effective January 1st from \$4.00 to \$2.00 per annum, single copies being similarly reduced in price from 40 cents to 20 cents each.

For the benefit of those who have unexpired subscriptions for the final edition, arrangements will be made to extend the subscription for a term commensurate with the amount of the payments already made.

Very truly yours,

J. C. Noell,
Assistant Secretary.

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS

For Release in Morning Papers,
Monday, December 31, 1923.

The January, 1924, issue of the Federal Reserve Bulletin will carry the following review of banking and business developments during the year 1923.

The year 1923. - In the business and banking developments of the year 1923 the outstanding fact has been the high level of industrial and agricultural output and the demand for bank credit to finance a volume of production and trade never previously equaled. Throughout the year the buying power of consumers, arising out of practically full industrial employment and increased income of farmers, has been reflected in a growth of retail trade and in a more active distribution of merchandise than in any other year. The increase in the demand for commercial credit, which began in the middle of 1922, continued at a rapid rate during the early part of 1923 when there was an unusual degree of industrial activity and was maintained at a high level with a further rise during the months of crop moving and fall trade. Taking the year as a whole, the credit situation was characterized by a growth of credit to meet the renewed demand of active business.

Growth in bank credit. - The extent of the demand for bank credit is shown by the fact that the total loans of all member banks increased about three-quarters of a billion during the first nine months of the year. This increase of about 4 per cent followed upon an increase which took place during the last nine months of 1922 at an even more rapid rate. In that year the growth of loans was accompanied by an even more rapid growth in investments; in 1923, however, investments declined slightly while loans continued to increase. The growth of member bank credit since the spring of

1922 was at a rate more rapid than the previous loan liquidation, so that by the middle of 1923 total loans and investments were greater than in November, 1920. In 1922 the increase in loans was exceeded by the increase in demand deposits, while during the first nine months of 1923 there was a decrease in demand deposits. The chief source of increase in member bank funds during 1923 was the growth in time deposits, supplemented by additional borrowings at the Federal Reserve banks.

The growth in member bank credit in the agricultural districts during the period was to a much larger extent than in the industrial districts financed by borrowings at the reserve banks. The discounts at the six Federal Reserve Banks located in the agricultural districts (Richmond, Atlanta, St. Louis, Minneapolis, Kansas City, and Dallas) increased by 69 per cent between January and September, while discounts at all other reserve banks increased by 31 per cent. Loans increased more rapidly in industrial districts, and this increase was met in part through the sale of investments, while in the agricultural districts investments continued to increase. In the financial centers funds available for commercial loans were also increased through a reduction in loans secured by stocks and bonds. The volume of commercial borrowing at member banks in leading cities declined slightly after the first week in October and the lessened demand for credit was also reflected in somewhat easier money rates.

Constancy of reserve bank credit. - At the Federal Reserve Banks discounts increased rapidly during the year, but there was a corresponding decline in open-market holdings, with the result that total earning assets remained relatively stable. In fact, as shown by the attached chart, relative stability in the total volume, with changes in the composition, has

been the principal characteristic of Federal Reserve Bank assets during the past two years. During these two years the country steadily used from \$1,000,000,000 to \$1,200,000,000 of reserve bank credit. In view of this relatively constant demand, the years 1922 and 1923 afford an opportunity of observing the effect of changes in the volume of open-market holdings upon the volume of member bank discounts. This changing relationship was commented on in the May and July issues of the Bulletin, and it now seems appropriate, at the close of the year, to make a more complete review of the relation between the two elements of Federal Reserve credit policy -- rediscount operations and open-market operations.

In the early part of 1922 the reserve banks purchased a considerable volume of short term government securities in the open-market, partly for the purpose of obtaining earnings, while in 1923 they greatly reduced their holdings of these securities. In the absence of change in the aggregate demand for reserve bank credit, the increases in open-market purchases during 1922 were offset by a corresponding decline in the volume of discounts, and in 1923 the reduction in securities was accompanied by a substantially equivalent increase in discounts.

In 1922 when the reserve banks bought securities the funds which they paid to the sellers found their way into member banks and permitted these banks to repay an equal amount of their rediscounts. The aggregate amount of reserve bank credit in use was not increased or even materially changed; a certain amount of "rediscounts" were merely thus converted into "securities." But the effect on the member banks, particularly in the large centers, was to add to their loanable funds or to enable them to reduce their indebtedness at the reserve banks. Under such conditions banks are likely

to lend more fully to their customers and others.

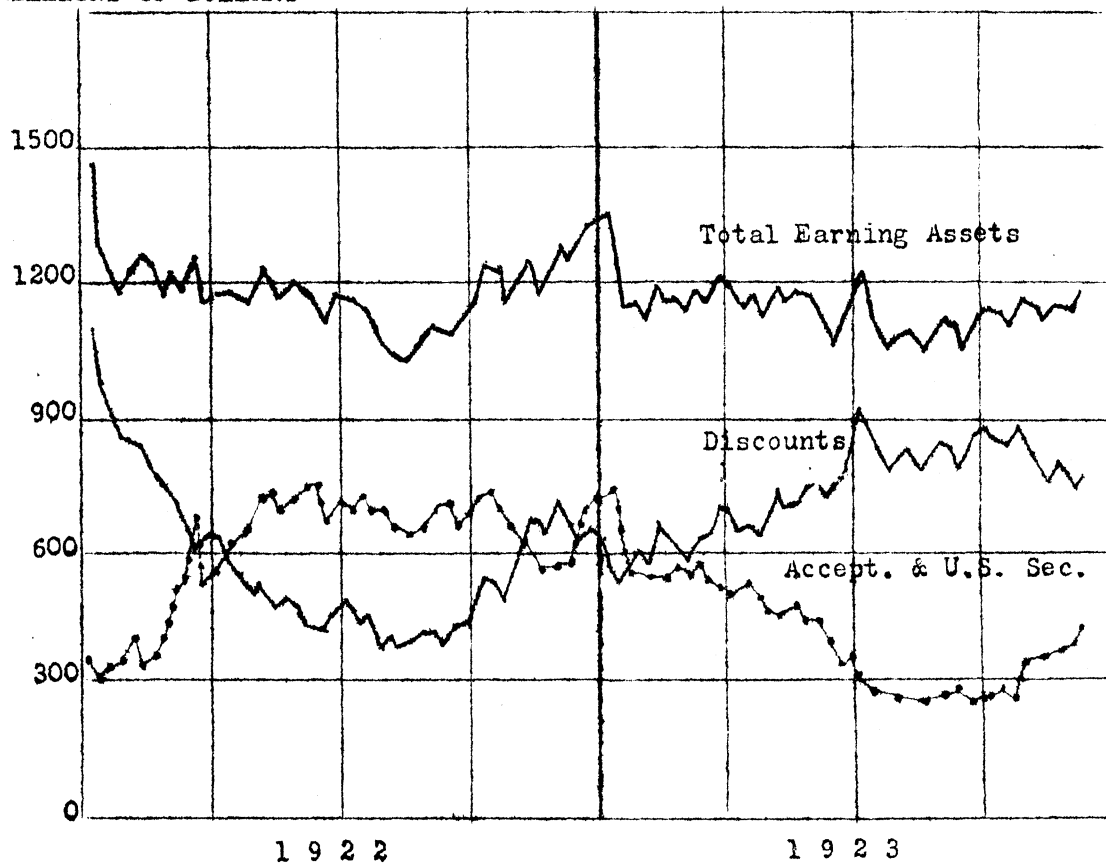
In 1923, on the other hand, when the reserve banks reduced their security holdings, they withdrew from the market an equivalent amount of funds. Following the withdrawal, the market borrowed substantially the same amount from the banks; and the banks, in turn, rediscounted substantially the same amount at the reserve banks, so that there was no material change in the total volume of Federal Reserve Bank credit in use.

Open-market policy. - The volume of open-market holdings with which the reserve banks entered the year 1923 put them in possession of an admirable instrument for testing the degree of dependence of the credit structure upon Federal Reserve Bank accommodation and for placing the initiative upon member banks to determine the volume of reserve bank credit required to meet the needs of ~~business~~ and industry. For in rediscount operations the initiative is taken by the member banks, which borrow from the reserve banks at the established discount rate, while in open-market operations the initiative may be taken by the reserve banks, which buy or sell short term securities in the market largely at their own volition and at market rates. The fact that the reduction of open-market holdings during 1923 was accompanied by an amount of discounting by member banks approximately equal to the volume of funds withdrawn from the market by Federal Reserve Banks indicated that the total volume of reserve bank credit outstanding was not in excess of requirements.

