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CHAIRMAN OF THE BOARD AND FEDERAL RESERVE AGENT

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M. W. BELL,
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R. A. SIMS,
ASSISTANT CASHIER

FEDERAL RESERVE BANK
OF ATLANTA.

333.4

October 25th, 1918.

GOVERNOR'S OFFICE
OCT 28 1918
RECEIVED

Dear Sir:

Replying to your letter of October 8th., X- 1243, as requested by you, our Executive Committee has discussed to only a limited extent the matter of establishing an open market for Bankers Acceptances in our own District. From the figures submitted by your Board sometime ago, it shows that our district has taken very good care of the open market bills that originated within this district and New York had very few of them on hand.

Considering the very low state of our reserves, we have not considered it wise to go into open market and develop this class of paper because ultimately it will fall on us to take care of and we consider that we now have all that we can do to serve our Member Banks and aid the Government to float in this district United States Certificates of indebtedness and Liberty Loan Bond subscriptions. However, after the war is over and trade and commerce resumes its normal course we think we can easily build up in this district an open market for Bankers Acceptances and our bank will be able to handle these acceptances. I hardly think that any outside corporation is necessary in order to attain this end as I think the Federal Reserve Bank is well equipped to carry on this business.

Yours very truly,

M B Wellborn

Chairman of the Board.

Mr W. P. G. Harding,
Governor of the
Federal Reserve Board.
Washington, D. C.

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TELEGRAM

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)

FEDERAL RESERVE BOARD FILE
333 2—4715

RECEIVED AT WASHINGTON, D. C., 10anay

Atlanta Ga 955am Oct 25th 1918

333
X-1243

Chapman

Washington DC

Your wire 19th. Letter x-1243 dated October 8th answered by Mr Wellborn Oct 25th

Slattery

1106am

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X-1243

333.7

October 25, 1918.

Dear Mr. Tally:

I have received your letter of the 19th instant relating to the inexpediency of establishing an open market in your district for bankers' acceptances. I have read your letter with a great deal of interest, and agree with you that in the existing circumstances it would not be practicable to establish an open market in your district, and I particularly approve of your position that the Federal Reserve bank itself is not the open market, and that it is well that member banks should understand this.

Very truly yours,

Governor.

Mr. Lynn P. Tally,
Cashier Federal Reserve Bank,
Dallas, Texas.

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TELEGRAM

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)

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RECEIVED AT WASHINGTON, D. C.,

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SanFrancisco Oct 21 930AM

Board

Washn

Your letter X one two four three received and answered by letter October 14

Perrin

121PM

333.Y
X-1243

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OF DALLAS

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CHARLES C. HALL, ASSISTANT
FEDERAL RESERVE AGENT
W C WEISS, ... AUDITOR
CHAS C HUFF, ... COUNSEL

[illegible]
[illegible]1918
GOVERNOR'S OFFICE

DALLAS, TEXAS,
October 19, 1918.

Hon. W. P.G. Harding, Governor,
Federal Reserve Board,
Washington, D. C.

My dear Governor Harding:-

In the absence of Governor Van Zandt from the office account of illness, I have been requested to reply to your letter, X-1243, of the 8th inst.

The expediency and practicability of establishing an open market for bankers' acceptances in our own district has not only been given considerable thought since receipt of your circular letter of October 8th, X-1243, but also much consideration prior to your writing us. Unfortunately, in view of Section 14 of the Federal Reserve Act, giving the Federal Reserve Banks the authority and privilege of buying acceptances in the open market, the member banks of this particular district have had a tendency to look upon the Federal Reserve Bank itself as the open market. This is, in a great degree, perfectly natural in view of the slight experience of the majority of banks in this district in obtaining investments outside of the demands of their regular line of customers, or the necessity for doing so.

It is a well-known fact that there are seldom surplus funds for investment by the banks in this district owing to its vast undeveloped resources, creating a continual strong demand for funds. Another factor in the situation is the custom prevailing in connection with handling the cotton crop of this section. We find that a great many member banks are disposed to convert so-called demand bills of exchange of their cotton customers into acceptance credits of their own in order that such acceptances may become saleable to the Federal Reserve Bank. These demand bills of exchange are, in reality, single-name papers and accepted bills of exchange, presumed to be secured by actual existing cotton, carried for the convenience of the drawee, who becomes the acceptor of his own accord, and the manner in which the banks holding such acceptances disburse the proceeds for their own account releases the drawer and makes the paper single-name. We frequently find that when our member banks become loaded up on cotton, as the expression goes, they will undertake to create their own acceptances out of these lines and offer them to us for discount. The acceptances themselves are drawn in accordance with Section 13 of the Federal Reserve Act and the Board's regulations as to acceptance agreements, collateral security acceptance limits and purposes of the transactions, and leave

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us no technical grounds on which to raise objections to the discount of this paper.

We do not believe that such use of bankers' acceptances is that which is contemplated by the Federal Reserve Act; nor do we believe that this practice is productive to the best legitimate results. We have, therefore, freely advised our banks that a Federal Reserve Bank in itself is not the open market, but that each Federal Reserve Bank, and particularly those Federal Reserve Banks located in districts where open markets actually exist, are expected to act as a "backstop" to the open market and in the event of being called upon to absorb bankers' acceptances they would expect to do so out of the portfolios of banks or dealers and at fractionally higher rates than are quoted for similar bills in the open market. We have, as far as possible, discouraged the practice to which we have referred and have said to our larger member banks particularly that they would find it of advantage and would co-operate with this institution if they would undertake to find a market for their acceptances outside of this district in order that surplus funds might be drawn from other districts into this one at a time or crop movement and the consequent need of funds for that purpose. We have even gone so far as to consider making a rate for bankers' acceptances, when offered to us by the accepting bank, equal to, or somewhat higher than, our regular discount rate for commercial, live stock or agricultural paper of the same maturities, under which conditions, if applied, such bankers' acceptances would naturally seek the real open market.

While we have not denied the right of smaller institutions to use their acceptance powers, we have rather discouraged such practice in view of the invariable attempt to use such acceptances immediately at the Federal Reserve Bank in such a way as to look upon it as a source of supply of loanable funds. While there is a limit to the amount that each member bank could obtain in such a manner, when it is taken into consideration that such transactions may be made extraneous to ordinary loan transactions, I am quite sure that the element of danger in permitting such a practice to grow beyond reasonable bounds will be quite apparent to you.

We have tried to treat as a fundamental basis of an open market within our own district the following line of proceedure: (1) that if our smaller banks should persist in accepting, we would arrange for such acceptances to be offered for sale to our larger banks within the district, bearing in mind that the larger banks purchasing such paper would have the privilege of offering it to us from time to time out of their portfolios; (2) that our larger banks would arrange to accept for their customers and, instead of undertaking to substitute the granting of acceptance credits for ordinary loans by the disposition of their own acceptance for the benefit of the drawer, would either hand these acceptances back to the drawer or holder for sale in the open market, or would undertake to dispose of such acceptances in the open market.

We have apprised the Federal Reserve Bank of New York of such a policy and have furnished it with data concerning our banks in this district likely to accept so that the acceptances originating

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in our district may be readily purchased by the Federal Reserve Bank of New York if offered to it. Should the Federal Reserve Bank of New York accumulate any amount of acceptances of the banks in our district, we would, of course, expect to protect the market for them.

You, no doubt, readily grasp our idea and so far the theory has worked out with some degree of practical success; for example, the bank or drawer in our district would offer an acceptance of a bank in our district on a New York market through a broker either here or there. The interested dealer in New York would probably call the Federal Reserve Bank of New York to ascertain if it would buy such an acceptance and ask for a quotation. Upon receiving an affirmative reply and a satisfactory quotation, the dealer would buy the bill and the Federal Reserve Bank of New York would not necessarily come into possession of the bill at the time of its sale on the New York market. In view of the fact that we have recently bought one or two acceptances of our own banks from New York dealers, has brought out the further fact that, instead of the New York bank having to initially protect the acceptances of banks in this district in that market, it has occurred to the dealers to offer such acceptances direct to us and we have purchased them at current rates and in each instance they were of very short maturities.

Summing up the situation, we believe that it would be quite possible for the Federal Reserve Banks of Chicago, Boston, Philadelphia, San Francisco, St. Louis and Cleveland to establish active open markets within their own districts. In our own case, and perhaps with the Federal Reserve Banks not named above, it will require more information on the part of our member banks and a greater development of our potential resources, or, in any event, very substantial liquidation of existing obligations in this district before great headway can be made toward the establishment of an open market in this and other similar districts. What is hampering this district at the present time more than anything else is the lack of transportation facilities, and more particularly ocean transportation. You are, of course, thoroughly familiar with the conditions in this district and know that at least 80% of our cotton crop is exported under normal conditions and also that the cotton crop is the largest single factor in the liquidation of credit obligations in this district and occurs at this period of the year. Under normal conditions, with fair crops and fair prices, the cotton crop is rapidly put by and surplus funds are created by its sale and export. It is only under such conditions that our banks are ever in possession of surplus funds and at such times for a short period each year buy a good deal of commercial paper.

We have recently been in correspondence with the Federal Reserve Bank of New York and appreciate fully the necessity of our continuing to work on this problem and we shall appreciate very much, indeed, any views which you may have to communicate to us, as well as your comments upon our policy in reference to this question, as expressed in the foregoing.

Yours very truly,

Lynn Talley
Cashier

LPT:HAB

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FEDERAL RESERVE BOARD
WASHINGTON

333.4

The telegram given below is hereby confirmed.

2—7729

Assistant Secretary.

October 19, 1918.

Federal Reserve Banks of

Atlanta
St. Louis
[redacted]
San Francisco.

Please acknowledge receipt of and comment upon Board's letter X-1243 dated October 8, with regard to Open Market for Bankers' Acceptances in its own district.

Assistant Secretary.

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FEDERAL RESERVE BANK
OF CLEVELAND

- 1918
GOVERNOR'S OFFICE

October 19, 1918.

Hon. W. P. G. Harding, Governor,
Federal Reserve Board,
Washington, D. C.

Dear Sir:

At a meeting of our Executive Committee last night, your letter of October 8, X-1243, concerning the possible development of a local discount market for acceptances in each district was read and carefully considered. I was asked to advise you that the committee fully appreciates the desirability of the establishment of such a market in this district. It is our present intention to confer with leading bankers in our principal centers at the earliest possible opportunity, with a view to discovering whether this can be done through existing agencies or whether it will be desirable to promote the establishment of an additional agency or agencies for the purpose.

The committee feels that under present conditions, the Government's own securities will inevitably largely absorb the available surplus credits of all but the largest banks in this district, so that a new discount corporation, for example, would find some difficulties in the way of profitable operation in the near future. The committee realizes, however, that a start must be made and that the present is an excellent time to educate bankers on the desirability of acceptances in their portfolios and for short-term placement of surplus funds. We shall, therefore, be glad to be on the alert to stimulate the open market in this district at every opportunity.

Very truly yours,

Chairman of the Board.

W.B.B

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LE ROY PERCY, GREENVILLE, MISS.
FRANK O. WATTS, ST. LOUIS, MO.
S. A. ZIEGLER, ALBION, ILL.

333.4

October 19, 1918.

SUBJECT: OPEN MARKET FOR BANKERS ACCEPTANCES IN ITS OWN DISTRICT.

RECEIVED
OCT 1918
GOVERNOR'S OFFICE

Hon. W. P. G. Harding, Governor,
Federal Reserve Board,
Washington, D.C.

Dear Governor Harding:

Your letter of October 8th (X-1243) has been discussed both with our Executive Committee and with our full Board of Directors.

The Board at its meeting on October 16th approved recommendation made to it by the Executive Committee at its meeting on October 14th, reading as follows:

> "That the Executive Committee recommend to the full Board that it indicate to the Federal Reserve Board its willingness either to undertake such an open market for Bankers' Acceptances originating in the Eighth Federal Reserve District, or to co-operate with the other Federal Reserve Banks in the establishment and maintenance of an open market for Bankers' Acceptances, and that pending the establishment of such a uniform plan, the officers of this Bank be authorized to maintain a market for the Bankers' Acceptances originating in the Eighth Federal Reserve District."

It seems to me that if an open market for bankers' acceptances is desirable, and of course it is, that each district should establish and maintain an open market for bankers' acceptances. At the present time our rate is the same as the New York rate on member bank acceptances, and we are making a one quarter per cent higher rate on bankers' acceptances of non-member banks in the district. This we think we should do since every large bank, with the exception of two, that is liable to make a banker's acceptance, is in the System. While these banks have indicated a desire to come into the System, they have not yet gotten their assets in proper shape.

Yours very truly,

W. McC. Martin

Chairman of the Board.

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LF #9 333.7 GA

October 17, 1918.

Dear Governor Wold:-

I have your letter of the 14th inst. from which I understand that after discussion of the matter with your Board you do not believe that it is feasible at this time to establish in your district an open market for bankers' acceptances.

I note your postscript regarding the action of the Food Administrator in placing an embargo on grain coming to your market, limiting the movement to 400 cars a day. The War Finance Corporation has today made an advance to the Grain Corporation of $25,000,000, and I am informed by Mr. Hoover that the Allied Powers have arranged to take at once $100,000,000. of grain from him.

I am not advised as to the railroad situation further than that Mr. McAdoo claims to be able to move the grain promptly, but I think there is no question that we have passed the peak of the load as far as the financial end is concerned.

Very truly yours,

Governor.

Mr. Theodore Wold, Governor,
Federal Reserve Bank,
Minneapolis, Minn.

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FEDERAL RESERVE BANK
OF SAN FRANCISCO

333.7

OCT 1 1918
GOVERNOR'S OFFICE

JOHN PERRIN
CHAIRMAN OF THE BOARD
AND FEDERAL RESERVE AGENT

October 14, 1918.

The Honorable W. P. G. Harding,
Governor Federal Reserve Board,
Washington, D. C.

Dear Sir:

Your letter of 8th instant in reference to open market for bankers' acceptances was read at the meeting of the Executive Committee today.

