

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON



R- 696
ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 30, 1940

Dear Sir:

There is enclosed a copy of a "Proposal for a More Economical Method of Effecting the Interdistrict Settlement Fund Transit Clearing", which has been received from the Federal Reserve Bank of San Francisco.

It will be appreciated if you will have the plan reviewed and advise us whether you would favor its adoption. Any comments or suggestions with respect to the plan, or any modification thereof, which you desire to submit will also be appreciated.

Very truly yours,

A handwritten signature in cursive script, appearing to read "E. L. Smead".

E. L. Smead, Chief,
Division of Bank Operations.

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS
EXCEPT SAN FRANCISCO

Proposal for a More Economical Method of Effecting the Inter-
district Settlement Fund Transit Clearing

The method herein proposed for reducing the cost of effecting the daily transit clearing through the Interdistrict Settlement Fund is predicated on a reduction in the number of telegrams, both outgoing and return wires, and the elimination of the detail now incorporated in the Board's return telegrams. In lieu of individual wires now sent to the Board by each of the 29 parent banks and direct settling branches, the amounts credited by participating offices in each district would be combined and one wire dispatched to the Board by the head office; return telegrams would be sent by the Board to each parent bank only, advising the amounts of credits due it and each of its direct settling branches, if any, from all other districts. The proposed method of settlement is as follows:

Each direct settling branch would wire its own head office the amounts credited to each parent bank and direct settling branch of other districts in the same manner as this information is now furnished to the Board.

Each head office having direct settling branches would combine the branch credits with its own credits and wire the Board the amounts credited by all offices in the district to each participating bank and branch of other districts. This wire would be in the same form as the present "EXNAG" but would show amounts credited by the district instead of by an individual office.

Statements of credit would be mailed as at present.

Upon receipt of the 12 incoming telegrams the Board would effect the settlement and dispatch a return telegram to each of the 12 parent banks. (This could be dispatched by mail if it will arrive in time.) Each such telegram would contain the aggregate amount credited the parent bank and the aggregate amount credited each of its direct settling branches by all other districts combined, and for proof, (as code BABE), the closing balance in the Interdistrict Settlement Fund, after completing the transit clearing. A specimen wire is attached. (If it would not be practicable for the Board to include the closing balance, the balance of the previous day would suffice, as at present.) The Board would also airmail to each parent bank a statement showing separately the amounts credited to it and to each of its direct settling branches by each of the other districts. Such a statement, while not absolutely necessary, would facilitate the localization and adjustment of any discrepancies developing between statement totals and amounts wired. If desired, in order to further isolate such a difference to the individual office concerned, statements of credit mailed by each parent bank to participating offices of other districts could include a memorandum of amounts credited by each of that bank's direct settling branches, but this additional work is not believed justified in view of the infrequency of such discrepancies.

Upon receipt of the return telegram from the Board, each parent bank would wire each of its direct settling branches the total credited it; appropriate entries would be passed by all offices to take up the amounts credited.

No attempt is made herein to suggest an accounting procedure for the various Federal Reserve Banks, as each bank would undoubtedly wish to adjust its procedure to its own accounting system. However, at the Federal Reserve Bank of San Francisco it is proposed that Head Office and each branch would clear the individual statements as received and, when all statements of a specified date received by any office are cleared, the grand total of all the statements of that date would be proved against the amount of credit wired by the Board for that office in the return settlement telegram of the corresponding date.

Under the above procedure a bank having no direct settling branches would send the same outgoing wire as at present, but the Federal Reserve Bank of San Francisco, with 4 direct settling branches, would send 1 instead of 5 settlement wires to the Board. This decrease, based on an average of about 75 words per message and the June per word cost of \$.018145780, would approximate 7500 words, or \$136.00 per month. For all banks, the reduction from 29 to 12 outgoing wires averaging 80 words each would amount to 34,000 words, or \$617.00 per month.

It would appear that the Board would derive a benefit from the proposed procedure by reason of a more simplified settlement (12 incoming wires instead of 29) and the reduction in the number and content of the return telegrams. It is estimated that the return telegrams under this proposal would range from about 10 words for a bank having no direct settling branches to about 27 words for a wire to San Francisco with 4 such branches. One wire to San Francisco with 27 words, compared to 5 messages to the Twelfth District at present averaging about 83 words each, would effect a reduction in the return telegrams of 9,700 words per month, or, at the per word cost for June, of \$176.00.

While the saving computed on the basis of the current cost per word would not be fully realized, since the reduction in leased wire costs would not follow in direct proportion to a decrease in number of words, it is believed the ultimate saving would be in substantial amount and that the above proposal merits consideration as a means toward further economy.

SPECIMEN RETURN TELEGRAM

S F	
Exnov	8,110,451.24
S F	5,198,532.44
L A	729,795.64
Ptld	1,247,263.98
SLC	484,201.38
Seatl	450,657.80
Babe	507,407,402.72