Federal Reserve credit policy during the year has been reflected chiefly in open-market operations. As the aggregate demand of the country for reserve bank credit may be met either through rediscount or open-market operations, the Federal Reserve Board felt that these two methods of extending credit should be brought into harmony. The Board, therefore, in April, 1923, appointed a committee of officers of reserve banks to act in conjunction with the Board in effecting a more complete coordination of all open-market operations of the reserve banks, both on their own account and in the execution of orders in government securities for the Treasury as fiscal agents of the government.

At the time the committee was appointed, the Federal Reserve Board

MILLIONS OF DOLLARS



EARNING ASSETS OF ALL FEDERAL RESERVE BANKS

adopted the principle:

"That the time, manner, character and volume of open market investments purchased by Federal Reserve Banks be governed with primary regard to the accommodation of commerce and business and to the effect of such purchases or sales on the general credit situation."

As the Act provides that discount rates shall be fixed "with a view of accommodating commerce and business," the adoption of this principle definitely established open-market policies on the same basis as discount policies. Open-market operations provide a cushion of credit between the direct borrowings of member banks and the money market, and have facilitated the flow of credit into and out of the reserve banks in such a way as to exercise a steadying influence in the market and to reduce the tendency toward periodical tightness of money formerly felt by business in the spring and by agriculture in the autumn. Indeed, open-market operations, particularly sales of securities, have proved to be a valuable adjunct to discount policy. The minor influence which sales of securities by reserve banks exerts may, at times, avoid the necessity for resorting to the major influence of a change in discount rates.

Discount rate changes in 1923 were fewer than in any other year in the history of the system. Advances in discount rates from 4 per cent to 4-1/2 per cent at the Federal Reserve Banks of Boston, New York, and San Francisco were made early in the year, and since that time the level of rates has been the same at all the reserve banks. With the growth of discounts, however, which accompanied the reduction in the holdings of government securities, the influence of existing discount rates was extended to a larger proportion of the total Federal Reserve Bank credit in use, and the cost of obtaining reserve bank credit was borne more directly by member banks. Changes of discount rates made with a view of influencing the demand for rediscount

accommodation from Federal Reserve Banks are better understood by the general public than open-market transactions. The experience of the past year, however, shows that changes in the volume of securities held by the reserve banks, when such changes are well timed, are capable of exerting an important and useful influence on credit conditions. The weekly statements of condition of the Federal Reserve Banks show the amount and composition of open-market holdings and make it possible for the public to follow these changes from week to week.

Open-market operations during 1923. - In view of the importance during 1923 of the open-market operations, a detailed statement of the changes during the year in the composition of open-market holdings and of their relation to total earning assets is shown in the following table.

EARNING ASSETS OF FEDERAL RESERVE BANKS IN 1923.

(In millions)

	Total	Discounts	Open-market holdings			
			Total	U.S. Bonds and Notes	Treasury Certificates	Acceptances
January 10	1,246	512	734	176	332	226
February 14	1,191	653	538	163	190	185
March 14	1,183	613	570	161	184	225
April 11	1,135	623	512	163	75	274
May 9	1,148	695	453	149	37	267
June 13	1,085	708	377	125	33	219
July 11	1,134	847	287	94	7	186
August 8	1,091	823	268	83	7	178
September 12	1,121	842	279	95	5	179
October 10	1,143	869	274	87	5	182
November 14	1,150	791	359	79	12	268
December 12	1,188	762	426	77	19	330
Change between						
Jan. 10 and	-58	+ 250	- 308	- 99	- 313	+ 103
Dec. 12						

Of the two principal types of securities eligible for purchase by reserve banks -- acceptance and U. S. securities --, the volume of acceptances held by the reserve banks increased by about \$100,000,000 during the year, while government securities declined by over \$400,000,000. The increase in Federal reserve bank holdings of acceptances since the middle of October reflected in part the seasonal growth in the volume of acceptances created in connection with the financing of crop exports. The reduction in holdings of United States securities, chiefly certificates of indebtedness, continued almost without interruption throughout the year, though during November and December there was a slight increase in the holdings of Treasury certificates. A comparison of the composition of earning assets shows that the reduction in open-market holdings between the middle of January and the middle of December was somewhat larger than the increase in discounts, with the result that for the period the total volume of reserve bank credit decreased slightly.

Stability in the other principal items of the reserve bank statement has also characterized the year's operations. Reserves remained at about \$3,200,000,000; Federal reserve note circulation, after a seasonal decline early in the year, continued at about \$2,200,000,000; deposits, consisting largely of member banks' reserve balances, declined somewhat, reflecting the decrease in demand deposits with member banks; and the reserve ratio throughout the year remained near 76 per cent. This absence of change in the reserve bank statement during a year of growth in business activity and of increasing credit and currency demand is closely related, as was pointed out last month in this Review, to the use made of imported gold. During 1923 the inflow of gold continued in somewhat larger volume than during the previous year, net imports of \$262,000,000 for the

first eleven months exceeding the total of \$238,000,000 for 1922. This additional gold was not reflected in an increase in the reserves of the Federal Reserve banks because certain of these banks met the demand for currency by putting gold certificates in/circulation. Thus the increase of the total money in circulation of \$307,000,000 between December, 1922 and December, 1923, was largely in gold certificates, rather than in Federal reserve notes.

Course of business. The trend of member bank credit during the year, rather than of Federal reserve bank credit, has reflected the course of business developments. The period of most rapid increase in the demand for credit was the first quarter of the year, when trade was active and the volume of production in basic industries was greater than at any previous time. Production reached its peak for the year in May, and after that time the growth in the demand for credit for commercial purposes slackened. The recession in industrial activity during the summer months, however, was not accompanied by a decline in the distribution of merchandise, and in the autumn the demand for additional credit, largely from agriculture, resulted in a further increase in commercial loans at member banks in leading cities. The slackening in trade activity during the latter part of the year arose more from the hesitancy of business concerns in placing forward orders than from a lessened demand on the part of ultimate consumers; and the price declines of the period were chiefly in materials used in industry rather than in consumers' goods. The year as a whole was characterized by a large industrial output, practically full employment, a sustained consumers' demand for goods, and a level of prices more stable than in any year since 1915.

A national income larger than in 1922, arising both out of increased earn-

ings of factory workers and larger proceeds from the sale of farm products furnished the buying power to absorb the year's increased output of goods. The income of industrial workers, as the result of a volume of employment approximately 13 per cent larger than in 1922 and of wage advances, greatly exceeded that of the previous year. The total value of agricultural production was about \$900,000,000 greater than in 1922. This increase in income was not accompanied by a corresponding rise in the cost of living and the large growth in savings deposits indicates that there was a considerable margin of income above expenditures. The increased buying during the year is reflected in the volume of retail trade, which was larger for every month of 1923 than of 1922 so far as monthly figures are now available, and the total of department store sales for the ten months exceeded those for the corresponding months of last year by 13 per cent. The distribution and marketing of goods was facilitated by the improvement of transportation facilities and the volume of railroad traffic was the largest on record.

In agriculture the final estimates for the year indicate a physical volume of production larger than the year before and at the prevailing level of farm prices the total value of the year's crops is about 12 per cent above that of 1922. Furthermore, a larger proportion of farm income was available for current expenditure since less of the income than in preceding years was used in the repayment of loans. Sales of mail order houses, representing chiefly purchases in rural communities, increased by 31 per cent in 1923. The recovery of agriculture, however, is still incomplete, particularly in the wheat and livestock industries, and the unusual business growth of the year has been chiefly in the industrial sections. It is the demand on the part of industrial workers which, even with the decreased foreign demand, has resulted in a better market for agricultural products.

In addition to the large purchases of goods for immediate consumption there was also an exceptionally heavy demand for houses and automobiles, as indicated by the growth in the construction of buildings and the manufacture of motor cars. The automobile output of the year will total nearly 4,000,000, an increase of more than 50 per cent over 1922. The building activity which had been at a high level during 1922 reached a maximum in the spring of 1923 and then slackened somewhat owing to the rapid advance in wages and in prices of materials. With the subsequent decline in construction costs activity was renewed and for the eleven months ending in November contracts awarded totaled more than for the corresponding months of 1922. Building operations on a considerable scale were general throughout the country and residential building not only increased more rapidly than construction for business and industrial purposes but constituted a larger proportion of the total than in the four previous years. The large volume of construction not only led to increased production of building materials, but also resulted in large sales of furniture and other household goods and was an important factor in the demand in many lines of trade.