This bank has consistently bid for all offerings of bankers' acceptances originating in this district whether offered locally or offered from New York. The rates which we have bid has been, as nearly as we were able to determine, identical with those established by the Federal Reserve Bank of New York and for a considerable period before having connection by leased wires we were receiving a daily telegram from New York in order to keep us fully advised. In addition to this we have regularly participated to the extent of our proper proportion in the purchases of acceptances by the Federal Reserve Bank of New York. For a long period I think that this bank was the only one thus participating.

I think that this does not fully establish an open market here within the meaning of your letter, which I infer means that other banks as well should be bidders for the acceptances originating in this district. Some banks are buyers of acceptances from time to time but usually in one of two ways, either when offered by their customers for discount, or through purchases in the New York market.

With no large volume of bankers' acceptances originating in this district and with these being offered only intermittently it is obviously more convenient for a bank in this district to adjust its investments from day to day by purchases in the New York market where there is a sufficient volume to make daily purchases possible.

This Federal Reserve Bank appears to be doing its full part so far as maintaining a constant and stable market here. If there are any other steps which you can suggest we shall be glad to take them.

Yours very truly,

John Perrin

Chairman of the Board.

JP.MS

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#7

October 14, 1918.

Dear Sir:

Your letter of October 11, in reply to the Board's letter of October 8, upon the subject "Open Market for Bankers' Acceptances in its own District", has been received and will be brought to the attention of the Federal Reserve Board.

Yours very truly,

Secretary.

Mr. W. A. Heath, Chairman,
Federal Reserve Bank,
Chicago, Ills.

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SAM R. LAWDER, MANAGER
J. M. PROCTER, CASHIER
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FEDERAL RESERVE AGENT

GOVERNOR'S OFFICE
1918

FEDERAL RESERVE BANK
OF DALLAS

DIRECTORS

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FEDERAL RESERVE AGENT
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H. O. WOOTEN, . . . ABILENE, TEXAS

CHARLES C. HALL, ASSISTANT
FEDERAL RESERVE AGENT
W. C. WEISS, ... AUDITOR
CHAS. C. HUFF, ... COUNSEL

DALLAS, TEXAS, October 14, 1918.

333.4

Dear Governor:

Referring to your X-1243, of October 8th, in the matter of an open market for acceptances in this district, I beg to advise that we have made a fairly low rate in such instances, and have I believe taken all, or practically all, of the bank acceptances issued in this district.

We have very recemtly purchased some acceptances through brokers in the East. We have favored this form of credit and have been as liberal in our grant of credits on acceptances as was consistent with safety. In addition to this, when we have been in funds we have bought quite heavily from the Federal Reserve Bank of New York.

I recognize the importance of localizing the business in the several districts as much as practicable, and believe we have been unusually successful in doing so here.

Very truly yours,

W. F. Ramsey
Federal Reserve Agent

Hon.W.P.G.Harding,
Governor,
Federal Reserve Board,
Washington, D. C.

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FEDERAL RESERVE BANK OF MINNEAPOLIS

NINTH DISTRICT

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GRAY WARREN, ASST CASHIER
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L.E.RAST, ASST. CASHIER

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L.B.HANNA, FARGO, N. DAKOTA
F.P. HIXON, LACROSSE WISCONSIN
N.B.HOLTER, HELENA, MONTANA

CURTIS L.MOSHER, ASST. FEDERAL RESERVE AGENT

October 14, 1918.

Hon. W. P. G. Harding, Governor,
Federal Reserve Board,
Washington, D.C.

OCT 17 1918
GOVERNOR'S OFFICE

Dear Mr. Harding:

I have had up with our board at the regular meeting today your letter x1243 10/8/18 and have consulted with some note brokers and bankers, but it does not seem possible to establish any market for bankers acceptances at this time, in view of the fact that the best grades of commercial paper are selling on a 6% basis. The only purchaser would be the Federal Reserve Bank, and as you know, we have always been purchasers of bills made by our member banks up to the time when the movement of the crop resulted in our reserves being reduced to such a point that we found it advisable to suggest that they be offered in the New York market.

We have told the accepting banks in Duluth, St. Paul and Minneapolis that we are ready to bid on their bills as made from time to time, and I believe we will be able to relieve the New York market of any bills coming from this district and unless there are complications, it looks as though we would be able to go into the market in New York to buy some of their bills.

In the meantime, I wish you would let us know fully as to just what you had in mind in establishing an open market for bankers acceptances in each Federal Reserve District.

Our attention has been called to the new discount rates established by the Federal Reserve Bank of New York for the rediscount of acceptances but I hardly think it would be advisable for us to establish rates for that class

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as there is not any of that character of paper held by our member banks, and no likelihood of there being any held by them in the near future.

Sincerely yours,

Wood

Governor

TW-C

Since dictating above have learned Food Adm. have placed a further embargo on grain coming to this market limiting the movement to 400 cars a day. Today our receipts at this point over 1590 cars do not know what the effect may be

10/17 JCW

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#10

333.Y

FEDERAL RESERVE BANK
OF
KANSAS CITY

ASA E. RAMSAY, CHAIRMAN
AND FEDERAL RESERVE AGENT
FRED W. FLEMING
DEPUTY CHAIRMAN
C. K. BOARDMAN
ASST. FEDERAL RESERVE AGENT

J. Z. MILLER, JR.
GOVERNOR
J. L. CROSS
DEPUTY GOVERNOR
ARCH W. ANDERSON
SECRETARY-CASHIER
C. A. WORTHINGTON
ASSISTANT CASHIER
M. A. THOMPSON
ASSISTANT CASHIER

October 11th,
1 9 1 8.

RECEIVED
OCT 14 1918
GOVERNOR'S OFFICE

W. P. G. Harding, Governor,
FEDERAL RESERVE BOARD,
Washington, D. C.

Dear Sir:

Replying to yours of October 8th (X-1243) on the subject "open market for Bankers Acceptances in its own district", I am directed by our Executive Committee to advise you that the Federal Reserve Bank of Kansas City has used its best efforts to encourage the free use of Bankers Acceptances in this District, but have met with very little success. Occasionally a transaction of this nature reaches us, and it is a subject of education among the bankers this far west but doubtless in time will be developed to a much greater extent. In the meantime we will continue to encourage a more liberal use of this kind of acceptance.

Yours very truly,

Chairman of the Board.

AER/D

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Authority E.O. 10501

333.7

FEDERAL RESERVE BANK OF MINNEAPOLIS

NINTH DISTRICT

OFFICERS
THEODORE WOLD, GOVERNOR
R. A. YOUNG, ASST. TO THE GOVERNOR
S. S. COOK, CASHIER
FRANK C. DUNLOP, ASST. CASHIER
GRAY WARREN, ASST CASHIER
R. E. TOWLE, ASST. CASHIER
L. E. RAST, ASST. CASHIER

DIRECTORS
JOHN H. RICH, CHAIRMAN, MINNEAPOLIS, MINN.
W. H. LIGHTNER, DEPUTY CHAIRMAN, ST. PAUL, MINN.
J. C. BASSETT, ABERDEEN, S. DAKOTA
F. R. BIGELOW, ST. PAUL, MINNESOTA
JOHN W. BLACK, HOUGHTON, MICH.
E. W. DECKER, MINNEAPOLIS, MINN.
L. B. HANNA, FARGO, N. DAKOTA
F. P. HIXON, LACROSSE WISCONSIN
N. B. HOLTER, HELENA, MONTANA
CURTIS L. MOSHER, ASST. FEDERAL RESERVE AGENT

October 11, 1918.

Federal Reserve Board,

Washington, D.C.

Gentlemen:

Your favor of the 8th x1243 is at hand, and the matter has already had some consideration, and I contemplate laying it before a meeting of our board to be held on Monday next.

Candidly I can see some dangers in a too rapid and unrestricted development of the acceptance business. While a great convenience and something we want to encourage along proper lines, I can see where considerable inflation might result.

Yours very truly,

Governor

TW-C

RECEIVED
FEDERAL RESERVE BOARD
OCT 14

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FEDERAL RESERVE BANK
OF CLEVELAND

October 11, 1918.

Federal Reserve Board,

Washington, D. C.

Gentlemen:

I am in receipt of Governor Harding's letter of October 8 (X-1243), in regard to the expediency and practicability of each Federal Reserve Bank establishing an open market for bankers' acceptances in its own district.

The matter will be given careful consideration by our Executive Committee, and I shall be pleased to advise the Board of the result.

Very truly yours,

DCW-MM.

Chairman of the Board.

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OCT 14 1918

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H 5

FEDERAL RESERVE BANK OF RICHMOND

FIFTH DISTRICT

333.Y

OFFICERS

GEORGE J. SEAY, GOVERNOR
CHAS. A. PEPLE, DEPUTY GOVERNOR
GEORGE H. KEESEE, CASHIER
C. V. BLACKBURN, ASST. CASHIER.
THOMAS MARSHALL, JR. ASST. CASHIER.
W. W. DILLARD, ASST. CASHIER.

DIRECTORS

CALDWELL HARDY, CHAIRMAN AND FEDERAL RESERVE AGENT
H. B. WILCOX, BALTIMORE, MD.
JAS. F. OYSTER, WASHINGTON, D. C.
JOHN F. BRUTON, WILSON, N. C.
EDMUND STRUDWICK, RICHMOND
JAMES A. MONCURE, DEPUTY CHAIRMAN
EDWIN MANN, BLUEFIELD, W. VA.
D. R. COKER, HARTSVILLE, S. C.
HOWARD BRUCE, BALTIMORE, MD.

RECEIVED
OCT 14 1918
GOVERNOR'S OFFICE

October 11, 1918.

Hon. W. P. G. Harding, Governor,
Federal Reserve Board,
Washington, D. C.

Dear Sir:-

Referring to yours of the 8th, X-1243, beg to say our Board at its meeting yesterday authorized us to establish an open market for bankers acceptances made in this District, and Governor Seay will take all necessary steps in the matter.

Very truly yours,

Caldwell Hardy

Chairman of the Board.

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FEDERAL RESERVE BANK OF CHICAGO

79 WEST MONROE STREET

Chicago, October 11, 1918.

1918
GOVERNOR'S OFFICE

Mr. W. P. G. Harding, Governor,

FEDERAL RESERVE BOARD,

Washington, D.C.

Dear Sir:

Subject: OPEN MARKET FOR BANKERS' ACCEPTANCES IN ITS OWN DISTRICT

Referring again to your letter of October 8 on the above-named subject, I beg leave to state that immediately upon its receipt I sent copies to each member of our Executive Committee, requesting them to be prepared to present their views at our Committee meeting today. All five members of the Committee were at the meeting and your letter was presented.

There is usually a more or less restricted market for bankers' acceptances in Chicago, and the Federal Reserve Bank of Chicago is at the present time buying the acceptances of member banks located in this District.

Mr. Reynolds expressed himself to the effect that in normal times it would be not only desirable but highly desirable to have an established open market for bankers' acceptances in Chicago. Under present conditions, however, the banks are compelled to carry so large a proportion of their assets in Treasury Certificates, both for themselves and their non-member banking customers, that it does not seem desirable to endeavor to establish an open and steady market for acceptances at once; in fact, it would probably result for the time being in the banks restricting their own acceptance activities in order that they might be in position to better protect the general market.

Mr. Forgan expressed himself along the same line, stating that all banks are at this time so burdened with Certificates of Indebtedness that they have no idle or spare money to make the market for acceptances. Such market should be established in normal times rather than by making a special effort under present strained conditions. The Federal Reserve Bank of this district can continue,

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#2. W.P.G.H.

as in the past, to aid the Federal Reserve Bank of New York by occasional purchases of acceptances from that institution.

No formal action was taken by our Committee, but both Governor McDougal and I are quite in accord with the expressions of Mr. Reynolds and Mr. Forgan as stated above.

Yours very truly,

H:S.

Chairman.

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#3

FEDERAL RESERVE BANK OF PHILADELPHIA

333.X

OFFICE OF
CHAIRMAN OF THE BOARD
FEDERAL RESERVE AGENT

RECEIVED
Oct. 10, 1918
GOVERNOR'S OFFICE

Hon. W.P.G. Harding,
Governor, Federal Reserve Board,
Washington, D. C.

Dear Mr. Harding -

We beg leave to acknowledge the receipt of your letter of the 8th, subject, open market for bankers acceptances in its own district, and as suggested, this matter will be taken up with our Executive Committee.

Yours truly,

CHAIRMAN

R.

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#7

FEDERAL RESERVE BANK OF CHICAGO

79 WEST MONROE STREET

3337

OCT 14 1918
GOVERNOR'S OFFICE

Chicago, October 10, 1918.

Mr. W. P. G. Harding, Governor,

FEDERAL RESERVE BOARD,

Washington, D.C.

Dear Governor Harding:

Subject: "Open Market for Bankers' Acceptances in its Own District."

I am in receipt of your letter of October eighth, and in accordance with your request will take the matter up for discussion with our Executive Committee.

Yours very truly,

H:S.

Chairman.

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OK Miller

FEDERAL RESERVE BOARD

WASHINGTON

OFFICE OF THE GOVERNOR

October 8, 1918.

X 1243

~~X 1243~~

3337

Dear Sir:-

I would appreciate it if you would let me know your views as to the expediency and practicability of each Federal reserve bank establishing an open market for bankers' acceptances in its own district.

The Federal Reserve Bank of Boston has been sudcessful in establishing an open market for acceptances, and, as you know, the Federal Reserve Bank of New York has for some years dealt in acceptances on a very large scale. The business has developed so that it has become necessary for the New York bank to ask that the Federal reserve banks of other districts assist it in carrying the burden.

As the Federal reserve banks generally have indicated a willingness to relieve New York of acceptances originating in their respective districts, the idea naturally suggests itself whether it would be possible to localize the business in the various Federal reserve districts by developing a local discount market for acceptances in each district.

Will you please discuss this matter with your Executive Committee?

Very truly yours,

Governor.

