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X-7034

October 27, 1931

Federal Reserve Board

Topics for joint conference of

Mr. Smead

Governors and F. R. Agents

The Board's letter X-6940 of August 11 requested each Federal reserve bank to advise the Federal Reserve Board, in advance of the next joint conference of Governors and Agents, of its total expense in handling securities of member banks for safekeeping during the year 1930, or as close an estimate of such expense as could be made. The figures furnished by the Federal reserve banks are as follows:

Boston	\$12,486	Chicago	\$30,000
New York	138,000	St. Louis	13,350
Philadelphia	50,000	Minneapolis	39,380
Cleveland	*	Kansas City	25,000
Richmond	4,000	Dallas	4,400
Atlanta	#2,400	San Francisco	500
		Total (11 banks)	319,516

\*Bank states that it seems impossible fairly to estimate the expense but that if the entire cost of the Custodies Function were taken, plus considerable portions of the cost of Protection, Registered Mail, and Non-Cash Collection Functions, a substantial amount would be arrived at easily in excess of \$100,000. However, if safekeeping for member banks were discontinued the positive savings would not exceed \$1,000 per year.

#Estimated savings if the safekeeping function were discontinued.

An examination of the replies to the Board's letter which are attached hereto indicates that the figures furnished by the several banks do not represent in many instances costs of the same operations. Some banks confined their estimates to a portion of the cost of operating the Securities function, while others, in addition, included some of the expenses of the Non-cash Collection, Registered Mail, Filing, Accounting, Auditing, and General Overhead functions, under the theory that such expenses are an out-

growth of the banks' safekeeping operations. For example, the reserve banks clip all the coupons on bonds held in safekeeping and then, acting on instructions from member banks, send most of them out for collection. This adds materially to the expense of the Non-cash Collection function.

For the Board's information, therefore, there is shown below the cost of operating the Vault Custody unit of the Securities function at each Federal reserve bank. These figures, which were compiled from the semi-annual functional expense reports furnished the Board, represent the cost of receiving, vaulting, coupon cutting and delivery of securities and the maintenance of the immediate vault records thereof. While these figures are thought to be a reasonably satisfactory measure of the cost of the safekeeping service, two points should be borne in mind. (1) They include the cost of handling securities owned by the bank or held as collateral for rediscounts, also securities held in safekeeping for Government and other officials. These securities are largely Government obligations and consequently the cost of handling them is relatively small. (2) The figures do not include any expenses connected with this service incurred elsewhere in the bank, for example, in the Registered Mail, Filing, Auditing and Non-cash units. In case the Federal reserve banks discontinued the safekeeping service for member banks there would be some reduction in these costs although the reduction would no doubt be small if member banks continued to use the Federal reserve banks for collecting maturing securities and coupons.

Expense during 1930 at each F. R. Bank (including branches) of the Vault Custody unit of the Securities function

Boston	\$15,598	Chicago	\$23,385
New York	124,218	St. Louis	13,341
Philadelphia	42,692	Minneapolis	11,583
Cleveland	21,672	Kansas City	10,651
Richmond	8,589	Dallas	8,794
Atlanta	6,112	San Francisco	<u>2,931</u>
		Total	289,566

The amount of securities held in custody for the account of member banks by each Federal reserve bank may be helpful to the Board in this connection and accordingly such amounts are given below. In a few instances the figures, which were taken from the most recent examination reports available, include certain securities held in safekeeping for Government, State and municipal officials, nonmember par-remitting banks, etc.

Amount of securities held in safekeeping for member banks, etc., by each F.R. Bank (including branches)

Boston	(11-15-30)	\$169,685,000	Chicago	(7-18-31)	\$224,141,000
New York	( 4-11-31)	520,863,000	St. Louis	(1-24-31)	44,936,000
Philadelphia	(12- 6-30)	271,798,000	Minneapolis	(2-17-31)	113,305,000
Cleveland	( 3- 7-31)	164,477,000	Kansas City	(6-30-31)	141,488,000
Richmond	( 3-24-31)	47,258,000	Dallas	(1- 6-31)	29,765,000
Atlanta	(10- 4-30)	44,906,000	San Francisco	(6- 6-31)	<u>5,223,000</u>
			Total		1,777,845,000

Deputy Governor Attebery of the St. Louis bank states that the following appears upon each acknowledgement issued to member banks covering securities left for safekeeping:

"Theft, burglary and holdup insurance carried by the Federal Reserve Bank of St. Louis is in a limited amount and covers money and negotiable securities owned by the bank in addition to securities held for safekeeping. In the event of loss, the amount recovered through insurance will first be applied against loss of Federal Reserve Bank property and only the excess will be available for pro rata distribution against losses of member banks. If a member bank desires insurance protection in addition to that outlined above, it must arrange the same direct with its own insurance companies."

In his letter to the Board, Governor Calkins stated that he thought it would be helpful to the Federal reserve banks if the Board would inform them concerning the circumstances under which the loss referred to in Board's letter X-6940-a was sustained.