Price readjustments. Prices of building materials and house furnishings, while they declined during the latter part of the year, remained, nevertheless, considerably above the average for all commodities. The general price level, as measured by the wholesale price index of the Bureau of Labor Statistics, after advancing somewhat during the first three months of the year, declined by November to a point below that of November, 1922, but the average for the 11 months of 1923 was slightly higher than the average for the year 1922. More significant than these changes in the general level, however, are the readjustments which have taken place between various groups of commodities, particularly the increase in the

prices of certain agricultural products and the continued decline in fuel prices. Prices of farm products as a whole were higher in November, 1923, than at any time since December, 1920. This rise was due entirely to the higher prices of crops, as the prices of livestock and animal products were lower in November than at any time during the year.

Attitude of business. The fact that the year, taken as a whole, has been one of unparalleled industrial and trade activity has been somewhat obscured by the recession from the unusually high levels reached during the first quarter. The growth during the early months was a continuation of the expansion which had been under way for a year and a half, and carried the volume of production to a record level. Stocks of materials had been replenished, the available supplies of labor and equipment were being utilized near to capacity, and manufacturers began to feel some uncertainty about the possibility of marketing at profitable prices the large current output. Wide recognition that there had been a rate of advance which could hardly be maintained gave rise to hesitancy and the recession which followed was an expression of the conservative attitude taken by the business community. In the fall months, however, with the continuance of active trade and an undiminished demand from consumers, business became more confident. Throughout 1923, a year when business volume, prices, and credit were adjusting themselves to the new levels, it was primarily the attitude of business which moderated both the upward and the downward movements and exercised a stabilizing influence upon trade and industry.

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Office of the Secretary.

I, Walter L. Eddy, Secretary of the Federal Reserve Board, do hereby certify that the paper hereto attached is a true and complete copy of the original certificate issued by the Federal Reserve Board to

granting said bank the right to act, when not in contravention of State or local law, as trustee, executor administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies or other corporations which come into competition with national banks are permitted to act under the laws of the State of _____

IN TESTIMONY WHEREOF, I have here-

unto subscribed my name and
caused the seal of the Federal
Reserve Board to be affixed to
these presents in the City of
Washington and District of
Columbia, this _____
day of _____ A. D.,

Secretary, Federal Reserve Board

FEDERAL RESERVE BOARD

WASHINGTON

X-3924
December 22, 1923.

SUBJECT: Method of Assessing Costs of Examinations of
State Member Banks.

Dear Sir:

One of the Federal Reserve Agents has asked the Board for permission to deviate from the rules laid down in its circular letter of August 1, 1923 (X-3797) for assessing state member banks for the costs of examinations.

The basis for the Agent's request is the remoteness of certain state member banks from the Federal Reserve Bank city, which results in unjustly large assessments made against those banks, if assessments are made in accordance with the rules laid down in the circular letter referred to.

The Board recognizes the inequity of the present method of assessing state member banks for the cost of examinations and has ruled that the Federal Reserve Banks need not assess against each State member bank examined the exact costs of the particular examination, but may assess against all of the state member banks examined during a calendar year the expenses of all examinations made during the calendar year in proportion to the assets or resources of the banks examined on the dates of the examinations.

Very truly yours,

Walter L. Eddy,
Secretary.

TO ALL F. R. AGENTS

FEDERAL RESERVE BOARD

WASHINGTON

X-3925

December 22, 1923.

SUBJECT: ASSESSMENT FOR GENERAL EXPENSES OF THE FEDERAL RESERVE BOARD, JANUARY 1 TO JUNE 30, 1924.

Dear Sir:

Confirming telegraphic advice of this date there is enclosed herewith copy of a resolution adopted by the Federal Reserve Board at a meeting held on December 21, 1923, levying an assessment upon the several Federal reserve banks of an amount equal to one hundred nine thousandths of one per cent (.00109) of the total paid in capital stock and surplus of such banks to defray the estimated general expenses of the Federal Reserve Board from January 1 to June 30, 1924.

There is also enclosed a statement showing the basis upon which the assessment is levied.

Kindly deposit one-half of the amount of your assessment in the General Account, Treasurer, U. S., on your books January 1, 1924, and one-half March 1, 1924, in each instance issuing a C/D for credit of "Salaries and Expenses, Federal Reserve Board, Special Fund", assessment for general expenses, and sending duplicate C/D to the Federal Reserve Board. Also please furnish a statement of your capital and surplus used as a basis for the assessment.

Very truly yours,

Enclosures.

Fiscal Agent.

(Sent to Chairman of each Federal Reserve Bank)

RESOLUTION LEVYING ASSESSMENT

Whereas, under Section 10 of the act approved December 23, 1913, and known as the Federal Reserve Act, the Federal Reserve Board is empowered to levy semi-annually upon the Federal reserve banks in proportion to their capital stock and surplus an assessment sufficient to pay its estimated expenses, including the salaries of its members, assistants, attorneys, experts and employees for the half-year succeeding the levying of such assessment, together with any deficit carried forward from the preceding half-year; and

Whereas, it appears from estimates submitted and considered that it is necessary that a fund equal to one hundred nine thousandths of one per cent of the total paid-in capital stock and surplus of the Federal reserve banks be created for the purpose hereinbefore described, exclusive of the cost of engraving and printing of Federal reserve notes; Now, therefore,

Be it resolved, That pursuant to the authority vested in it by law, the Federal Reserve Board hereby levies an assessment upon the several Federal reserve banks of an amount equal to one hundred nine thousandths of one per cent of the total paid-in capital and surplus of such banks as of December 31, 1923, and the Fiscal Agent of the Board is hereby authorized to collect from said banks such assessment and execute, in the name of the Board, receipts for payments made. Such assessments will be collected in two installments of one-half each; the first installment to be paid on January 1, 1924, and the second half on March 1, 1924.

X-3925-b

ESTIMATE FOR JANUARY 1924 ASSESSMENT

Average monthly encumbrance for period
July 1, 1923, to December 31, 1923:

Personal services,	\$ 47,613.75	
Non-personal services,	<u>12,352.85</u>	\$ 59,966.60

Encumbrance for December, 1923:

Personal services,	47,721.74	
Non-personal services,	<u>13,524.50</u>	61,246.24

Estimated monthly requirements,
January to June, 1924:

Personal services,	50,000.00	
Non-personal services,	<u>14,750.00</u>	64,750.00

Estimated monthly increase over December, 3,504.00

Total estimated requirements,
January 1 to June 30, 1924:

To cover above estimate,	388,500.00	
To provide a contingent fund,	<u>10,000.00</u>	398,500.00

Estimated unencumbered balance, December 31, 1923, 35,000.00

Amount to be raised by assessment, 363,500.00

Estimated paid-in capital and surplus of Federal
Reserve Banks as of December 31, 1923, 332,700,000.00

An assessment of one hundred nine thousandths of one per cent
(.00109) will produce, \$362,643.00

F E D E R A L R E S E R V E B O A R D

STATEMENT FOR THE PRESS

X-3926

For Release in Morning Papers
Thursday, December 27, 1923.

The following is a summary of general business and financial conditions throughout the several Federal Reserve Districts, based upon statistics for the months of November and December, as contained in the forthcoming issue of the Federal Reserve Bulletin.

Production of basic commodities and factory employment decreased in November. Distribution of merchandise by wholesalers and retailers was somewhat less active, and wholesale prices showed a slight further recession.

PRODUCTION:

Production in basic industries decreased about 2 per cent in November. The decline was due chiefly to reduced production of iron and steel, and smaller sugar meltings. The Federal Reserve Board's new index of factory employment also declined, due to lessened activity at iron and steel plants and large seasonal reductions at clothing establishments. The volume of employment is now 2 per cent smaller than in the spring, but 3 per cent larger than a year ago. Contract awards for new buildings were smaller in November than in October in all reporting districts except New York, but were 20 per cent larger than a year ago.

Final estimates by the Department of Agriculture show larger yields of corn, oats, tobacco, and cotton than in 1922, and smaller

yields of wheat, hay, and potatoes. The total value of agricultural production at December 1st prices was 12 per cent larger than in 1922. Each of the ten principal crops except wheat showed an increase in value.