Chairman,
Federal Reserve Bank

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332.2
FEDERAL RESERVE BOARD
3333

EX-OFFICIO MEMBERS
WILLIAM G. [illegible]
SECRETARY OF THE TREASURY
[illegible] CHAIRMAN
JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD

WASHINGTON

W. P. G. HARDING, GOVERNOR
ADOLPH C. MILLER, VICE GOVERNOR
CHARLES S. HAMLIN
J. A. BRODERICK, SECRETARY
L. C. ADELSON, ASSISTANT SECRETARY
W. T. CHAPMAN, ASSISTANT SECRETARY
W. H. [illegible], FISCAL AGENT
ADDRESS REPLY TO
FEDERAL RESERVE BOARD

3334

October 8,1918.

X-1243

SUBJECT: OPEN MARKET FOR BANKERS ACCEPTANCES IN ITS OWN DISTRICT.

Dear Sir:

I would appreciate it if you would let me know your views as to the expediency and practicability of each Federal reserve bank establishing an open market for bankers' acceptances in its own district.

The Federal Reserve Bank of Boston has been successful in establishing an open market for acceptances, and, as you know, the Federal Reserve Bank of New York has for some years dealt in acceptances on a very large scale. The business has developed so that it has become necessary for the New York bank to ask that the Federal reserve banks of other districts assist it in carrying the burden.

As the Federal reserve banks generally have indicated a willingness to relieve New York of acceptances originating in their respective districts, the idea naturally suggests itself whether it would be possible to localize the business in the various Federal reserve districts by developing a local discount market for acceptances in each district.

Will you please discuss this matter with your Executive Committee?

Very truly yours,

Governor.

Chairman,
Federal Reserve Bank,

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X-1208

Refer to: 10/8
Date.

Mr. Broderick
" Adelson
" Chapman
" Jacobson
" Imlay
" De La Mater
" Burklin
" Foulk
" Reed
" Smead
" Moore
Telegraph
" Kitzmiller
Files

Governor Harding directs that a letter similar to the attached be prepared for his signature and addressed to the Chairman of each Federal Reserve Bank, excepting Boston and New York

Eddy

Lea
Signature.

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FEDERAL RESERVE BOARD FILE
333. 333.Y

Subject:

OPEN MARKET FOR BANKERS ACCEPTANCES IN ITS OWN DISTRICT.

Stencil No.X-1243.
Dated -
Oct. 8, 1918.

Replies:

PHILADELPHIA: Oct. 10, — Will be taken up with Executive Committee.

CLEVELAND: Oct. 19: — Fully appreciates desirability of such a market. It is present intention to confer with leading bankers as to whether this can be done through existing agencies. Will endeavor to stimulate such market at every opportunity.

RICHMOND: Oct. 11. — Board authorized Oct. 10 establishment of such market, and will take all necessary steps in matter.

ATLANTA: (Letter to be written Oct. 21)

CHICAGO: Oct.11. — Usually restricted market in 7th Diet. Mr. Reynolds expressed himself to effect that in normal times such market highly desirable but under present conditions would probably result in banks restricting their acceptance activities in order to better protect the general market because of burden of Treas. Certificates of Indebtedness. Mr. Forgan concurred, saying that Chicago can continue to aid NY by occasional purchases. No formal action by Committee.

ST. LOUIS:

See attached

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FEDERAL RESERVE BANK
OF NEW YORK

FEDERAL RESERVE BOARD FILE
333
GOVERNOR'S OFFICE
RECEIVED
OCT - 1918
333.7

October 7, 1918.

Dear Governor Harding:

We have your letter of October 3d and we have been very much gratified at the cordial response of the other Federal reserve banks in the matter of purchasing bills from us.

Those banks which have not taken any at present, show their willingness to do so as soon as conditions permit, should the situation here make it desirable for them to do so.

We note your desire to have us telegraph to the Federal Reserve Board each day the amount of acceptances in thousands sold to the different Federal reserve banks and we shall govern ourselves accordingly.

We shall endeavor to keep you advised as to the situation in the acceptance market, the conditions in which seem to be now improving.

As soon as we have discount houses organized and in operation, we think the drain upon us will be relieved somewhat.

Very truly yours,

R. H. Treman
Deputy Governor.

Honorable W. P. G. Harding,
Governor, Federal Reserve Board,
Washington, D. C.

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TELEGRAM

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)

RECEIVED AT WASHINGTON, D. C.,

26FNWV

NewYork 455PM Oct 7 1918

Broderick

Washington DC

We allotted today to Philadelphia $ 976,000 Cleveland $ 976,000

SanFrancisco $ 562,000 KansasCity $ 388,000

FRB

455pm

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#3

FEDERAL RESERVE BOARD FILE
333.

FEDERAL RESERVE BANK OF PHILADELPHIA

333.4

RECEIVED
OCT 5 - 1918
GOVERNOR'S OFFICE

October 4, 1918.

Hon. W. P. G. Harding, Governor,
Federal Reserve Board,
Washington, D. C.

Dear Governor Harding:

Your telegram of yesterday afternoon regarding the purchase of bankers acceptances is received and noted.

At our Board Meeting we decided that until further notice we would agree to participate to a maximum extent of 10% of their purchases with the Federal Reserve Bank of New York, which information is being conveyed to them today.

With the exception of occasional purchases, principally of Philadelphia bankers bills through local brokers here, our purchases have been made through the Federal Reserve Bank of New York as per your suggestion.

Yours very truly,

Governor

Q

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/

333.4

October 3, 1918.

Dear Mr. Treman:

Permit me to acknowledge with thanks your letter of the 27th ultimo, with reference to the market for bankers acceptances at New York. The Board is very much interested in the figures as shown by your letter, and has communicated with the various Federal Reserve Banks, with a view of having such banks purchase a portion of the acceptances now held by you, and also ascertain upon what basis they would be willing to participate in future purchases made by your institution.

I take pleasure in enclosing herewith a copy of the telegram sent to the various Federal Reserve Banks, and also a summary of the replies. We have today telegraphed the Federal Reserve Banks and asked them to arrange direct with you the question of purchases. You will note from copy of telegram enclosed that we advised the Federal Reserve Banks you have agreed to discontinue the charge of 1/8% on purchases made for participations granted to other banks.

From the replies, you will note that three Federal Reserve Banks are willing to participate on a percentage basis, and one will probably agree later to participate to the extent of 10% of the total purchases. The other banks, with the exception of Dallas, (to which institution no telegram was sent) will probably be willing to purchase from you bills accepted by banks in their respective districts. We will be very glad to take up with the Federal Reserve Banks at a later date the question of purchasing your bills, in case there should again be a concentration in large volume of your acceptance holdings.

You are no doubt aware of the fact that each day the Board receives from the twelve Federal Reserve Banks figures showing the condition at the close of business the previous night, so that at noon we have a composite picture of the reserve situation. Based upon these figures rediscounting operations are conducted if considered necessary. The purchase of acceptances is another element that the Board will have to take into consideration, and it will therefore be appreciated if you will arrange to telegraph to this office, at the close of each day, the amount of acceptances in thousands sold to the different Federal Reserve Banks.

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Assuring you the Board would greatly appreciate being informed as to developments in the acceptance market, I am,

Very truly yours,

SECRETARY.

Mr. R. H. Treman,
Deputy Governor Federal Reserve Bank,
New York, N. Y.
Enclosures

B-H

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Form 40

TELEGRAM

FEDERAL RESERVE BOARD

WASHINGTON

FEDERAL RESERVE BOARD FILE
333
333.4

October 8,1918.

Morss
Federal Reserve Bank
Boston

Referring to your telegram October 7th would suggest that you take up direct with New York question of purchase of Boston District banks acceptances now held by New York bank also your policy with respect to further participation Your cooperation greatly appreciated

HARDING

OFFICIAL BUSINESS
GOVERNMENT RATES
CHARGE FEDERAL RESERVE BOARD
2—7729

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Form 40

~~TELEGRAM~~

FEDERAL RESERVE BOARD
WASHINGTON

FEDERAL RESERVE BOARD FILE

~~333~~

October 3, 1918.

333

Federal Reserve Bank
Richmond

In re your wire October first Please take up direct purchase by you from ~~New York eligible acceptances banks~~ in your district Board greatly appreciates cooperation

HARDING

OFFICIAL BUSINESS
GOVERNMENT RATES
CHARGE FEDERAL RESERVE BOARD
2—7720

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TELEGRAM

FEDERAL RESERVE BOARD

WASHINGTON

October 3, 1918.

McCord
Federal Reserve Bank
Atlanta

telegram
In re your ~~letter~~ October first In view of present reserve position believe it would be unwise for you to purchase acceptances from New York at this time stop When condition of your reserve permits would suggest you arrange direct with New York question of purchase acceptances of member banks your district Board appreciates your cooperation

HARDING

OFFICIAL BUSINESS
GOVERNMENT RATES
CHARGE FEDERAL RESERVE BOARD
2—7720

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TELEGRAM

FEDERAL RESERVE BOARD

WASHINGTON

October 3, 1918.

McDougal
Federal Reserve Bank
Chicago

Board appreciates your prompt response to its wire October first would suggest that you arrange direct with New York purchase Chicago member banks acceptances now held by it also with respect to future purchases acceptances Chicago member banks which are offered in New York stop Your cooperation greatly appreciated

HARDING

OFFICIAL BUSINESS
GOVERNMENT RATES
CHARGE FEDERAL RESERVE BOARD
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TELEGRAM

FEDERAL RESERVE BOARD

WASHINGTON

October 3, 1918.

Wills
Federal Reserve Bank
Saint Louis

Please arrange direct with New York for the purchase two million dollars bankers acceptances as stated in your telegram October second also [redacted] with respect to future purchases Your cooperation greatly appreciated

HARDING

OFFICIAL BUSINESS
GOVERNMENT RATES
CHARGE FEDERAL RESERVE BOARD
2—7729

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TELEGRAM

FEDERAL RESERVE BOARD

WASHINGTON

3337

October 3, 1918.

Weld
Federal Reserve Bank
Minneapolis

Referring telegrams re purchase of acceptances now held by New York would suggest you arrange direct with that bank for the purchase of acceptances as stated in your wire of October second stop With respect to future purchases it is noted from your telegram received this afternoon you will be willing to participate if your reserve position permits stop It is of course understood your member banks have first call upon your available funds and that heavy demand is likely to be made upon you in connection with financing of the grain corporation Board wishes to express its appreciation your cooperation

HARDING

OFFICIAL BUSINESS
GOVERNMENT RATES
CHARGE FEDERAL RESERVE BOARD
2—7729

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TELEGRAM

FEDERAL RESERVE BOARD
WASHINGTON

FEDERAL RESERVE

October 3, 1918.

Cross
Federal Reserve Bank
Kansas City

[redacted] your wire of October second
Please wire New York direct that you are willing to participate to the extent of four per cent in the purchase of acceptances made by that bank, it being the understanding that this will continue as long as your reserve position will permit Your cooperation greatly appreciated

HARDING

OFFICIAL BUSINESS
GOVERNMENT RATES
CHARGE FEDERAL RESERVE BOARD
2—7729

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TELEGRAM

FEDERAL RESERVE BOARD

WASHINGTON

October 3, 1918.

Calkins
Federal Reserve Bank
San Francisco

In re wire October first Suggest that you arrange direct with New York for the purchase of bills accepted by banks in your district and now held by that institution stop It is understood you will continue to take your proportion of purchases as heretofore to the extent of six per cent

HARDING

OFFICIAL BUSINESS
GOVERNMENT RATES
CHARGE FEDERAL RESERVE BOARD
2—7729

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TELEGRAM

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)

FEDERAL RESERVE BANK FILE
333.4
333

9ofmt

RECEIVED AT WASHINGTON, D. C.,

Minneapolis Minn 108PM Oct 3

RECEIVED
OCT 3 - 1918
GOVERNOR'S OFFICE

Harding

Washn

Referring to your telegram of yesterday regarding situation in Newyork district stop This morning the duluth and Minneapolis banks called to my attention that the United State grain Corporation is asking them for large lines of credit. The grain banks at duluth have already extended to the corporation their ten percent line, and the grain corporation is now asking for fifty percent lines on acceptances and asking the banks to negotiate the acceptances They have also received the most of their ten percent lines from the three grain banks in Minneapolis, and in as much as the first and security and northwestern national banks have already exercised their rights for accepting indomestic transactions to nearly the maximum amount permitted under the law, the grain corporation is endeavoring to find some way of securing larger sums

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TELEGRAM

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)

2—671a

RECEIVED AT WASHINGTON, D. C.,

from the banks than they could secure by way of straight loans plus the ability of local banks to accept. They are now suggesting that the elevator companies who offer grain to them draw a draft against them running a period of ninety days or more, which they will accept expecting the local banks to handle them, and while in my opinion the paper would be absolutely good, especially so if the terminals were lodged with the banks to protect, you can readily see that it is going to require a very large volume of money to handle it. As I intimated in my letter to Newyork, the amount of assistance we might be able to render them would depend entirely upon the amount of liquidation that we had here, and if the minneapolis and duluth banks are obliged to carry the grain corporation for very large amounts , it can only be done by using our facilities to the fullest extent. I am therefore communicating the facts to you so that you will be fully advised in regard to the situation.

Wold Governor 252p

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EP

#1

FEDERAL RESERVE BANK OF BOSTON
53 STATE STREET

RECEIVED
RESERVE BOARD FILE
OCT 4 - 1918
GOVERNOR'S OFFICE
~~333~~

October 2, 1918

IN REPLY
PLEASE QUOTE

X-1243
333

Hon. W. P. G. Harding, Governor,
Federal Reserve Board,
Washington, D. C.,

Dear Governor Harding:

During the last six months the Boston banks have established an open market for bankers' acceptances that has been very beneficial to the accepting banks in this district.

I feel that what has been accomplished here can be accomplished in any of the other districts where no apparent attempt has been made for such marketing. The State laws have been so changed that Savings Banks may buy prime acceptances, and we have taken up with the banks making acceptances their responsibility of maintaining them in the open market. Brokers that attempt this business in Boston have been very much encouraged, and at the present time they are handling quite a proportion each day.

Do you think it at all advisable to have the Federal Reserve Board take up with the other Reserve Banks the question of establishing in their districts an open market? If this could be accomplished the New York market would not receive all the bills that originate in other districts, and would have a tendency of making the open market much broader than it is at the present time.

We found in getting the accepting banks together that they were more than anxious to cooperate, and it was through their energies that our market has been carried on in a satisfactory way.

Yours very truly,

Chas E. Spencer Jr
Deputy Governor

CES:AH

10/7 Circular letter sent to all Reserve Banks X-1243

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TELEGRAM

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)

3337 8

RECEIVED AT WASHINGTON, D. C.,

RECEIVED
OCT 2 - 1918
GOVERNOR'S OFFICE

9ofmt

Stlouis 1230PM Oct 2

Harding

Governor Washington

Replying to your telegram. Board has authorized purchase of two million dollars to bankers acceptances from Federal Reserve bank of Newyork At an early date we hope to adopt some basis relating to additional purchase

Wells Governor

246p

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3337

October 2, 1918

IN RE Telegram to Fed ral Reserve Banks regarding participation in acceptance purchases made by Federal Reserve Bank of New York.

Federal Reserve Bank of:	Present holdings in New York	Future purchases from New York
Boston	Have already discussed with New York question of taking over acceptances and have offered to buy them now or at any time.	Do not want to agree to take a stated percentage, as Boston has own open market to protect.
hiladelphia	Have purchased $10,000,000 from New York.	Govr Passmore will recommend to Executive Committee participation of a maximum of 10% in future purchases, retaining right to withdraw from agreement on reasonable notice.
Clevelmnd	Have purchased $20,000,000; will increase holdings if necessary.	Present participation 10%. (Am informed will increase to 15% if necessary -JAB)
Richmond	Will be glad to purchase from New York eligible acceptances of banks in Dist No. 5. Decline to purchase acceptances of non-member banks of Dist 5, which in opinion of Counsel are not authorized to accept by laws of their State.	Expect volume of acceptances in district based on movement of cotton crop.
Atlanta	Will be glad to purchase $1,000,000 acceptances of member banks of Dist. No. 6 now held by New York.	Willing to participate in purchase of bills of member banks of District No. 6. Decline to purchase bills of nonmember banks at this time.

NOTE: Atlanta may have to rediscount within next few days. Would be unwise to ask bank to purchase under circumstances. (JAB)

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Federal Reserve Bank of:	Present holdings in New York	Future purchases from New York
Chicago	Under current conditions, believe it unwise to enter New York market except to protect acceptances of banks in Chicago district. (a) Willing at this time to purchase $8,600,000 acceptances, now held by New York, at rate originally purchased. (b) Willing to repurchase unmatured portion of acceptances sold to New York on July 31.	Willing to purchase approved bills accepted by Chicago member banks which are offered in New York.
St. Louis	Authorizes purchase of $2,000,000 acceptances.	Hope to adopt some basis relating to additional purchases at later date.
Minneapolis	Will take $5,000,000 from New York upon any basis Board suggests, and additional bills as reserve permits; if necessary, can take $5,000,000.	
Kansas City		Willing to participate in acceptance purchases on same basis as when participation was discontinued - 6% so long as reserve position will permit.
Dallas	No telegram sent.	
San Francisco	Will take $1,200,000 - present holdings bills accepted by banks in District No. 12.	Will continue to take present proportion - 6%.

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3 3 3 7

October 2, 1918 333.

Amounts of acceptances reserve banks will purchase from New York:

Boston -	Have discussed question directly with New York and will buy acceptances now or at any time.
Philadelphia -	To recommend 10 % participation in the future.
Cleveland -	Will increase holdings to 15%.
Richmond -	Will purchase acceptances of banks in Richmond dist. (Will not take acceptances of nonmember banks which in opinion of Counsel are not authorized to accept)
Atlanta -	Will take $1,000,000, and participate in future.
Chicago -	Will take $8,600,000 of Chgo member banks acceptances, also bills sold New York on July 31st.
St. Louis -	Will take $2,000,000
Minneapolis -	Will take $3,000,000, or $5,000,000 if necessary.
Kansas City -	Will participate to extent of 4% so long as reserve permits.
Dallas -	No news.
San Francisco -	Will take $1,200,000, and continue to take 6%.

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333.7

October 2, 1918

Amounts of acceptances reserve banks will purchase from New York:

Boston -	Have discussed question directly with New York and will buy acceptances now or at any time.
Philadelphia -	To recommend 10 % participation in the future.
Cleveland -	Will increase holdings to 15%.
Richmond -	Will purchase acceptances of banks in Richmond dist. (Will not take acceptances of nonmember banks which in opinion of Counsel are not authorized to accept)
Atlanta -	Will take $1,000,000, and participate in future.
Chicago -	Will take $8,600,000 of Chgo member banks acceptances, also bills sold New York on July 31st.
St. Louis -	Will take $2,000,000
Minneapolis -	Will take $3,000,000 or $5,000,000 if necessary.
Kansas City -	Will participate to extent of 4% so long as reserve permits.
Dallas -	No news.
San Francisco -	Will take $1,200,000, and continue to take 6%.

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TELEGRAM

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)

333.7 10

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OCT 2 - 1918
GOVERNOR'S OFFICE

RECEIVED AT WASHINGTON, D. C.,

2 132fmt

Kansascity 4p Oct 2

Harding

Washn

Your wire we wrote Kenzel Newyork September third advising our willingness to participate in acceptance on same basis as when participation discontinued, this is four percent so long as our reserve position will permit

Cross

550PM

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Form 40

TELEGRAM

FEDERAL RESERVE BOARD

WASHINGTON

333.4

October 2, 1918.

Federal Reserve Bank
Kansas City

Bankers acceptances have been concentrating in New York in large volume Board believes it desirable that all Federal Reserve Banks should share in the purchases made by the Federal Reserve Bank of New York and will be glad to have you advise basis upon which you would be willing to share in future purchases New York will discontinue charge of one eighth per cent on purchases made or participations granted to other Federal Reserve Banks.

Harding

Governor.

OFFICIAL BUSINESS
GOVERNMENT RATES
CHARGE FEDERAL RESERVE BOARD
2—7729

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TELEGRAM

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)
19RDAY

298 5

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1918
GOVERNOR'S OFFICE

RECEIVED AT WASHINGTON, D. C.,

Richmond Va 2pm Oct 1st 1918

Harding, Govr

Washington DC.

Answering wire. Will be glad to purchase all eligible bankers acceptances of this district now held by Federal Reserve Bank New York. So far as we know we have purchased all eligible bankers acceptances originating in this district. Certainly so far as they have been offered to us by member banks. Have declined a number of acceptances made by non-member banks this district which in opinion of our counsel were not authorized to accept by laws of their state. Expect to have to take care of great volume of acceptances this district based on movement of cotton crop.

Peple

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333. Fed 1

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)

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1918
GOVERNOR'S OFFICE

RECEIVED AT WASHINGTON, D. C.,

20FBWV

Boston Mass 430PM Oct 1 1918

Harding

Washington DC

Have already discussed with NewYork the question of taking over acceptances and have offered to buy of them now or at any time but do not feel we should agree to take a regular percentage of their purchases as we have our own open market to protect STOP We have been constant buyers of acceptances not only of banks and brokers in this district but also brokers in NewYork stop Bought one million of NewYork brokers yesterday and about seven hundred thousand dollars today STOP Purchased nearly Twelve million dollars of bankers acceptances in July over nineteen millions in August and over Twenty million in September.STOP At present time have thirty six and one half millions of bankers acceptances in our loan or nearly thirty percent of total loan STOP Our total loan last night was One hundred and Twenty Eight million dollars reserve fifty three percent.

Morss

441PM

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TELEGRAM

FEDERAL RESERVE BOARD

WASHINGTON

3334

October 1, 1918.

Federal Reserve Bank
Boston

Bankers acceptances have been concentrating at New York in very large volume New York's present holdings include bills accepted by banks in other districts to the amount of over thirtyfour million dollars amongst which are $2,100,000 bills accepted by banks in your district Board believes it very desirable for you to purchase a portion of New York's present holdings at least to the extent of bills of your district held by it and would be glad to have you advise basis upon which you would be willing to participate in future purchases. Attention is also called to my letter of March thirty nineteen eighteen X 655 New York will discontinue charge of one eighth per cent on purchases made for or participations granted to other Federal Reserve Banks.

HARDING
GOVERNOR

OFFICIAL BUSINESS
GOVERNMENT RATES
CHARGE FEDERAL RESERVE BOARD

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TELEGRAM

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)

RECEIVED
2-4718
1918
GOVERNOR'S OFFICE

RECEIVED AT WASHINGTON, D. C., 28AN MO

Atlanta 321pm Oct 1

Harding Governor

WDC

Referring telegram from you this date bankers acceptances. Before receipt of your wire we had received letter from Federal Reserve Bank New York asking if we could participate. We replied that Federal Reserve Bank Atlanta had endeavored to purchase all of acceptances of member banks in this district. In taking care of ~~xhxxx~~ these needs in addition to others had reduced our reserve to around forty three . Analysis by New York market are acceptances nonmember banks this district. We have declined to go in open market for them. We would be pleased to participate in purchase of our member banks bills offered in New York market. We understand from your ~~xx~~ telegram one million of bills of this district are offered there. Would be glad to take any of our member banks acceptances up to one million dollars. Stagnation of cotton market incident to agitation of fixing price has increased offering of acceptances from New Orleans and Savannah. Have taken care of

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TELEGRAM

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)

2—471b

RECEIVED AT WASHINGTON, D. C.,

situation in New Orleans to full extent and have taken care of requests at Savannah. Would be very glad indeed to take ~~xxxxx~~ according to your suggestions our reserve is thirty nine today.

McCord Governor
m 441pm

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TELEGRAM

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)

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RECEIVED
OCT 2 - 1918
GOVERNOR'S OFFICE

RECEIVED AT WASHINGTON, D. C., Chicago 455pm Oct 1

Harding

WDC

Answering your wire this date our executive committee today considered new York acceptance situation as outlined in New Yorks letter twenty eighth ultimo and decided under current conditions Chicago should not enter generally into New York acceptance market excepting to protect acceptances of banks in Chicago district. In answering New York's letter we are expressing willingness to purchase approved bills offered in New York accepted by Chicago member banks, also to repurchase from New York unmatured portion of bills we sold them on July thirty first; in view of the board's recommendation we are willing to go further and purchase, subject to approval, bills referred to in your telegram aggregating approximately eight million six hundred thousand dollars accepted by banks in this district. We are willing to take these bills bsis rate at which the same was originally purchased.

McDougall
Governor 61opm

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Form 46

TELEGRAM

FEDERAL RESERVE BOARD
WASHINGTON

3337

October 3, 1918.

Passmore
Philadelphia

In re your letter October one advising purchase New York acceptances when question is considered by your executive committee would suggest that participation future purchases be taken up direct with Federal Reserve Bank of New York stop Your cooperation greatly appreciated

HARDING

OFFICIAL BUSINESS
GOVERNMENT RATES
CHARGE FEDERAL RESERVE BOARD
2—7729

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Form 40

TELEGRAM

FEDERAL RESERVE BOARD

WASHINGTON

3

333.4

October 1, 1918.

Federal Reserve Bank
Philadelphia

For your information the following telegram is being sent today to all ~~Bankers~~ Federal Reserve Banks: Bankers acceptances have been concentrating at New York in very large volume New York's present holdings include bills accepted by banks in other districts to the amount of over thirtyfour million dollars amongst which are blank bills accepted by banks in your district Board believes it very desirable for you to purchase a portion of New York's present holdings at least to the extent of bills of your district held by it and would be glad to have you advise basis upon which you would be willing to participate in future purchases. Attention is also called to my letter of March thirtieth nineteen eighteen X 855 New York will discontinue charge of one eighth per cent on purchases made for or participations granted to other Federal Reserve Banks.

HARDING

GOVERNOR.

OFFICIAL BUSINESS
GOVERNMENT RATES
CHARGE FEDERAL RESERVE BOARD
2—7729

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FEDERAL RESERVE BANK
OF PHILADELPHIA

RECEIVED
OCT 2 - 1918
GOVERNOR'S OFFICE

October 1, 1918.

Hon. W. P. G. Harding, Governor,
Federal Reserve Board,
Washington, D. C.

Dear Governor Harding:

Following up our conversation by telephone, I beg to confirm receipt of your wire of yesterday and, following the suggestion contained therein, our arrangement with the Federal Reserve Bank of New York to purchase from them bankers acceptances running from 30 to 90 days in a total amount of $10,000,000. and at the current market rate.

It is my thought that our Executive Committee might be willing to enter into an arrangement with the Federal Reserve Bank of New York to participate in their general purchases of bankers bills to the extent of a maximum of 10%, with the understanding that we could withdraw from such an arrangement if it should prove burdensome, upon reasonable notice.

Assuring you that we realize the importance of helping to sustain the open market for bills and stand ready to render every assistance we can, believe me,

Yours for the Fourth Liberty Loan,

Governor

Q

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333,4

FEDERAL RESERVE BANK OF MINNEAPOLIS

NINTH DISTRICT

OFFICERS
THEODORE WOLD, GOVERNOR
R.A.YOUNG, ASST. TO THE GOVERNOR
S.S.COOK, CASHIER
FRANK C.DUNLOP, ASST. CASHIER
GRAY WARREN, ASST CASHIER
R.E.TOWLE, ASST. CASHIER
L.E.RAST, ASST. CASHIER

DIRECTORS
JOHN H. RICH, CHAIRMAN MINNEAPOLIS, MINN.
W.H.LIGHTNER, DEPUTY CHAIRMAN ST. PAUL, MINN.
J.C.BASSETT, ABERDEEN, S. DAKOTA
F.R.BIGELOW, ST. PAUL, MINNESOTA
JOHN W.BLACK, HOUGHTON, MICH.
E.W.DECKER, MINNEAPOLIS, MINN.
L.B.HANNA, FARGO, N. DAKOTA
F.P.HIXON, LACROSSE WISCONSIN
N.B.HOLTER, HELENA, MONTANA

CURTIS L.MOSHER, ASST. FEDERAL RESERVE AGENT

October 1, 1918.

RECEIVED
OCT 5 - 1918
GOVERNOR'S OFFICE

Federal Reserve Board,

Washington, D.C.