TRADE:

Railroad freight shipments in November showed about the usual seasonal decline from October, but were in heavier volume as compared with previous years. Wholesale trade was 13 per cent less in November than in October, which is more than the usual decrease at this season, but sales continued to be slightly larger than a year ago. Sales of hardware, drugs, and meat were larger than in November, 1922, while sales of shoes were smaller. Retail business was smaller than in October in most lines. Sales of mail order houses declined more than sales of department stores, but were 11 per cent larger than a year ago.

PRICES:

The Bureau of Labor Statistics index of wholesale prices declined in November to a point 4 per cent lower than last spring and about 3 per cent lower than a year ago. The chief reductions occurred in prices of animal products, fuel, and house furnishings. Prices of clothing and crops, on the other hand, increased and the latter group averaged higher than in any month since 1920. During the first half of December prices of sheep, beef, sugar, cotton, silk, and rubber declined, while quotations on crude oil, wheat, and wool were slightly higher.

BANK CREDIT:

The total volume of credit extended by member banks in leading cities showed but little change between the middle of November and the middle of December. A seasonal reduction in commercial and agricultural loans in most districts was accompanied by increased loans on securities, with the result that total loans remained practically constant.

During the same period borrowings at the Federal reserve banks were also practically unchanged. Holdings of acceptances increased somewhat, partly in connection with the financing of cotton exports. The increased demand for currency for holiday trade was reflected in both a moderate expansion in Federal reserve note circulation and a reduction in gold certificates held by the reserve banks.

Rates of commercial paper sold in the open market continued to show an easier tendency, as indicated by increased sales at $4\frac{3}{4}$ per cent, particularly in interior districts. The December issues of one year $4\frac{1}{4}$ per cent and six months 4 per cent Treasury certificates, compared with $4\frac{1}{4}$ per cent on a six months issue sold in September, were largely over-subscribed.

FEDERAL RESERVE BOARD

X-3927

Statement for the Press

For Immediate Release

CONDITION OF ACCEPTANCE MARKET

November 15 to December 12.

Since the beginning of the crop-moving season the acceptance market has been characterized by an increased supply of bills drawn to provide funds for financing the distribution of agricultural commodities. During the period ending December 12 the supply continued large, as seasonal drawings to finance the marketing and exportation of cotton were particularly heavy. Bills were also drawn in considerable volume against grain, sugar, silk, coffee, wool, and to provide dollar exchange. The demand for bills has not increased in recent periods to the same extent as the supply and as a result dealers' aggregate portfolios have been larger than in any preceding month during the year. There was, however, a slight reduction on December 12 from the volume held on November 14. The demand during the latter part of November came principally from banks in the interior where funds resulting from crop returns had accumulated, and centered in bills with short maturities, but in December requests for longer maturities were noted. As a result of the large supply of bills which has come upon the market in the recent periods offerings to the Federal reserve banks have been larger and their portfolios showed a substantial increase. Rates continued firm and unchanged at $4 \frac{1}{8}$ to $4 \frac{1}{4}$ bid and 4 to $4 \frac{1}{8}$ offered for 30 to 90-day bills, while bills of 120 days ranged from $4 \frac{1}{4}$ to $4 \frac{3}{8}$ bid and $4 \frac{1}{8}$ to $4 \frac{1}{4}$ offered. These are practically the same levels that have been maintained throughout the year.

12/27/23

FEDERAL RESERVE BOARD
WASHINGTON

1007

X-3928
December 28, 1923.

SUBJECT: Corrections in Inter-District Time Schedule.

Dear Sir:

By agreement between the Federal Reserve Bank of Chicago and the Federal Reserve Bank of Minneapolis, the following changes should be made in the inter-district time schedule:

Chicago to Minneapolis - 1 day
Minneapolis to Chicago - 1 day

Very truly yours,

Walter L. Eddy,
Secretary.

TO GOVERNORS OF ALL F. R. BANKS

FEDERAL RESERVE BOARD

1008

WASHINGTON

X-3930

December 29, 1923.

SUBJECT: National Bank Charters.

Dear Sir:

It is the practice of the Federal Reserve Agents to submit in some detail their views and recommendations in connection with applications filed with the Comptroller of the Currency to organize national banks and applications of national banks for permission to reduce capital stock.

A majority of the Federal Reserve Agents communicate their views and recommendations direct to the Board for transmission to the Comptroller of the Currency. It is requested that hereafter all Federal Reserve Agents advise the Comptroller of the Currency direct and send to the Board copies of their communications to him.

Very truly yours,

Walter L. Eddy,
Secretary.

TO ALL FEDERAL RESERVE AGENTS.

ADMINISTRATION OF CREDIT
UNDER
THE FEDERAL RESERVE SYSTEM
OF
THE UNITED STATES
Present Criticisms.

(By William A. Shaw, Litt. D.)

(EDITOR'S NOTE -

"In the following article our contributor discusses the power of control which the Federal Reserve System possesses by virtue of its federal nature, and his conclusion is that we have everything to gain by imitating the system.

Certain other aspects of the system which make for inflation and danger we do not need to fear.")

From: THE FINANCIAL NEWS

LONDON

November 27, 1923.

(By WM. A. SHAW, Litt. D.)

"For the second time in its brief existence the Federal Reserve system is encountering heated criticism and denunciation. The charges now raised are a replica of those which were levelled against it in 1921. In the main, these were twofold, firstly, that in breaking the boom of 1920 the Federal Reserve Board had acted much too late, and that when it finally did act its measures were so abrupt and savage that for the moment it smashed the industrial machine to pieces.

The facts are still within the memory of us all. The level of wholesale prices, which in 1919 had been 206 in the United States, rose to 226 in 1920 and fell to 147 in 1921. In England the movement was completely parallel, for within the same period the price level was from 205 to 251, and then fell to 155. In 1920 the bankruptcies in the States numbered 716 per month. In 1921 they numbered 1,668 per month, and the average since has increased rather than diminished. The figures for Great Britain are even more pronounced and striking. In 1920 the bankruptcies with us were 137 per month. From and including 1921, they have averaged over 400 per month. Very seldom have economists had so plain a lesson in the sequence of cause and effect.

Mercifully the lesson has been understood, and the banker statesman both in New York and London now realises that if the machinery of credit control must operate at all it must begin its work imperceptibly during the upward curve of a boom, and must follow that upward curve with imperceptibly increasing grip until the curve bends down again, and as the curve falls so that grip must be relaxed just as gradually and imperceptibly as before until equilibrium is again reached. Throughout this cycle of operations the one guide or finger-post to the banker is the index of domestic prices.

SCOTCHED.

It is rather disconcerting to find that the present wave of recrimination against the Federal Reserve system has been raised by an almost perfect instance of such regulative action. The United States recovered from the slump of 1921 with amazing rapidity. By the middle of 1922 she was again in the saddle and from then onwards to February of the present year there was a progressive movement of industrial activity and rising prices. By February the capital flotations had surpassed all records, and the figures of Stock Exchange loans, approached the highest previous figures. Everything portended another boom, such as, if realised, would inevitably have been followed by another violent slump. But in February last the banker took hold of the situation, that is, before the development had become so strong as to be uncontrollable. By the end of February, or the first week in March, all the twelve Federal Reserve Banks had fallen into line, and had

increased their re-discount rate from 4 to 4-1/2 per cent. It seems almost incredible that so slight an increase should have been effectual. Yet so it proved. The incipient boom was scotched, and the scotching was effected without any violent slump, without any dislocation of the industrial machine. By the end of April the position had become normalised, and prices were back at the level of December, 1922.

OBSTINACY.

Theoretically, the moment that normal had been reached the grip of the Federal Reserve rate should have been loosened and the steed should have been allowed to run with slackened rein. But this was not done. The enhanced discount rate of February was maintained. It is still unaltered at the moment of writing. The inference, therefore, seems clear that the subsequent downward movement is attributable to this obstinacy. The reaction since May of the present year has been strongly felt, industrial activity has slackened off and wholesale prices have fallen from 156 to 150. The situation certainly appears now to call for converse action at the hands of the Federal Reserve Board, and it is not without significance that an important session of officers of the Federal Reserve Banks was called at Washington for November, 12th instant, to consider the question of the Federal Reserve discount rates. The decision of the meeting has so far not been divulged. But quite plainly the ideal for any governing banking authority to aim at (whether it be the Federal Reserve Board or the Bank of England) is to adjust banking credits to the rise and fall of business (as indicated by prices), and thereby to diminish the undulations of the business cycle. The moment the wisdom of this simple rule is grasped and the technique of its manipulation is acquired the battle cries of inflation and deflation will become empty words.