Gentlemen:

Confirming our telegram to you of even date in respect to taking from the Federal Reserve Bank of New York some of their bills, I will add further that we would of course much prefer to retire our own rediscounts rather than to go into the market at this time. New York now holds none of our rediscounts, and we are willing to do anything we can to help the situation.

Yours very truly,

Governor

TW-C

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FEDERAL RESERVE BANK
OF MINNEAPOLIS

FORM A-1
COPY

Oct. 1, 1918

Mr. E. R. Kenzel, Manager of Investments,
Federal Reserve Bank,
New York, N. Y.

Dear Mr. Kenzel:

Your favor of September 28th giving us a picture of the situation in New York at this time is at hand, and noted with much interest. I only regret that liquidation has not been of sufficient voluem to permit us to materially assist in alleviating that situation.

As you probably know we were obliged to rediscount $35,000,000. in order to take care of the situation here, incident to harvesting and marketing the crop. The marketing has proceeded slowly due to the unfavorable weather, and lately on account of the fact that the railroads have been unable to move the grain as fast as it was offered from the country. There has been congestion in some places and lack of market as a result.

We have, however, reduced our rediscounts with other Federal Reserve Banks to $10,000,000. or thereabouts, and have wired the Federal Reserve Board today in response to a telegram received from them, that we would take $3,000,000. of bills tomorrow from you on any basis they might suggest, and if necessary would take $5,000,000.

May we express the hope that we may from time to time take on some of the bills that come into your market, but it will depend of course entirelyeupon the manner in which our crop is moving.

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FEDERAL RESERVE BANK
OF MINNEAPOLIS

FORM A-1
COPY

E R Kenzel---2

Assuring you of our desire and willingness to co-operate to the fullest extent, and if necessary reduce our reserve along with the other banks, for that purpose, as I do not think there is anything sacred about the 40 gross point, I am,

Yours very truly,

Governor.

P. S. It goes without saying that we would much prefer to retire our rediscounts rather than go into the market and buy bills, but I find that all the paper we had under rediscount with you bank has been retired except a very small amount which will run off in a few days. We are willing to do what we can to help the situation and will act upon any suggestion of the Board in this matter.

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~~TELEGRAM~~

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)

FEDERAL RESERVE BOARD FILE
333
2-4715

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RECEIVED AT WASHINGTON, D. C.,
20cdbg

353.

Cleveland 415p Oct 1 18

Harding

Washn

Referring your telegram regarding Purchase of acceptances from Fed Res Bank of Newyork have arranged today to purchase $20,000,000 of their acceptances of Various maturities, at prevailing rates

Fancher

525pm

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TELEGRAM

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)

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RECEIVED AT WASHINGTON, D. C.,

Minneapolis Minn Oct 1 18 434pm

Harding

Washn

We will take $3,000,000 bills from New York upon any basis which the board suggests and will take additional bills as our reserve permits. I think if necessary we can take $5,000,000 tomorrow and await your advice

556pm Wold, Govr

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Form 40

TELEGRAM

FEDERAL RESERVE BOARD

WASHINGTON

333.7

October 1, 1918.

Federal Reserve Bank
Richmond

Debtors enterprises have been concentrating at New York in very large volume New York's present holdings bankers bills accepted by banks in other districts to the amount of over thirtyone million dollars amongst which are $ 600,000 bills accepted by banks in your district Board believes it very desirable for you to purchase a portion of New York's present holdings at least to the extent of bills of your district held by it and would be glad to have you advise basis upon which you would be willing to participate in future purchases. Attention is also called to my letter of march thirty nineteen eighteen X 626 New York will discontinue charge of one eighth per cent on purchases made for or participations granted to other Federal Reserve Banks.

OFFICIAL BUSINESS
GOVERNMENT RATES
CHARGE FEDERAL RESERVE BOARD

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TELEGRAM

333.7/12

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)

2—6718

RECEIVED AT WASHINGTON, D. C., 140F 2Y

SanFrancisco Oct 1 1918 235Pm

FRB
WDC

Replying your telegram today this bank will take one million two hundred thousand bills accepted by banks in this district from New York Stop. Acting upon our view that all of the Federal Reserve Banks should participate in due proportion in purchases of acceptances made by NY bank we have taken our proportion of acceptances purchased by them. STOP. In view of this fact and probable material increase in new future of acceptances incident to grain movement in this district suggest amount we now take be limited to this one million two uhundred thousand dollars.

Calkins 6pm

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TELEGRAM

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)

2—675

RECEIVED AT WASHINGTON, D. C.,

5fmt

Sanfrancisco 645A Oct 1

FRB

Washn

Supplementing our wire today it was our intention to say that we would take from Newyork this one million two hundred thousand and continue to take our propertion of their purchases as heretofore.

Calkins 1021a Oct 2

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Form 40

TELEGRAM

FEDERAL RESERVE BOARD

WASHINGTON

333.y

October 1, 1918.

Federal Reserve Bank
Cleveland

For your information the following telegram is being sent today to all Federal Reserve Banks:quote Bankers acceptances have been concentrating at New York in very large volume New York's present holdings include bills accepted by banks in other districts to the amount of over thirtyfour million dollars amongst which are [redacted] bills accepted by banks in your district Board believes it very desirable for you to purchase a portion of New York's present holdings at least to the extent of bills of your district held by it and would be glad to have you advise basis upon which you would be willing to participate in future purchases. Attention is also called to my letter of March thirtieth nineteen eighteen X 855 New York will discontinue charge of one eighth per cent on purchases made for or participations granted to other Federal Reserve Banks.

HARDING
GOVERNOR

OFFICIAL BUSINESS
GOVERNMENT RATES
CHARGE FEDERAL RESERVE BOARD

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TELEGRAM

FEDERAL RESERVE BOARD

WASHINGTON

3337

October 1, 1918.

Federal Reserve Bank
Chicago

Bankers acceptances have been concentrating at New York in very large volume New York's present holdings include bills accepted by banks in other districts to the amount of over thirtyfour million dollars amongst which are 6,800,000 bills accepted by banks in your district Board believes it very desirable for you to purchase a portion of New York's present holdings at least to the extent of bills of your district held by it and would be glad to have you advise basis upon which you would be willing to participate in future purchases Attention is also called to my letter of March thirtieth nineteen eighteen X 855 New York will discontinue charge of one eighth per cent on purchased bills for or participations granted to other Federal Reserve Banks

HARDING
GOVERNOR

OFFICIAL BUSINESS
GOVERNMENT RATES
CHARGE FEDERAL RESERVE BOARD

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Form 40

TELEGRAM

FEDERAL RESERVE BOARD

WASHINGTON

333.4

October 1, 1919.

Federal Reserve Bank
Atlanta

Reserve acceptances have been concentrating at New York in very large volume. New York's present holdings include bills accepted by banks in other districts to the amount of over thirty-four million dollars amongst which are 1,000,000 bills accepted by banks in your district. Board believes it very desirable for you to purchase a portion of New York's present holdings at least to the extent of bills of your district held by it and would be glad to have you advise basis upon which you would be willing to participate in future purchases. Attention is also called to my letter of March thirtieth nineteen eighteen X 000 New York will discontinue charge of one eighth per cent on purchases made for or participations granted to other Federal Reserve Banks.

[illegible]

[illegible]

OFFICIAL BUSINESS
GOVERNMENT RATES
CHARGE FEDERAL RESERVE BOARD
2—7729

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Form 40

TELEGRAM

FEDERAL RESERVE BOARD

WASHINGTON

FEDERAL RESERVE BOARD FILE
333.2
333.
333.4

October 1, 1918

Fed ral Reserve Bank,

Bankers acceptances have been concentrating at New York in very large volume. New York's present holdings include bills accepted by banks in other districts to the amount of thirty-four million dollars among which are $ bills accepted by banks in your district. Board believes it very desirable for you to purchase a portion of New York's present holdings at least to the extent of bills of your district held by it and would be glad to have you advise basis upon which you would be willing to participate in future purchases. Attention is also called to my letter of March 30, 1918 x-855. New York will discontinue charge of one-eighth per cent on purchases mad for or participations granted to other Fed ral Reserve banks.

HARDING Governor

OFFICIAL BUSINESS
GOVERNMENT RATES
CHARGE FEDERAL RESERVE BOARD
2—7729

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Form 40

TELEGRAM

FEDERAL RESERVE BOARD

WASHINGTON

333.7

October 1, 1918.

Federal Reserve Bank
Chicago

Bankers acceptances have been concentrating at New York in very large volume New York's present holdings include bills accepted by banks in other districts to the amount of over thirtyfour million dollars amongst which are 6,800,000 bills accepted by banks in your district Board believes it very desirable for you to purchase a portion of New York's present holdings at least to the extent of bills of your district held by it and would be glad to have you advise basis upon which you would be willing to participate in future purchases Attention is also called to my letter of March thirtieth nineteen eighteen X 855 New York will discontinue charge of one eighth per cent on purchases made for or participations granted to other Federal Reserve Banks

HARDING
GOVERNOR

OFFICIAL BUSINESS
GOVERNMENT RATES
CHARGE FEDERAL RESERVE BOARD
2—7729

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RECEIVED
OCT 2 - 1918
GOVERNOR'S OFFICE

FEDERAL RESERVE BANK
OF NEW YORK

October 1, 1918.

Dear Governor Harding:

With reference to your telegram of yesterday's date, we take much pleasure in advising you that Cleveland has purchased, to-day, from our portfolio $20,000,000. in prime indorsed bankers acceptances and Philadelphia has taken $10,000,000. These transactions were done as sales at current rates without commission. In addition to Philadelphia's purchase from us, they have bought a further $3,000,000. from the open market here. Governor Passmore advises he will recommend to his executive committee their taking a regular participation in our general purchases, and we are hoping that the other Federal reserve banks will also assist as far as they can.

We desire to thank you very much for your kind consideration and assistance.

Very truly yours,

Manager of Investments.

Hon. W. P.G. Harding,
Governor, Federal Reserve Board,
Washington, D. C.

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FEDERAL RESERVE BANK
OF NEW YORK

RECEIVED
1918
GOVERNOR'S OFFICE

September 30, 1918.

Dear Governor Harding:

We are in receipt of your telegram suggesting that we take up with the Federal Reserve Bank of Cleveland and the Federal Reserve Bank of Philadelphia their purchasing of us certain amounts of acceptances, and we will give same our prompt attention.

Very truly yours,

R. H. Treman

Deputy Governor.

Honorable W. P. G. Harding,
Governor, Federal Reserve Board,
Washington, D. C.

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FEDE AL RESERVE BO. D
WASHINGTON

The telegram given below is hereby confirmed.

2—7729

Assistant Secretary.

333.7

Sept. 30, 1918.

Federal Reserve Bank,
New York.

Think Cleveland can relieve you of twenty million dollars acceptances and Philadelphia ten million. Suggest you take matter up direct with each of these banks making your own arrangements as to amount and rate. Would suggest also that you waive customary one-eighth percent commission.

HARDING.

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TELEGRAM

FEDERAL RESERVE BOARD

WASHINGTON

333.4

Sept. 30, 1918.

Federal Reserve Bank,
Cleveland.

Federal Reserve Bank,
Philadelphia.

Have suggested to New York that they sell you some bankers acceptances free of commission, letting amount and rates be arranged between you. After negotiations are completed, please advise as to amount taken in order that you may be relieved of discounts for other banks in the near future.

HARDING.

OFFICIAL BUSINESS
GOVERNMENT RATES
CHARGE FEDERAL RESERVE BOARD
2—7729

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TELEGRAM

FEDERAL RESERVE BOARD

WASHINGTON

333.4

September 28, 1918.

Fancher

Cleveland.

Telegram received will advise you Monday.

Hamlin

OFFICIAL BUSINESS
GOVERNMENT RATES
CHARGE FEDERAL RESERVE BOARD
2—7729

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TELEGRAM

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)

333.4
9/25/18

RECEIVED
SEP 28 1918
OFFICE OF
MR. HAMLIN

RECEIVED AT WASHINGTON, D. C.,

3 cdbg

Cleveland 1016a Sep 28 18

Hamlin

Washn

As our reserve position is considerably stronger than that of Newyork we shall be glad to purchase a substantial amount of their bills unless board contemplates our rediscounting in the near future for some of the other banks.

Sancher Gvr 1130AM

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FEDERAL RESERVE BANK
OF NEW YORK

RECEIVED 1918
GOVERNOR'S OFFICE

September 27, 1918.

Dear Governor Harding:

The situation which has developed in this market with regard to bankers acceptances and the prospects of their being offered in this market in much greater volume is causing us serious concern as to our ability to continue to support the open market as we have in the past in view of the larger demands which are being made upon us by our member banks and the probable increase in our discounts incident to the flotation and financing of the Fourth Liberty Loan.

Our gross purchases of bills in the open market this month, at the close of September 26th, were approximately $110,000,000, about half of these were taken during the last week and has resulted in an increase since the first of the month in our bills purchased other than those taken on agreements of dealers to repurchase of $32,000,000. During the same period our total earning assets have increased $101,000,000, and our reserve position has declined from 52.6 to 45.9.

Of the new 90-day bills coming into this market daily in large volume, bills drawn by the Food Administration Grain Corporation form a considerable part. It is our understanding that $25,000,000 to $30,000,000 of these bills have already been drawn and that a very much larger amount probably will be drawn and offered in this market. Also the volume of acceptances of banks located in other districts, offered in this market, is constantly increasing as indicated by our holding such bills in excess of $33,000,000. Also several dealers have advised us of their holding of unsold out-of-town bills aggregating more than $7,500,000. An analysis which we have made of these bills by districts shows as follows:

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District	Ours	Dealers	Total
Boston	$ 9,173,000	$1,083,000	$10,256,000
Philadelphia	5,179,000	1,624,000	6,803,000
Cleveland	2,970,000	268,000	3,238,000
Richmond	587,000	760,000	1,347,000
Chicago	8,655,000	231,000	8,886,000
St. Louis	1,881,000	1,367,000	3,248,000
Minneapolis	3,177,000	2,045,000	5,222,000
San Francisco	1,182,000	178,000	1,360,000
Atlanta	964,000	---	964,000
Totals	$33,768,000	$7,556,000	$41,324,000

Dealers report to us that there has recently been no buying in other districts from this market either by commercial banks or Federal Reserve Banks, excepting that the Federal Reserve Bank of Boston has taken Boston bills out of this market, and the buying by our local banks is necessarily restricted by prevailing conditions. As you doubtless are aware, the Federal Reserve Bank of Cleveland participates in our general purchases to the extent of 10%, and San Francisco takes 6%. With these two exceptions the other Federal Reserve Banks are not contributing to the support of the primary open market in New York in which the bills of their institutions are negotiated, and the published consolidated statement as of September 20th indicates no considerable general purchase of bills within their own districts, although the reserve position of most of the Federal Reserve Banks is superior to our own.

You will recall that during the first years of our operations, the other Federal Reserve Banks, by mutual agreement, participated in practically all of our open market purchases, both bankers bills and municipal warrants, and it seems to us, after careful consideration, that it is highly desirable and would be beneficial to the whole situation for them to resume participation in the relief and support of the open market afforded by this bank, to as great an extent as they can.

We would much appreciate your consideration of the conditions

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and situation as outlined above, and we trust that you may feel justified in suggesting a participation on the part of the other Federal reserve banks.

Very truly yours,

B V Treman

Deputy Governor.

Honorable W. P. G. Harding,
Governor, Federal Reserve Board,
Washington, D. C.

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MEMORANDUM

Re acceptance holdings, Federal Reserve Bank at New York.

In conversation with Mr. Kenzel, the following information was given to the undersigned: "Acceptances of banks located outside District No. 2, now held by Federal Reserve Bank of New York and recognized dealers:

	F.R.Bank, New York	Dealers	Total
Boston	9.173	1.083	10.256
Philadelphia	5.179	1.624	6.803
Cleveland	2.970	.268	3.238
Richmond	.587	.760	1.347
Chicago	8.655	.231	8.886
St. Louis	1.881	1.367	3.248
Minneapolis	3.177	2.045	5.222
San Francisco	1.182	.178	1.360
Atlanta	.964		.964
	33.768	7.556	41.324

Mr. Kenzel stated the rates on prime acceptances were as follows:

1 to 30 days	4%
31 to 60	4-1/8
60 to 75	4-3/16 to 4-1/4
75 to 90	4-1/4 and up

He stated that the New York Bank was very desirous of having other banks participate in the purchases made by the Federal Reserve Bank of New York, to the extent at least of taking bills accepted by banks in their respective districts. On sales of acceptances made by New York to other Federal Reserve Banks, a commission of 1/8% per annum

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is retained,-that is,if the New York Bank purchases at 4-1/4%, they sell to other banks at 4-1/8. The undersigned asked Mr. Kenzel if he had considered the advisability of waiving this commission,and Mr. Kenzel said the question had not been raised. The Bank at New York is desirous of improving its reserve position through sales of acceptances rather than through rediscounts. It is interested at the present time in two matters:

1. A reduction of their present acceptance holdings through sales to other Reserve Banks;

2. To effect an arrangement with other Reserve Banks whereby such banks will participate in the purchase of acceptances,at least to the extent of taking care of bills accepted by their own member banks.

Sept 28/18

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Rates paid for Bankers' Acceptances in the Domestic Trade at the end of September 1918.

Federal Reserve Bank	15 days	30 days	60 days	90 days
Boston	4	4	4-3/16 4-1/16	4-3/16 4¼ 4-5/16 4½ 4-3/8
New York	4-1/8	4 4-1/8 4-3/16	4-1/8 4¼	4-3/16 4¼
Philadelphia	4	----	---	4¼ - 4-3/4
Cleveland	4-1/8 4¼ 4 4½	4 4-1/8 4½	4-1/8 4½	4¼ 4-3/8 4½
Richmond	4-3/4	4-3/4	4-3/4	4-3/4
Atlanta	---	4¼	4¼	4¼
Chicago	---	4-1/8	4-1/8	4-3/8
St.Louis	---	---	---	---
Minneapolis	---	---	---	---
Kansas City	---	---	---	---
Dallas	---	---	---	---
San Francisco	---	5	5 4-5/8	4½ 4-3/4

Rates paid for Bankers' Acceptances in the Foreign Trade at the end of September, 1918

Boston	4	4	4¼ 4-3/16 4-1/16 4-1/8	4¼
New York	4 4-3/16	4-1/8 4-3/16	4: 4-1/8	4-3/16 4¼ 4-1/8
Philadelphia	4	---	---	4-5/8
Cleveland	---	---	---	---
Richmond	---	---	---	---
Atlanta	---	---	---	---
Chicago	---	---	---	---
St.Louis	---	---	---	---
Minneapolis	---	---	---	---
Kansas City	---	---	---	---
Dallas	---	---	---	---
San Francisco	---	4-3/4	4-3/8 4-3/4	4½ 4-5/8 4-7/16

Rates paid for Foreign Trade Acceptances at end of September, 1918

Boston	---	---	---	---
New York	---	4-1/2	4-5/8 4-1/2 4-9/16 4-3/4	4-1/2
Philadelphia	---	---	---	---
Cleveland	---	---	---	---
Richmond	---	---	---	---
Atlanta	---	---	---	---
Chicago	---	---	---	---
St. Louis	---	---	---	---
Minneapolis	---	---	---	---
Kansas City	---	---	---	---
Dallas	---	---	---	---
San Francisco	---	---	---	---

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September 26, 1918 (3-45 P.M.)

MEMORANDUM:

333.7

SUBJECT: Participation by Federal Reserve Banks in acceptances purchased by the Federal Reserve Bank of New York.

Mr. Treman telephoned and asked when Governor Harding would return. He was informed that the Governor would return Monday. He stated that he wanted to present to the Board the question of participation by Federal Reserve Banks in acceptance purchases made by the Federal Bank of New York; that at the present time Cleveland and San Francisco were the only Reserve banks purchasing acceptances through the Federal Reserve Bank of New York. In connection with the United States Grain Corporation financing, larger offerings are made to the Bank at New York; that within the last few days the acceptance holdings have increased $13,000,000. Many of the drafts offered were accepted by institutions in other cities, but in view of the development of the acceptance market in New York, the acceptances were concentrating at that point. He said he was expecting other heavy offerings, and thought it was very desirable that some arrangement be effected whereby other banks would participate with the Federal Reserve Bank of New York; owing to the heavy purchases, the reserve percentage of the New York Bank is reduced to 45%.

It is Mr. Treman's intention to send to the Board for its consideration a statement covering the entire situation, and he stated he hoped the Board would suggest some means whereby the burden will be lightened.

Respectfully,

J. W. Bowdrie

Secretary.

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COMMENT:

According to the records of the office the acceptance holdings of the Federal Reserve Bank of New York have increased $22,000,000 since September 13th, the reserve percentage steadily decreasing. On September 25,1918,the percentage was 44.9.

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FEDERAL RESERVE BANK OF BOSTON

53 STATE STREET

FEDERAL RESERVE BOARD FILE
333.

April 18, 1918.

IN REPLY
PLEASE QUOTE

APR 20 1918
GOVERNOR'S OFFICE
X853

Hon. W. P. G. Harding,
Governor, Federal Reserve Board,
Washington, D. C.

My dear Governor Harding:

I wish to refer to your letter of March 30th, relating to terms and prices at which sales of acceptances and commercial paper should be made between the different Reserve banks. This letter has not been answered by me because I wished time to think it over rather carefully and many other duties have interfered with it. I hope, however, that the delay is not important.

It seems to me that the situation developed with the New York bank in the sale of acceptances is one that should be carefully considered, and I sympathize entirely with their point of view. The New York bank has done more than anyone else to develop an open market for acceptances, and in the past has been very good in distributing acceptances among other banks when they were desirable earning assets to own.

As I understand it, the Federal Reserve Board may require one Federal Reserve Bank to purchase from another Federal Reserve Bank. In that case it seems to me that it would be fair and reasonable that the selling bank should dispose of its acceptances or commercial paper at the same price at which they were bought, provided that the selling bank was not required to put its own endorsement on the paper, but where the purchasing bank required the selling bank's endorsement, the rate should be 1/4 of 1% less. I agree with you that the Federal Reserve Board should not require a purchasing bank to take either acceptances or commercial paper without the endorsement of the selling bank, but I think the endorsement is worth 1/4 of 1% per year and that the value of the endorsement should be recognized in the rate.

When one Federal Reserve Bank trades with another Federal Reserve Bank, without the interposition of the Board, the details of rate and endorsement would be whatever they might agree on.

Trusting that this answers your request for my opinion, I remain,

Very truly yours,

Charles A. Morss Governor.

CAM-M

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#3

FEDERAL RESERVE BANK OF PHILADELPHIA

FEDERAL RESERVE BOARD FILE
333.

April 17, 1918.

RECEIVED
APR 18 1918
GOVERNOR'S OFFICE
Y-855

Hon. W. P. G. Harding, Governor,
Federal Reserve Board,
Washington, D. C.

My dear Governor Harding:

Your letter of March 30th last regarding the proper method of distribution among the Federal Reserve Banks of bills and acceptances bought by the Federal Reserve Bank of New York was read to our Directors at their regular meeting today.

It was the expressed opinion of our Directors that the policy of this bank should be cooperative as fully as possible along the general lines indicated in your letter.

Trusting you will not hesitate to suggest to us whenever you think we might help the general situation, believe me,

Yours very truly,

Governor

Q

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#10

FEDERAL RESERVE BANK
OF
KANSAS CITY

FEDERAL RESERVE BOARD FILE
ASA E. RAMSAY, CHAIRMAN
AND FEDERAL RESERVE AGENT
FRED A. FLEMING
DEPUTY CHAIRMAN
J. K. BOARDMAN
FEDERAL RESERVE AGENT

333

333.4

J. Z. MILLER, JR.
GOVERNOR
J. L. CROSS
DEPUTY GOVERNOR
ARCH W. ANDERSON
SECRETARY-CASHIER
C. A. WORTHINGTON
ASSISTANT CASHIER
M. A. THOMPSON
ASSISTANT CASHIER

April 10, 1918.

Hon. W. P. G. Harding,
Governor of Federal Reserve Board,
Washington,

X-855

Dear Mr. Harding:

Referring to your letter of March 30, X-855:

The Federal Reserve Bank of Kansas City has always stood ready to take its proportion, about 4%, of bills purchased by the New York bank in the open market.

We readily agree to the principle that when the bills are indorsed by the New York bank the rate should be somewhat lower than otherwise.

Yours truly,

Governor.

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#11

FEDERAL RESERVE BANK
OF DALLAS

FEDERAL RESERVE BOARD FILE
3-3-3
APR 24 1918

R. L. VAN ZANDT, GOVERNOR
J. W. HOOPES, VICE-GOVERNOR
LYNN P. TALLEY, CASHIER
SAM R. LAWDER, ASST. CASHIER

April 9, 1918.

1-855.

Hon. W. P. G. Harding, Governor,
Federal Reserve Board,
Washington, D.C.

Dear Governor Harding:

I have read with much interest your letter of the 30th ultimo (X855) relative to the position which the New York bank has taken in connection with the reimbursement of bankers' acceptances with other Federal Reserve Banks.

You ask for an expression of my views on the subject - there are many things to be said on both sides, but I believe the weight is with the position taken by Governor Strong, and we are perfectly willing to abide by it, with the understanding that the endorsement of the Federal Reserve Bank of New York will be furnished whenever required and that with such endorsement the item will be accepted by us at a lower discount rate.

Very truly yours,

R. L. Van Zandt

Governor

VZ-R

c.c. to Hon. Benj. Strong,
Federal Reserve Bank,
New York City.

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#17

FEDERAL RESERVE BANK
OF SAN FRANCISCO

FEDERAL RESERVE BOARD FILE
333
GOVERNOR'S OFFICE

JAMES K. LYNCH, GOVERNOR

4th April 1918

333.4

1-856

My dear Governor Harding:

I have received your circular letter dated March 30th on the subject of the conference regarding the proper method of distribution among the Federal reserve banks of bills and acceptances bought by the Federal Reserve Bank of New York. My recollection confirms the text of your letter.

As you no doubt recall, this Bank was not one of those invited to take a portion of the accpetances at the date of the meeting, as we have been regularly taking our pro rata for some time past.

I approve the suggested arrangement by which acceptances purchased by the Federal Reserve Bank of New York for account of other Federal reserve banks should be transferred without the endorsement of the Federal Reserve Bank of New York; when such distribution is made by order of the Federal Reserve Board, the bank selling the acceptances to endorse.

I also note that Governor Strong considered the rate of 4¼ % too high and his reasons for coming to this conclusion.

The management of this Bank believes fully in the principle of cooperation among the banks to the end that the burdens may be distributed as equitably as possible throughout the country and that no one bank carry an undue portion of the load.

Yours very truly,

James K. Lynch

Governor

The Hon W P G Harding
Governor, Federal Reserve Board
Washington D C

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#7

FEDERAL RESERVE BOARD FILE
332.1
333.7

FEDERAL RESERVE BANK OF CHICAGO

79 WEST MONROE STREET

OFFICERS

JAMES B. McDOUGAL GOVERNOR
C. R. McKAY DEPUTY GOVERNOR
W. F. McLALLEN SECRETARY
B. G. McCLOUD CASHIER
S. B. CRAMER ASST. CASHIER

DIRECTORS

W. A. HEATH
CHAIRMAN AND FEDERAL RESERVE AGENT
J. W. BLODGETT GRAND RAPIDS, MICH.
J. B. FORGAN CHICAGO, ILLINOIS
M. B. HUTCHISON OTTUMWA, IOWA
W. F. McLALLEN
DEPUTY FEDERAL RESERVE AGENT
E. L. JOHNSON WATERLOO, IOWA
E. T. MEREDITH DES MOINES, IOWA
G. M. REYNOLDS CHICAGO, ILLINOIS
A. H. VOGEL MILWAUKEE, WISCONSIN

333.7

855.

April 3, 1918.

RECEIVED
APR 5 - 1918
GOVERNOR'S OFFICE

Mr. W. P. G. Harding, Governor,
Federal Reserve Board,
Washington, D. C.