A RE-ECHO

The second ground on which the Federal Reserve system is now being assailed is quite different. It is a re-echo of the violent charges which were brought against the system by John Skelton Williams, late Comptroller of Currency. He attacked it from the point of view of corruption, conceiving that it concentrated credits at the burning spots -- the centres of speculation, mainly, of course, New York, and that through dishonest manipulations the Stock Exchange gamblers in New York were deluged with credit while the agricultural and industrial industries in the provinces were being starved of credit. He had the courage of his conviction and hit out with both hands, and he has met an undeserved reward. His name is possibly one of the most unpopular in the United States today. But though the controversy has shifted from this more personal ground, the principle involved remains essentially the same. The Federal Reserve system does concentrate credit at the burning spots. Its mechanism for pumping credit back to the extremities is not nearly so efficient as its mechanism for concentrating credits from the extremities, and the best informed opinion in the States is beginning to realise the danger. In the opinion of the "Chronicle" "it would be a distinct advantage if the Reserve Banks did not control so much of the reserves of the country, for their inflationary

tendency would then be lessened." Underlying the controversy which is at present agitating the banking world in the United States, the controversy, namely, as to branch banking, there subsists this fundamental problem and discussion as to the administration of credit by the Federal Reserve Board and the Federal Reserve banks. The extraordinary feature of this controversy is that the American bankers themselves do not seem to realise from what source the danger comes. The real source of danger lies in the re-discount provisions of the Federal Reserve system itself. Those provisions permit, or rather prescribe for, an increase of the monetary circulation of the country pari passu with an increase in the item of discounted bills. The idea, of course, is to obtain an elastic currency. And it is well known that the late Sir Edward Holden pinned his faith to this form of an elastic currency.

AUTOMATIC

The point is worthy of most careful examination, for it is exactly in this article that our English system parts company with the Federal Reserve system, and it is exactly in this article that the Federal Reserve system is fraught with gravest danger.

It is admitted on all hands that during periods of boom all forms of circulating media increase in amount or bulk. The volume of cheques goes up, the volume of bills of exchange goes up, the circulating medium (hand-to-hand currency) goes up or increases the velocity of its circulation. Equally, it is admitted on all hands that the increase of cheques and bills is absolutely and entirely automatic -- as expressive of the forms of interchange which are liquidated by such media. Ergo, the increase of hand-to-hand currency ought to be in the same way wholly automatic as expressive of the needs of small change or hand-to-hand interchange transactions.

Under our British system we have attained perfection. In the one sphere cheques and bills expand (or contract) automatically, and Treasury notes expand (or contract) equally automatically in the other domain. Each being automatic does not affect the other, but reacts only to its own governing conditions.

DUPLICATION

But in America the system is quite different. They have no provisions for automatic rise or fall of currency, and therefore, being led astray by the search for an elastic currency, they prescribe for the expansion of the currency on the basis of the expansion of bills. By this means they are duplicating the exponent of inflation. If we had the equivalent of this in the British system we should have, in addition to our normal Treasury note circulation, an issue of £700,000,000 of Treasury notes reposing on the basis of £700,000,000 of Treasury Bills. And if we had that, who could measure the violent inflation we should be subject to? The mistake of the American system is that it does not visualise the fact that automatically increasing bills and cheques are the completest expression of an elastic currency, and that, to complete the mechanism, all that is necessary is an arrangement for a concurrent, but quite independent, automatic increase in hand-to-hand currency, the increase in each case operating

under the influence of its own factors or conditions. These factors are enormously different in the case of bills and in the case of hand-to-hand currency. Bills and cheques increase of necessity in direct ratio to the increase of business, whereas a comparatively slight increase of hand-to-hand currency is capable of carrying an immensely increased volume of hand-to-hand interchange. In the case of the British Treasury note, which is completely automatic, the fluctuation between 1917 (£212,000,000) and maximum (£367,000,000 in 1920) and minimum since (£279,000,000 in February, 1923) is under £150,000,000, or about 40 per cent. In the case of the United States the figures for the same period are \$1,928,000,000 for 1917, \$4,264,000,000 for 1920 maximum, and \$2,905,000,000 for July last minimum. The variation here is over 200 per cent.

IMITATION

This item alone of false and unscientific increase of hand-to-hand currency is capable of explaining the enormous inflationary power of the Federal Reserve system, quite apart from the parallel phenomenon of the concentration of credit at the burning spots (speculation centres like New York), and the corresponding starving of the extremities in matter of credit.

It is easy to strike a balance as between those two opposing phases of the Federal Reserve system. The power of control which the system possesses by virtue of its federal nature is in itself wholly beneficial, and certainly will be so in effect from the moment the system is purged of all connection with American politics. And from that aspect of it we have everything to gain by imitating the system, viz. by federalising our own banking world on the same or similar lines. The other aspects of the system which make for inflation and danger we do not need to fear. Under our branch bank system there is no denuding of the provinces for the sake of London. Our system is in close organic touch with the needs of industry to the remotest parts of the kingdom, and at the same time our Treasury note system is a safeguard against inflation. All the vices of the American system are per se excluded from our system, and all that we need to do in order to achieve a perfect credit control mechanism is to graft on to our system the federalised form or principle of the American system. "

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FEDERAL RESERVE BOARD

1014

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

July 7, 1923.
St. 3595.

SUBJECT: Form 38 - Classification of
Discounted and Purchased Bills.

Dear Sir:

One of the Federal reserve banks has requested additional copies of Form 38 - Classification of discounted and purchased bills - for use during the remainder of the present year. As it will be necessary to have a new supply of the form printed, it will be appreciated if you will kindly advise the Board whether your bank has a sufficient stock on hand to cover its requirements for the remainder of the present year, and if not, how many additional copies will be needed.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

DRAFT OF LETTER TO ALL GOVERNORS EXCEPT GOVERNOR AT SAN FRANCISCO

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

State Banking Department,

July 26, 1923

Gentlemen:

Your courtesy will be greatly appreciated if you will furnish the Federal Reserve Board, for use of its Statistical Office, as soon as available, with two copies of abstract of reports of condition of State banks and Trust companies in your State on June 30, or nearest date, in continuation of similar abstracts of condition of these banks on or about April 3, 1923.

Will it be possible for your office to eliminate, or at least segregate, the figures for the mutual savings banks, in case the state totals, as shown in the abstract, are inclusive of figures for this class of banks? In case the abstract fails to show the number of state banks and trust companies reporting, will you also be good enough to state this number in your letter of transmittal? May we also ask you to segregate the data by Federal reserve districts, in case your State falls within two districts? This will enable us to compile for the first time the report of condition of all banks in the United States by Federal reserve districts.

We are very desirous of publishing comparative figures by states and geographic sections for the country as a whole at the earliest practicable date, and would ask you, therefore, to favor us with advance or proof copies of the tables and not to defer mailing the data until final revision.

The July number of the Federal Reserve Bulletin (pages 796 to 799) contains a summary statement of the abstracts of reports of condition on April 3, 1923 of State banks and Trust companies in forty-four states and the District of Columbia, to which we desire to call your attention. We shall be glad to send you additional copies of the July Bulletin as long as our supply of that number lasts.

Enclosed please find franked and self-addressed envelope, requiring no postage, for the transmission of the data.

Very truly yours,

Walter L. Eddy,
Assistant Secretary.

Enclosure.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARDSeptember 4, 1923.
St. 3676.SUBJECT: Member Banks Borrowing in
Excess of Capital and Surplus.

Dear Sir:

In order that the Board may follow more closely the trend of borrowings in the several Federal reserve districts by those member banks which are more or less continuously borrowing excess amounts from the Federal reserve banks, it will be appreciated if you will furnish the Board with monthly reports hereafter on form St. 3677, as per copy attached hereto. It will be noted that this form provides for reporting the total amount of paper held under discount on the last day of the report month for each member bank whose borrowings from the Federal reserve bank were continuously in excess of its combined capital and surplus during the month, the amount of such paper secured by U. S. Government obligations, and the capital and surplus of the member bank.

It is requested that the first report be rendered as of August 31, 1923, and that on this first report only you show in the last column the date since which each member bank has been borrowing continuously in excess of its capital and surplus.