Dear Sir:-

With further reference to your letter of April 1st regarding the recent distribution among Federal Reserve Banks of bills and acceptances bought by the Federal Reserve Bank of New York.

In reply thereto will advise that the same was considered at the regular meeting of our Executive Committee held today. It was decided that our recent action in purchasing $20,000,000 of acceptances from the Federal Reserve Bank of New York without their endorsement was a proper one, in view of the fact that the bills they sold us were names which we had approved in the past for purchase.

Our Committee also sanctioned our action in buying the bills at the rates suggested by the Federal Reserve Bank of New York, as they had originally purchased the bills at approximately the same rates.

Very truly yours,

C

Governor.

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#4

FEDERAL RESERVE BANK
OF CLEVELAND

FEDERAL RESERVE BOARD FILE
333.

RECEIVED
APR 4 - 1918
GOVERNOR'S OFFICE

April 2, 1918

X-855

Hon. W. P. G. Harding, Governor,
Federal Reserve Board,
Washington, D. C.

Dear Sir:

Your letter of March 30 (X-855) received. It was my understanding as the result of the discussion concerning the distribution of bills and acceptances bought by the Federal Reserve Bank of New York, that the bills were not to be indorsed by the New York bank, that we would get the same class of bills and in practically the same manner as though each of the banks had been participating in daily purchases of offerings. While a rate of 4-1/4% was discussed, yet I think I made the statement that a rate of 4-1/8% would be satisfactory to this bank. I felt that the New York bank should not be asked to distribute these bills except at approximately the same rate as originally purchased.

Mr. Kenzel of the New York bank called me on the morning of the 25th in reference to our preference as to maturities and we elected to take the shorter bills, all maturing within 60 days, at a 4% rate.

I did not view this transaction in the nature of a rediscount by one Federal Reserve Bank for another but rather that the transaction grew out of the desire of the Board to more nearly level the reserves of the several banks. The transaction insofar as this bank is concerned is in all respects entirely satisfactory.

Very truly yours,

R. Fancher

Governor.

ERF:B-AP

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FEDERAL RESERVE BOARD FILE
333

EDW. T. BROWN,
DEPUTY CHAIRMAN OF BOARD

JOS. M. SLATTERY,
ASSISTANT FEDERAL RESERVE AGENT

M. B. WELLBORN,
CHAIRMAN OF THE BOARD
AND FEDERAL RESERVE AGENT

JOS. A. McCORD, GOVERNOR
J. B. PIKE, CASHIER
M. W. BELL, ASSISTANT CASHIER
W. B. ROPER, ASSISTANT CASHIER
W. R. PATTERSON, ASSISTANT CASHIER

FEDERAL RESERVE BANK
OF ATLANTA.

April 2nd, 1918.

333.7

X-855

Hon. W. P. G. Harding, Governor,
FEDERAL RESERVE BOARD,
Washington, D.C.

Dear Governor Harding:

We are in receipt of your letter of March 30th, X-855, which we have carefully noted.

In reply beg to say that we think you take the proper view of the matter; and it is entirely agreeable to us to take the bank acceptances from the Federal Reserve Bank of New York without their endorsement, as suggested in your letter, at the rate agreed on, i.e., 4% up to 60 days and 4 1/8% for items beyond 90 days.

All of the items assigned to us mature within 60 days, and is paper of high grade, and satisfactory acceptances.

Yours very truly,

Jos A McCord

JAM:F Governor.

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#4

FEDERAL RESERVE BANK OF MINNEAPOLIS

NINTH DISTRICT

FEDERAL RESERVE BOARD FILE
333

OFFICERS
THEODORE WOLD, GOVERNOR
R. A. YOUNG, ASST. TO THE GOVERNOR
S. S. COOK, CASHIER
FRANK C. DUNLOP, ASST. CASHIER
GRAY WARREN, ASST. CASHIER
HOWARD HALL, AUDITOR

DIRECTORS
JOHN H. RICH, CHAIRMAN, MINNEAPOLIS, MINN.
W. H. LIGHTNER, DEPUTY CHAIRMAN, ST. PAUL, MINN.
J. C. BASSETT, ABERDEEN, S. DAKOTA
F. R. BIGELOW, ST. PAUL, MINNESOTA
JOHN W. BLACK, HOUGHTON, MICH.
E. W. DECKER, MINNEAPOLIS, MINN.
L. B. HANNA, FARGO, N. DAKOTA
F. P. HIXON, LACROSSE WISCONSIN
N. B. HOLTER, HELENA, MONTANA

CURTIS L. MOSHER, ASST. FEDERAL RESERVE AGENT

RECEIVED
APR 5 - 1918
GOVERNOR'S OFFICE
333.4

April 2, 1918

1-855

W. P. G. Harding, Governor,
Federal Reserve Board,
Washington, D. C.

Dear Sir:

(30)

Your favor of March 31st, X855, relative to the rate of interest on bills recently taken from the Federal Reserve Board of New York is at hand, and in reply to your request for an expression of our views, you are informed that we are inclined to agree with the position taken by the Board.

Yours very truly,

Governor.

TW-H

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FEDERAL RESERVE BOARD FILE
333

FEDERAL RESERVE BANK OF RICHMOND

FIFTH DISTRICT

OFFICERS

GEORGE J. SEAY, GOVERNOR
CHAS A. PEPLE, DEPUTY GOVERNOR
GEORGE H. KEESEE, CASHIER
C. V. BLACKBURN, ASST. CASHIER.
THOMAS MARSHALL, JR. ASST. CASHIER.

DIRECTORS

CALDWELL HARDY, CHAIRMAN AND FEDERAL RESERVE AGENT
H. B. WILCOX, BALTIMORE, MD.
JAS. F. OYSTER, WASHINGTON, D.C.
JOHN F. BRUTON, WILSON, N.C.
EDMUND STRUDWICK, RICHMOND
JAMES A. MONCURE, DEPUTY CHAIRMAN
EDWIN MANN, BLUEFIELD, W.VA.
D. R. COKER, HARTSVILLE, S.C.

3337

April 1, 1918.

RECEIVED
APR 2 - 1918
GOVERNOR'S OFFICE

#-855

Hon. W. P. G. Harding, Governor,
Federal Reserve Board,
Washington, D. C.

Dear Governor Harding:

We are in receipt of your letter of the 30th, X-855, relating to the rate on bills and acceptances rediscounted with other Federal Reserve Banks. This Bank will cordially acquiesce in any position in this respect to meet the wishes of the Board. We feel that under existing conditions it is not a matter of rates, but one of policy.

You will doubtless recall that this Bank has never at any time participated in the distribution of investments made by the Federal Reserve Bank of New York for other Federal Reserve Banks, but we do not consider that this fact has any bearing upon the matter under discussion. While I feel that the position of the New York Bank is somewhat open to debate, it will serve no good purpose to debate the question at any length. In the beginning, the New York Bank avoided the competition of other Federal Reserve Banks for acceptances in the New York market by its policy of purchasing for the account of all, and it is a matter to be taken into account on the other side. Many banks, we believe, would have preferred an open market in New York. However, in the opinion of the majority, it did not then seem advisable to have a competitive market.

In the matterof rediscounts by this Bank with other Federal Reserve Banks, should the occasion again arise, whether by requirement of the Board or by our own voluntary act, we shall be entirely disposed to leave the question of rate and endorsement under present conditions to the Federal Reserve Board.

Very truly yours,

Geo. J. Seay
Governor.

GJS/K

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FEDERAL RESERVE BOARD FILE
1333

#7

FEDERAL RESERVE BANK OF CHICAGO

79 WEST MONROE STREET

OFFICERS

JAMES B. McDOUGAL GOVERNOR
C. R. McKAY DEPUTY GOVERNOR
W. F. McLALLEN SECRETARY
B. G. McCLOUD CASHIER
S. B. CRAMER ASST. CASHIER

DIRECTORS

W. A. HEATH
CHAIRMAN AND FEDERAL RESERVE AGENT
J. W. BLODGETT GRAND RAPIDS, MICH.
J. B. FORGAN CHICAGO, ILLINOIS
M. B. HUTCHISON OTTUMWA, IOWA
A. H. VOGEL MILWAUKEE, WISCONSIN

W. F. McLALLEN
DEPUTY FEDERAL RESERVE AGENT
E. L. JOHNSON WATERLOO, IOWA
E. T. MEREDITH DES MOINES, IOWA
G. M. REYNOLDS CHICAGO, ILLINOIS

GOVERNOR'S OFFICE
RECEIVED
APR 3 - 1918

April 1, 1918.

Mr. W. P. G. Harding, Governor,

Federal Reserve Board,

Washington, D. C.

Dear Sir:-

We have your letter of March 30th regarding the recent distribution among Federal Reserve Banks of bills and acceptances bought by the Federal Reserve Bank of New York.

We will be pleased to give the same careful consideration at the regular meeting of our Executive Committee, which will be held Wednesday, April 3rd, and at that time will forward you an expression of our views on this subject.

Very truly yours,

C

Governor.

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#2

FEDERAL RESERVE BANK
OF NEW YORK

FEDERAL RESERVE BOARD FILE
332
333.7

April 1, 1918.

Dear Governor Harding:

I am most grateful to you and your associates for your kind letter of March 29th and for the Board's general communication of March 30th on the subject of rediscount of bills among the Federal reserve banks. It is quite apparent from your letter and the general letter that the point which we most desired to emphasize was really not a question of profit or rate, but was entirely a question of reserves as well as the preservation of the bill market.

Your communication will be submitted to our directors on Wednesday and in the meantime I hasten to acknowledge both communications and to express my great appreciation.

Very truly yours,

Benj. Strong

Governor.

Honorable W. P. G. Harding,
Governor, Federal Reserve Board,
Washington, D. C.

BS*VCM

Dictated by Mr. Strong but
signed in his absence.

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#2

DERAL RESERVE BOARD FILE
333
333 ✓

March 30, 1918.

Dear Governor Strong:-

Referring to my letter of yesterday, I take pleasure in handing you herewith a copy of the letter which is being sent today to the Governors of the eleven other Federal Reserve banks with reference to the distribution of bills and acceptances purchased by the Federal Reserve Bank of New York.

Rec'd 4-855

Very truly yours,

Governor.

Mr. Benjamin Strong,
Governor Federal Reserve Bank,
New York.

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EX-OFFICIO ...
WILLIAM G. ...OO
SECRETARY OF THE TREASURY
CHAIRMAN
JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

W. P. G. HARDING, GOVERNOR
PAUL M. WARBURG, VICE GOVERNOR
FREDERIC A. DELANO
ADOLPH C. MILLER
CHARLES S. HAMLIN
H. PARKER WILLIS, SECRETARY
SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT
ADDRESS REPLY TO
FEDERAL RESERVE BOARD

FEDERAL RESERVE BOARD FILE
332.21
332.2
333.4

FEDERAL RESERVE BOARD

WASHINGTON

March 30, 1918.

X-855

Dear Sir:

You will doubtless remember that at the conference last Saturday there was some discussion as to the proper method of distribution among the Federal reserve banks of bills and acceptances bought by the Federal Reserve Bank of New York, and attention was called to the probability that the New York Bank would like to dispose of a block of these acceptances during the present week.

A statement of the reserve position of the various banks was read and the suggestion that the amount be distributed among the six or seven banks having the highest reserve was readily acceded to, and it seemed to be the general sentiment that $4\frac{1}{4}\%$ would be a fair rate. The question, however, was not discussed as fully as would doubtless have been the case had Governor Strong been present. Members of the Board, having in mind recent transactions where two Federal reserve banks sold acceptances at a $4\frac{1}{4}\%$ rate, and feeling that after all the rate was of no material consequence in view of the excess earnings now being made by all the banks, did not press this matter of rate for discussion as fully as they might otherwise have done, and the Governors of the banks interested in the arrangement left with the feeling that the paper would be offered them at a $4\frac{1}{4}\%$ rate.

It has developed since, however, that this rate was not entirely satisfactory to Governor Strong and the directors of the Federal Reserve Bank of New York, and the Board understands that sales by that

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bank have been made on the basis of 4% up to 60 days and 4-1/8% from 60 to 90 days. The Board wishes to call your attention to the fact that for a considerable period of time, -- probably during more than two years following the establishment of the Federal reserve banks, when there was only a negligible demand for rediscounts and the earnings of the banks were small, -- the Federal Reserve Bank of New York very generously gave all other Federal reserve banks an opportunity of participating in the New York bill market by making allotments to the other banks of bills purchased by it. It is true that the Federal Reserve Bank of New York was allowed a commission of 1/8 of 1% for its services, but this did not by any means cover the loss of income that it sustained through its policy of dividing its purchases with the other Federal reserve banks. As a result, during all this time, it was able to take advantage of its local market to not more than 20% of the purchases made. The bank's policy was inspired entirely by a desire to be of service to the whole system, and the other Federal reserve banks were able to make much larger earnings than would have been the case had they been compelled to rely upon strictly local discounts.

Since the entry of the United States into the war, conditions have radically changed. The Government is constantly in the market for funds, and reserve banks generally have withdrawn from the old arrangement and now make only occasional purchasesof bills in New York; and Governor Strong advises the Board that the directors of the Federal Reserve Bank of New York feel that the disadvantage under which the bank

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operates in this respect is sufficiently important to justify a better understanding than now exists. He points out that the New York Bank is not able to take advantage of its own market when it is obviously to its interest to do so, but that it must carry the entire burden of the New York market when it isto the apparent advantage of the other Federal Reserve banks to withdraw, although their reserve positions may be much stronger than that of the New York bank. It hardly seems fair that by withdrawing from the market and awaiting a distribution of the bills purchased by the Federal Reserve Bank of New York under the provisions of the Act which enable the Federal Reserve Board to regulate rediscounts between the respective Federal Reserve banks, that those banks which have withdrawn should be able to get bills at better rates than would have been the case had they participated in the purchase originally. Furthermore, the New York bill and acceptance market is a very important factor and it is essential that it should be sustained. As the control of this market by the Federal Reserve Bank of New York in the early days of the system redounded to the advantage of all the other Federal reserve banks by reason of the allotment policy adopted, it seems that all Federal reserve banks should cooperate with the Federal Reserve Bank of New York in sustaining the market now, and without insisting on endorsements where they were willing heretofore to buy acceptances without endorsement.