One hundred copies of the form are being forwarded to you today under separate cover.

Very truly yours,

Walter L. Eddy,
Executive Secretary.

Enclosure.

LETTER TO GOVERNOR OF EACH FEDERAL RESERVE BANK.

PAPER HELD UNDER DISCOUNT ON THE LAST DAY OF THE REPORT MONTH FOR MEMBER BANKS WHOSE BORROWINGS FROM THE FEDERAL RESERVE BANK HAVE BEEN CONTINUOUSLY IN EXCESS OF THEIR COMBINED CAPITAL AND SURPLUS DURING THE MONTH OF

_____ 192_____ Federal Reserve Bank of _____

Location	Name of member bank	Borrowings at end of month		Capital and Surplus
		Secured by U.S. Govt. obligations	Total	

FEDERAL RESERVE BOARD

WASHINGTON

September 7, 1923.
St. 3681.ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARDSUBJECT: Condition reports of State bank and
Trust company members, form 105.

Dear Sir:

There are being forwarded to you today under separate cover copies of form 105 revised as of May 22, 1923. Please mail three copies of the form to each State bank and Trust company member in your district for its own use and, in addition, three copies for the use of each of its branches (if any) located outside of the city in which the head office is located, with instructions to hold the blank forms pending receipt of a call for condition reports.

In sending out the forms please advise each State bank and Trust company member that its next condition report on form 105 should, as in the past, represent the condition of the parent bank and all its domestic branches combined, but that, in addition, a report should be submitted for each of its branches which is located outside of the city in which the parent bank is located. Upon receipt of notice from the Board of the call for condition reports, kindly notify the banks thereof by mail if they are located with two days' time from the Federal reserve bank, or by telegram if not within two days' time by mail, and request them to fill out the reports and mail them to you promptly - in no case later than 10 days after receipt of the call.

In order that the compilation of the Board's abstract showing the condition of all state bank and trust company members combined as of the date of the next call may not be unduly delayed, it is requested that the reports be forwarded to the Board as soon as practicable after they are received by the Federal reserve bank. If it is necessary to communicate with a bank regarding apparent errors in its report, a note to that effect should be made on the report itself before it is mailed to the Board, and the Board should be advised of the necessary corrections when the desired information is received from the member bank.

Kindly acknowledge receipt.

Yours very truly,

Walter L. Eddy,
Executive Secretary.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

September 15, 1923.
St. 3696

SUBJECT: Abstract of Condition Reports of
State Bank and Trust Company Members
and of all Member banks as of
June 30, 1923.

Dear Sir:

We are forwarding to you under separate cover
copies of the Board's Abstract No. 21 showing
the condition of State Bank and Trust Company members
and of all member banks as at close of business on June
30, 1923. Consolidated figures for all member banks,
both National and State, are shown on pages 1 and 12.

Please forward one copy of the abstract to
each State Bank and Trust Company member in your district
that has expressed a desire to receive copies of
abstracts as issued.

Very truly yours,

E.L. Smead, Chief,
Division of Bank Operations.

LETTER TO EACH FEDERAL RESERVE AGENT

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARDOctober 18, 1923.
St. 3750.SUBJECT: Reports of Condition of State
Banks and Trust Companies.

Gentlemen:

Your courtesy will be greatly appreciated if you will furnish the Federal Reserve Board, as soon as available, with two copies of the abstract of reports of condition of State banks and Trust companies in your State on September 14, or the nearest date thereto since June 30 for which you have received reports.

If convenient to your office, we would like to have separate figures for mutual savings banks and for private banks, providing there are any such banks operating in your state. In case the abstract fails to show the number of state banks and trust companies reporting, will you also be good enough to state this number in your letter of transmittal? May we also ask you to segregate the data by Federal reserve districts, in case your state falls within two districts, as the value of these data to the Board and for purposes of publication will be greatly enhanced if they can be tabulated by Federal reserve districts.

In order that figures for the country as a whole may be available at the earliest practicable date, it will be appreciated if you will favor us with advance or proof copies of the tables. We shall, of course, be glad to make changes or corrections in your state figures at any time before final proof is sent to the printer.

The October number of the Federal Reserve Bulletin (copy of which is enclosed) contains, on pages 1107 to 1110, a summary statement of the abstracts of reports of condition on or about June 30, 1923, of State banks and Trust companies in the 48 states and the District of Columbia, to which your attention is invited.

There is also enclosed a franked and self-addressed envelope, requiring no postage, for use in transmitting the data requested.

Very truly yours,

Walter L. Eddy,
Secretary.

State Banking Department .

Enclosures.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARDOctober 29, 1923.
St. 3766SUBJECT: Reserve requirements of member and
nonmember state banks.

Dear Sir:

With reference to the hearings being conducted by the Joint Congressional Committee to determine the reasons why eligible state banks fail to join the Federal Reserve System, the Board is desirous of obtaining as accurate information as it is practicable to collect showing whether the amount of reserve which the several classes of banks in each state would be required to carry with the Federal reserve banks, if they became members of the System, is larger or smaller than the reserves which they are now required to carry under state laws.

It will be appreciated, therefore, if you will furnish the Board by November 15, if practicable, with a statement showing the information outlined below for each class of banks, as defined by State law, in the following states in your district:

In all cases where a state is located in two Federal reserve districts, the Federal Reserve Agent in whose district the capital of the state is located is being requested to furnish this information.

(1) Method of determining deposit liabilities upon which reserves are computed. This statement should show each class of deposit liabilities against which reserves are required to be carried, and each class of deductions, if any, that may be made from gross deposits in the calculation of net deposit liabilities on which reserves are computed. If possible, two copies of the blank forms used by each class of banks in computing their deposit liabilities should be enclosed with your reply.

(2) A detailed calculation of the deposit liability for a typical bank, or group of banks, in each class and for each state, showing the total amount and per cent of reserves required, the amount and per cent required to be carried in vault, the amount and per cent that may be held on deposit with banks designated as approved reserve agents, and the amount, per cent and character of other funds or securities, if any, which the state law authorizes to be counted as a part of the legally required reserve.

In addition to the legally required amounts, the statement should show for the banks selected the actual amounts of cash carried in vault, the amounts held on deposit with approved reserve agents and with other banks,

- 2 -

and the amounts of reserve carried in other authorized ways. Care should be taken to select as examples banks that are typical of their class in the matter of reserves carried and in balances with banks other than approved reserve agents. In case statements of typical non-member banks are not available it will be satisfactory for purposes of this report to use condition reports submitted by some of your present members at the time they made application for membership.

(3) A statement showing the net deposit liability and the amount of reserve that these typical banks would be required to carry with the Federal reserve banks in case they became members of the Federal Reserve System. A comparison of the required reserve, as shown under questions 2 and 3, should show whether or not loss of interest on the reserve maintained with the Federal reserve banks would be offset by interest on reserve funds released as a result of the banks' joining the system.

(4) To what extent, if any, have the present state bank members in the various states in your district, upon becoming members of the system, been able to reduce the amount which as non-member banks they had carried with city correspondents? In general has this amount been sufficient to offset the amount that they are now required to carry with the reserve bank?

(5) To what extent, if any, have the present state bank members been able, since joining the system, to reduce their cash in vault?

Very truly yours,

Walter L. Eddy,
Secretary.

LETTER TO ALL FEDERAL RESERVE AGENTS.

FEDERAL RESERVE BOARD

WASHINGTON

October 30, 1923.

St. 3769.

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

SUBJECT: Debits to Individual Accounts

Dear Sir:

Enclosed herewith is a copy of a letter sent out in September by the Federal Reserve Agent at Minneapolis, in which he calls attention to the advisability of having a copy of the instructions relative to amounts to be included in debits to individual accounts, in the hands of the persons in the different banks who are preparing the weekly reports of debits to individual accounts, and to the importance of having the methods then in use checked against the instructions issued by the Board. Responses to the letter indicated that all centers were apparently reporting correctly with the exception of Grand Forks, N. D., which had been including debits to bank account.

In view of the numerous changes in bank personnel, it may be advisable for you to get out a similar letter to the managers of clearing houses in reporting centers in your district or to other persons or organizations who collect the weekly figures of debits to individual accounts, in order that errors, if any, in the method used in compiling the figures may be detected. In case you send out a letter of this character, and it should develop that any of the reporting centers have been furnishing incorrect figures, it will be appreciated if you will bring the matter to the Board's attention, in order that the publication of figures for prior dates which are not comparable with current figures may be avoided.

Very truly yours,

Walter L. Eddy,
Secretary.

FEDERAL RESERVE BANK OF MINNEAPOLIS

September 17, 1923

Dear Sir:

During a period of summer vacations, many changes take place in the assignment of duties in different banks and the object of this letter is to assure ourselves that the individual person upon whom the clerical labor falls of compiling your weekly wire to us of individual debits has at his command a detailed description of how these figures are to be constructed. In fact, I believe it would be advisable to have a copy of this shown to and understood by parties in the different banks who are reporting these figures to the clearing house manager for transmission to us.

It is important that the method of compiling these figures be checked at this time as this has not been done for more than a year and a half. A similar letter is being sent to all clearing houses in this district. For your convenience in supplying members of your clearing house, we are enclosing what we trust will be found to be a sufficient number of copies of the instructions which we shall be glad to have you forward to your members with a recommendation that their methods of compiling these figures be checked at this time.

Sincerely yours

John H. Rich.
Chairman and Federal Reserve Agent.

Office of Federal Reserve Agent
Minneapolis, Minn.

REPORTS OF TOTAL DEBITS TO INDIVIDUAL ACCOUNT

WHAT TO INCLUDE:

Debits to accounts of individuals, firms, and corporations
other than banks;
Debits to accounts of the United States Government, including
War Loan deposit accounts;
Debits to savings accounts;
Payments from trust accounts and certificates of deposits
paid.

MUST NOT INCLUDE:

Debits in settlement of clearing house balances
Payments of cashiers checks
Charges to expense and miscellaneous accounts
Corrections and similar charges
Debits to bank accounts.

September, 1923

FEDERAL RESERVE BOARD

WASHINGTON

St. 3808
November 22, 1923.

SUBJECT: Closing of Books on December 31, 1923.

Dear Sir:

In order that the Board may have ample time to pass upon all charges which your bank proposes to make against current earnings at closing of books on December 31, 1923, for depreciation allowances, reserves to take care of probable losses, and other extraordinary purposes, it is requested that the dividend resolution of your Board of Directors be mailed in time to reach the Board's offices not later than December 15, 1923.

The dividend resolution should be accompanied with statements showing the following information:

1. Estimated gross earnings, current expenses, proposed charges to current net earnings, and estimated net earnings available for surplus and franchise tax, for the calendar year 1923.
2. Unpaid indebtedness of failed or suspended banks to Federal reserve bank, giving the names of the banks, indebtedness of each, character of security, if any, and estimated losses.
3. Indebtedness to Federal reserve bank of member banks which are considered to be in an unsafe condition, giving the names of the banks, indebtedness of each, character of security, if any, and probable losses.
4. A statement in a form similar to that indicated below, showing separately for each property,
 - (a) the cost, estimated market value, reserves now carried, and net book value of land owned;
 - (b) the cost to date, estimated replacement cost, of re-modeled buildings or of new buildings, either completed or in course of construction, reserves now carried, and net book value.

LAND

Cost	\$ _____
Estimated market value	_____
Reserves now carried	_____
Book value (net)	_____

<u>BANKING HOUSE</u>	<u>BUILDINGS</u>		<u>FIXED MACHINERY AND EQUIPMENT</u>
	<u>TOTAL</u>	<u>INCLUDING VAULTS</u>	
Cost to date	\$ _____	\$ _____	\$ _____
Estimated replacement cost	_____	_____	_____
Reserves now carried	_____	_____	_____
Book value (net)	_____	_____	_____

The following rules have been approved by the Federal Reserve Board for the guidance of the Federal reserve banks in submitting requests for permission to make special charges against current net earnings, and for closing of books on December 31.

1. Bank premises. (a) In passing upon requests to set up depreciation reserves or to charge off depreciation allowances, the Board will in general permit a charge against current net earnings of not exceeding 2 per cent of the estimated replacement cost of bank buildings, including vaults but excluding fixed machinery and equipment. In case, however, the estimated replacement cost is considerably below the net book value, the Board will consider requests from Federal reserve banks for permission to write off a depreciation charge in excess of 2 per cent.

(b) The estimated replacement cost, less residual value, of fixed machinery and equipment, such as boilers, engines, dynamos, motors, power pumps, elevators, heating, plumbing, lighting and ventilating systems, pneumatic tubes, refrigeration plants, automatic fire sprinkler equipment, and vacuum cleaners, should be determined, and a reserve set aside each year out of current net earnings to cover replacements. Annual additions to this reserve should be based on the estimated life of the machinery and equipment, with a view to the ultimate replacement of the machinery and equipment, but in no case should the annual charge exceed 10 per cent of the cost thereof.

(c) No charges against current net earnings will be authorized by the Federal Reserve Board to cover depreciation on land where the estimated market value of the land is equal to or in excess of its net book value.

(d) The estimate of the market value of land and of the replacement cost of buildings either completed or in course of construction and of fixed machinery and equipment, should be obtained from the best available authorities. A copy of the estimates thus obtained should be enclosed with your request for authority to charge current net earnings with depreciation on bank premises unless similar estimates formerly submitted to the Federal Reserve Board are still applicable, in which event reference thereto will be sufficient. The estimated replacement cost of buildings including vaults, but excluding fixed machinery and equipment, may be arrived at by determining the mean of two amounts, namely; (1) the total actual cost of construction, and (2) the estimated cost of construction based on the lowest prices that have existed during the last fifteen years.

(e) Where properties have been purchased with the intention of razing existing buildings and of erecting new banking quarters the Board

will consider requests for permission to deduct from current net earnings an amount equal to the difference between the cost of the property and the market value of the building site exclusive of improvements.

(2) Furniture and equipment. The balance remaining in this account on December 31 should be charged to Profit and Loss.

(3) Depreciation on United States securities. Full provision should be made for depreciation (based on market value) on United States securities before any amount is transferred to surplus account. In case the present reserve for depreciation is in excess of the actual net depreciation on total holdings of United States securities as determined by approximate market quotations as of December 28, which the Board will telegraph to your bank on the morning of December 29, such excess should be credited to Profit and Loss.

(4) Surplus and franchise taxes. After all current expenses, dividends, depreciation allowances and other extraordinary charge-offs authorized by the Federal Reserve Board have been provided for out of earnings, the remaining net earnings shall be distributed as follows:

(a) Transfer to surplus account all available net earnings providing the total surplus will not as a result exceed the bank's subscribed capital, in which case only such amount should be transferred as is necessary to increase the surplus account to an amount equal to the bank's subscribed capital.

(b) Of the balance of net earnings, if any, 10 per cent should be transferred to surplus account, and 90 per cent paid to the United States Government as a franchise tax.

Instructions as to the time and method of payment of the franchise tax will as usual be issued at a later date by the Treasury Department.

Very truly yours,

Walter L. Eddy,
Secretary.

TO CHAIRMEN OF ALL FEDERAL RESERVE BANKS

FEDERAL RESERVE BOARD

WASHINGTON

November 24, 1923.
St. 3809.

SUBJECT: Revision of Federal Reserve
Bank Balance Sheet Form 34
for use during 1924.

Dear Sir:

There is enclosed herewith an unruled proof copy of the daily balance sheet Form 34 to be used by the Federal reserve banks during 1924. The year's supply of the form requested in your bank's recent telegram will be mailed to you as soon as received from the printer, which should be about the middle of December. From an examination of the enclosed proof copy it will be noted that only a few minor changes have been made in the form now in use, all of which are self-explanatory.

At the present time some of the Federal reserve banks are estimating each day, on the basis of experience, the amount of each of the several classes of money included in their holdings of unassorted currency, and distributing such estimated amounts against the corresponding items on Form 34. The remaining banks, on the other hand, are making this distribution of unassorted currency only on the last day of each month. On three occasions during 1923 the last day of the month coincided with the weekly statement day, Wednesday, and on each of these occasions the amounts of Federal reserve notes in circulation and of non-reserve cash on hand as shown by the weekly press statements were from \$20,000,000 to \$30,000,000 less than for the preceding and following weeks. This decrease in Federal reserve note circulation was, of course, due to bookkeeping methods and not to any actual change in the amount of notes in circulation. To avoid occurrences of this kind in the future the Board would prefer that beginning with 1924 all Federal reserve banks estimate each day, on the basis of an experience test, the amount of each of the various classes of money comprising unassorted currency on hand, and include such estimated amount against the proper caption on the balance sheet.

In case your bank now reports unassorted currency on Form 34 it will be appreciated if you will advise the Board whether or not it will be practicable for you to follow the practice outlined above beginning with January 1, 1924.

Very truly yours,

Walter L. Eddy,
Secretary.

Enclosure.

LETTER TO GOVERNORS OF ALL FEDERAL RESERVE BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

November 26, 1923.
St. 3813.

SUBJECT: Abstract of Condition Reports of
State Bank and Trust Company Members
and of all Member banks as of
September 14, 1923.

Dear Sir:

We are forwarding to you under separate cover
copies of the Board's Abstract No. 22 showing
the condition of State Bank and Trust Company members
and of all member banks as at close of business on
September 14, 1923. Consolidated figures for all mem-
ber banks, both National and State, are shown on pages
1 and 12.

Please forward one copy of the abstract to
each State Bank and Trust Company member in your dis-
trict that has expressed a desire to receive copies
of abstracts as issued.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

LETTER TO EACH FEDERAL RESERVE AGENT

FEDERAL RESERVE BOARD

WASHINGTON

November 26, 1923.
St. 3814.SUBJECT: Preparation of Federal Reserve
Agents' Annual Reports.

Dear Sir:

Following the practice adopted with reference to the 1922 annual reports, no part of the text of Federal reserve agents' annual reports will be included in the Board's report for the year 1923. Part II of the Board's report will contain tables for each Federal reserve district similar to those appearing in last year's report and, in addition, a table showing the volume of work handled in the principal departments of the bank, as per form enclosed herewith. All of the tables, and the chart showing the trend in the volume of earning assets and in notes in circulation for the years 1921-1923, will be prepared by the Board and submitted to your bank as soon after January 1, 1924 as practicable.

In order to expedite the completion of the annual reports of both the Board and Federal reserve agents, it is requested that the text of your annual report (to be submitted in duplicate), together with the statistical tables which will be prepared in connection therewith, be forwarded to the Board as early as practicable after January 1, 1924. Both the text of the report and statistical tables will be handled by the Board as expeditiously as possible in order that the reports may be released for publication as soon as practicable.

It will be appreciated if you will kindly advise the Board whether you desire a plate of the chart referred to in the first paragraph of this letter, for use in your annual report.

Very truly yours,

Walter L. Eddy,
Secretary.

Enclosure.

SCHEDULE 6 - VOLUME OF OPERATIONS IN
PRINCIPAL DEPARTMENTS

St. 3814a

1923	1922	1921
------	------	------

NUMBER OF PIECES HANDLED

Bills discounted:
 Applications
 Notes discounted
 Bills purchased for own account
 Currency received and counted
 Coin received and counted
 Checks handled
 Collection items handled:
 U. S. Government coupons paid
 All other
 U. S. securities - issues, redemptions,
 and exchanges by Fiscal Agency
 department
 Telegraphic transfers of funds
 Envelopes received and dispatched

AMOUNTS HANDLED

Bills discounted
 Bills purchased for own account
 Currency received and counted
 Coin received and counted
 Checks handled
 Collection items handled:
 U. S. Government coupons paid
 All other
 U. S. securities - issues, redemptions,
 and exchanges by Fiscal Agency
 department
 Telegraphic transfers of funds

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

November 27, 1923.
St. 3815.

SUBJECT: 1924 Edition of F. R. Agent's
Daily Statement, Form F. R. A. 5.

Dear Sir:

There are being forwarded to you today under separate cover copies of Federal Reserve Agent's daily statement Form F. R. A. 5. for use during 1924.

You will note that items representing the gross amount of Federal Reserve notes received from the Comptroller of the Currency since organization of the Federal Reserve System and the amount returned to the Comptroller of the Currency for destruction have both been eliminated from the form. These amounts should continue to be reported, however, on your monthly report on Form 44.

Kindly acknowledge receipt of the forms.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

LETTER TO ALL FEDERAL RESERVE AGENTS

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

December 11, 1923.
St. 3832.

SUBJECT: Reports of Earnings, Expenses,
Dividends, and Franchise Tax
Payments for 1923.

Dear Sir:

In order that the Board may have information regarding the financial results of operations of Federal reserve banks during the present calendar year as soon as practicable after January 1, it is requested that a statement be telegraphed the Board on Wednesday morning, January 2, 1924, showing the following information:

- (Code)
- EACH - Gross earnings.....\$ _____
- EADS - Current expenses....._____
- EARN - Current net earnings.....\$ _____
- ELBA - Additions to Current Net earnings..._____
- ENID - Deductions from Current Net Earnings _____
Net additions to or deductions
from current net earnings.....:_____
- EAST - Net earnings available for dividends,
franchise tax, and surplus.....:_____
- EYRE - Dividends paid.....:_____
- EMET - Paid to Government as franchise tax.....:_____
- EVEN - Transferred to surplus account.....:_____
- Total (to agree with item EAST).....:_____
- CAPP - Subscribed capital January 1, 1924.....:_____
- CEDE - Surplus January 1, 1924.....:_____

- 2 -

It is also requested that the regular monthly reports of earnings and expenses on forms 95, 96, 97, and 97--a be accompanied with an itemized statement showing in detail all additions to and deductions from current net earnings (Profit and Loss account) during the year, and that in addition to the regular balance sheet form 34 for the last day of the year representing the condition of the bank after final closing of the books, a form 34 be submitted showing the condition of the bank at close of business but prior to the making of any profit and loss account entries.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

LETTER TO BE SENT TO THE GOVERNOR
AT EACH FEDERAL RESERVE BANK.

FEDERAL RESERVE BOARD

WASHINGTON

December 14, 1923.
St. 3841.ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARDSUBJECT: Condition reports of State bank
and Trust company members, form 105.

Dear Sir:

There are being forwarded to you today under separate cover copies of form 105 revised as of November 15, 1923. Please mail three copies of the form to each State Bank and Trust company member in your district for its own use and, in addition, three copies for each of its branches (if any) not located within the city in which the head office is located or within cities and towns adjacent thereto with instructions to hold the blank forms pending receipt of a call for condition reports.

Upon receipt of notice from the Board of the call for condition reports, kindly notify the banks thereof by mail if they are located within two days' time from the Federal reserve bank, or by telegram if not within two days' time by mail, and request them to fill out the reports and mail them to you promptly - in no case later than 10 days after receipt of the call.

In order that the compilation of the Board's abstract showing the condition of all state bank and trust company members combined as of the date of the next call may not be unduly delayed, it is requested that the reports be forwarded to the Board as soon as practicable after they are received by the Federal reserve bank. If it is necessary to communicate with a bank regarding apparent errors in its report, a note to that effect should be made on the report itself before it is mailed to the Board, and the Board should be advised of the necessary corrections when the desired information is received from the member bank.

Kindly acknowledge receipt.

Yours very truly,

Walter L. Eddy,
Secretary.

LETTER TO EACH FEDERAL RESERVE AGENT.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

December 14, 1923.
St. 3844.

SUBJECT: Earnings and Dividends reports
of State Bank and Trust Company
members as of December 31, 1923.

Dear Sir:

There are being forwarded to you today under separate cover by mail copies of form 107 for use of State bank and Trust company members in submitting their semi-annual reports of earnings and dividends.

Please advise the banks that the report is to cover the six-month period ending December 31, 1923, irrespective of whether or not they may have closed their books on that date, or whether any dividends that may have been declared cover that particular period.

The report should be submitted to you in duplicate within ten days after receipt of the blank forms by reporting banks.

Kindly acknowledge receipt.

Very truly yours,

Walter L. Eddy,
Secretary.

Letter to each Federal Reserve Agent.

FEDERAL RESERVE BOARD

WASHINGTON

December 20, 1923.
St. 3855.SUBJECT: Data for 1923 Annual Report
of the Federal Reserve Board.

Dear Sir:

For use in the forthcoming annual report of the Federal Reserve Board, will you kindly furnish the Board as soon after January 1, 1924 as practicable with the following data:

1. Classification of U. S. securities held by your bank (1) under repurchase agreement, and (2) in investment account, as at close of business December 31, 1923, giving the character of securities, interest rate, maturity date, and par value.
2. Statement showing the number of member banks in each State (or part of State in the district) accommodated through the discount of paper during the calendar year 1923.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.Letter to Governor at each
Federal Reserve Bank.