In view of these considerations the Board feels that each of the Federal Reserve banks should look at the matter from a national rather than a local standpoint, both as to the rate of interest and as to the question of endorsement by the Federal Reserve Bank of New York. In the

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exercise its statutory power to require inter-bank rediscounts, the Board would hesitate to direct one Federal Reserve bank to take paper from another without the endorsement of the selling bank, but there certainly seems to be no occasion, when paper is sold by one bank to another as the result of negotiation and not by direction of the Board, for the endorsement of the selling bank to be given, if the names on the paper bought are well known to, and satisfactory to, the purchasing bank. In the case of paper sold by the New York banks the names as a rule are well known to all the Federal Reserve banks and have been bought freely by them in the past without the endorsement of the New York bank. It is quite probable that, although the Federal Reserve Bank of New York might be desirous of building up its reserves, it would prefer to continue to carry the burden of the New York market rather than sell bills with its endorsement at a higher rate than that at which they were purchased.

It will be the Board's policy to watch the reserve situation very closely, with the view of preventing any disproportionate decline at any Federal Reserve bank, and hereafter, should the Board have occasion to invite voluntary rediscount operations, it hopes that the principles above outlined will be observed by the Federal Reserve Banks. In case any of the Federal Reserve banks should be required by the Board to rediscount paper for other Federal Reserve banks, the endorsement of the selling bank will be given, when demanded by the purchasing bank, but the transaction will be at a lower rate than would obtain if sold without endorsement.

The Board would appreciate an expression of your views on this subject.

Very truly yours,

Governor.

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X 255

Return TO ... office of Mr. ...

DRAFT OF LETTER TO ALL GOVERNORS EXCEPT GOVERNOR STRONG OF NEW YORK, AND IN THE CASE OF ST. LOUIS, TO BE ADDRESSED TO DEPUTY GOVERNOR HOXTON.

Mimeograph

March 30, 1918.

Dear Sir:-

You will doubtless remember that at the conference last Saturday there was some discussion as to the proper method of distribution among the Federal Reserve banks of bills and acceptances bought by the Federal Reserve Bank of New York, and attention was called to the probability that the New York bank would like to dispose of ~~about~~ a block ~~$50,000,000~~ of these acceptances during the present week.

A statement of the reserve position of the various banks was read and the suggestion that the amount be ~~borne by~~ distributed among the six or seven banks having the highest reserve was readily acceded to, and it seemed to be the general sentiment that 4¼% would be a fair rate. This question, however, was not discussed ~~very~~ as fully [redacted] as would ~~no doubt~~ doubtless have been the case had Governor Strong been present. Members of the Board, having

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in mind recent transactions where two Federal Reserve banks sold acceptances at a 4¼% rate, and feeling that after all the rate was of no material consequence in view of the excess earnings now being made by all the banks, did not press this matter of rate for discussion as fully as they might otherwise have done, and the Governors of the banks interested in the arrangement left with the feeling that the paper would be offered them at a 4¼% rate.

It has developed since, however, that this rate ~~is~~ was not entirely satisfactory to Governor Strong and the directors of the Federal Reserve Bank of New York, and the Board understands that ~~such transactions as have been made~~ sales by that Bank have been on the basis of 4% up to 60 days and 4-1/8% from 60 to 90 days. The Board wishes to call your attention to the fact that for a considerable period of time, -- probably during more than two years ~~after~~ following the establishment of the Federal Reserve banks, when there was only a negligible demand for rediscounts and the earnings of the banks were small, -- the Federal Reserve Bank of New York very generously gave

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all other Federal Reserve banks an opportunity of participating in the New York bill market by making allotments to the other banks of bills purchased by it. It is true that the Federal Reserve Bank of New York was allowed a commission of 1/8 of 1% for its services, but at the same time this did not by any means cover the loss of income that it sustained through its policy of dividing its purchases with the other Federal Reserve banks. As a result, during all this time, it was able to take advantage of its local market to not more than 20% of the purchases made. The bank's policy was inspired entirely by a desire to be of service to the whole system, and the other Federal Reserve banks were able to make much larger earnings than would have been the case had they been compelled to rely upon strictly local discounts.

Since the entry of the United States into the war, conditions have radically changed. The Government is constantly in the market

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for funds, and reserve banks generally have withdrawn from the old arrangement and now make only occasional purchases of bills in New York; and Governor Strong advises the Board that the directors of the Federal Reserve Bank of New York feel that the disadvantage under which the bank operates in this respect is sufficiently important to justify a better understanding than now exists. He points out that the New York bank is not now able to take advantage of its own market when it is obviously to its interest to do so, but that it must carry the entire burden of the New York market when it is to the apparant advantage of the other Federal Reserve banks to withdraw, although their reserve positions may be much stronger than that of the New York bank. It hardly seems fair that by withdrawing from the market and awaiting a distribution of the bills purchased by the Federal Reserve Bank of New York under the provisions of the Act which enable the Federal Reserve Board to regulate/re discounts between the respective Federal Reserve banks,

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that those banks which have withdrawn should be able to get bills at better rates than would have been the case had they participated in the purchases originally. Furthermore, the New York bill and acceptance market is a very important factor and it is essential that it should be sustained. As the control of this market by the Federal Reserve Bank of New York in the early days of the system redounded to the advantage of all the other Federal Reserve banks by reason of the allotment policy adopted, it seems that all Federal Reserve banks should cooperate with the Federal Reserve Bank of New York in sustaining the market now.

In view of these considerations the Board feels that each of the Federal Reserve banks should look at the matter from a national rather than a local standpoint, both as to the rate of interest and as to the question of endorsement by the Federal Reserve Bank of New York. In the exercise of its statutory power to require inter-bank rediscounts,

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the Board would hesitate to direct one Federal Reserve bank to take paper from another without the endorsement of the selling bank, but there certainly seems to be no occasion, when paper is sold by one bank to another as the result of negotiation and not by direction of the Board, for the endorsement of the selling bank to be given, if the names on the paper bought are well known to, and satisfactory to, the purchasing bank. In the case of paper sold by the New York banks the names as a rule are well known to all the Federal Reserve banks and have been bought freely by them in the past, without the endorsement of the New York bank. It is quite probable that, although the Federal Reserve Bank of New York might be desirous of building up its reserves, it would prefer to continue to carry the burden of the New York market rather than sell bills with its endorsement at a higher rate than that at which they were purchased.

It will be the Board's policy to watch the reserve situation very closely, with the view of preventing any disproportionate decline at any Federal Reserve bank, and hereafter, should the Board have occasion to require any of the

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Federal Reserve banks to rediscount paper for other Federal Reserve banks, the endorsement of the selling bank will be given, (unless waived by the purchasing bank) in which case the transaction will be at a lower rate than ~~the current rate of the selling bank for the purchase of such paper~~ would obtain if sold without endorsement.

The Board would appreciate an expression of your views on this subject.

Very truly yours,

Governor.

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1 - #2

FEDERAL RESERVE BOARD FILE

March 29, 1918.

Dear Governor Strong:-

I acknowledge receipt of your letter of March 26th which was read to the Board at the meeting this morning. Some of the Federal Reserve banks have pointed out that during the period when they were taking a regular allotment of bills purchased by the New York bank, they were paying a commission of one-eighth of one per cent, but I feel safe in saying to you that the Board is in substantial accord with your view of the matter. There is no question that for two years or more the Federal Reserve Bank of New York very generously gave the other Federal Reserve banks a participation in its own market at a very serious sacrifice of its own earning capacity, which was by no means compensated by the one-eighth of one per cent commission allowed.

A bill and acceptance market having been built up in New York, it seems highly desirable that it be maintained, and the Board does not regard it as equitable that the New York bank should be forced to bear this burden alone or that it should be penalised when a distribution of these bills is made among the other Federal Reserve banks. The Board agrees with you that the question of profit or loss is a minor consideration at the present time, for all the banks are more than earning their dividends and the payment of excess profits to the Government more or less by any particular bank, is of no great consequence. The question of maintaining reserves, however, is, as you point out, of vital importance, and the Board

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is entirely in accord with you in this respect. As far as endorsements of bills sold by your bank are concerned, the Board feels that as a rule other Federal Reserve banks could very well afford to dispense with this requirement, for most of the names are well known throughout the country and have been taken freely by these banks from your bank and without your endorsement in times past. At the same time, the Board would hesitate to exercise its power under the statute of requiring Federal Reserve banks to rediscount bills for other Federal Reserve banks without the endorsement of the selling bank in case the purchasing bank demanded it. It would be better, perhaps to have transactions of this kind made under a voluntary agreement and to give the selling bank an opportunity of disposing of bills without endorsement. If Board action is needed, an order could be issued upon request of the bank desiring to sell, in which case the notes and bills would be endorsed by the selling bank and a rate be fixed at, say, one-eighth of one-quarter per cent lower than would be the case where paper is sold without endorsement.

The matter came up last Saturday morning and there was no representative of your bank present except Mr. Hendricks. Reference was made to sales made within the last few weeks by the Federal Reserve banks of Boston and Richmond at a four and one-quarter per cent rate, and the suggestion was made that your own sales be made on the same basis. The matter was not very fully discussed, in view of the fact that no objection was raised. I do not believe that any misunderstanding would have arisen had you been here,

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and I will send a letter to the eleven other Federal Reserve banks on this subject tomorrow, of which I will send you a copy.

Very truly yours,

Governor.

Mr. Benjamin Strong,
Governor Federal Reserve Bank,
New York.

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333.4

FEDERAL RESERVE BANK OF NEW YORK

RECEIVED
MAR 28 1918
GOVERNOR'S OFFICE

PERSONAL:

March 26, 1918.

Dear Governor Harding:

Referring to the proposed sale of $50,000,000 of our bills, this matter was discussed by our executive committee yesterday and I was asked to submit an expression of the views of the committee on this subject, which I know will receive careful consideration by the Board.

It has been the policy of our bank since it was first organized to make investments freely for the other reserve banks; these investments, as you know, being originally based upon a fixed percentage determined by a committee of the governors and approved by the Federal Reserve Board. For two years or more the joint investment policy was maintained at considerable sacrifice by our bank, which was enabled to take advantage of its local market to the extent of less than 20% of the purchases made. Our policy was inspired entirely by the desire to be of service to the whole system, and, as a result, the other reserve banks were able to make large earnings which otherwise they could not have made on strictly local business.

Now that conditions have changed, the other reserve banks have withdrawn from the arrangement, make only occasional purchases of bills in New York and, when our bill account grows in volume as at present it becomes necessary to sell our bills at a loss, i. e., at a rate of discount higher than that at which the bills were purchased in many cases.

Just this development was anticipated in the early days of the account and I think I recall discussing this with members of the Reserve Board.

Our directors feel that the disadvantages under which the New York bank operates in these matters are sufficiently important to justify a better understand-

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ing than now exists. We are in the position of not being able to take advantage of our own market when it is obviously to our interest to do so, and, on the other hand, carry the entire burden of this market when it is to the apparent advantage of the other reserve banks to withdraw, notwithstanding that their reserve positions may be much stronger than ours. Not only that, but, by withdrawing from our market and awaiting a distribution of our portfolio under the provisions of the act which enable the Reserve Board to govern the rediscounts between the reserve banks, the other reserve banks, which have withdrawn, are able in fact to get the very bills that we have purchased at better rates than those they would have received had they participated in the purchases originally.

The question of profit and loss is a minor one but the principle of protecting the reserves of the system is a very important one. As you know, our purchases of bills have been greatly enlarged solely for the purpose of facilitating Government transactions and have been made for some time past at 4% or even somewhat higher rates. These large discounts were forced upon us in consequence of the New York banks having taken the share of certificates of indebtedness which should have been taken in other reserve districts. I have already furnished the Board with figures showing what proportion of these certificates is now held in New York. The heavy purchases of certificates at 4% before the rates were raised has brought about this condition and I can not but believe that it is a serious mistake that the other districts, which formerly failed in taking their share of the Government loans at 4%, should now get a premium on bills taken from us and which we are forced to sell because we taok 4% paper which they should have taken.

I judge that the banks in Chicago hold hardly more than 5%, i. e., 1/20 of the amount of certificates held by the New York banks and now I understand that the Chicago reserve bank is reluctant to take the $20,000,000 of our bills allotted to that bank, desiring only to take $15,000,000, notwithstanding that the rate of 4 1/4%, which I believe was suggested in Washington, is just so much premium or

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extra profit brought about by their failure to do their share a month or two ago.

My personal view is that those banks which have displayed a willingness to share in the profits of other markets when it is to their advantage to do so but are unwilling to share in carrying the burdens should now be required to take these bills at a considerably lower rate than that at which they were originally purchased.

The bills now being transferred are not to be indorsed as I understand it, but, if our indorsement was required we certainly would prefer to continue to carry the load of the New York market ourselves rather than sell bills with our indorsement at a higher rate than that at which they were purchased.

Very truly yours,

Benj. Strong

Governor.

Honorable W. P. G. Harding,
Governor, Federal Reserve Board,
Washington, D. C.

BS/MSB

3/29

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#9.

FEDERAL RESERVE BOARD FILE
333.

FEDERAL RESERVE BANK OF MINNEAPOLIS

NINTH DISTRICT

OFFICERS
THEODORE WOLD, GOVERNOR
S.S. COOK, CASHIER
FRANK C. DUNLOP, ASST CASHIER
GRAY WARREN, ASST CASHIER
DIRECTORS
JOHN H. RICH, MINNEAPOLIS, MINN.
W.H. LIGHTNER, ST. PAUL, MINN.
J.C. BASSETT, ABERDEEN, S. DAK.
E.W. DECKER, MINNEAPOLIS, MINN.
F.R. BIGELOW, ST. PAUL, MINNESOTA
L.B. HANNA, FARGO, N. DAKOTA
JOHN W. BLACK, HOUGHTON, MICH.
F. WHIXON, LA CROSSE, WISCONSIN
N.P. HOLTER, HELENA, MONT.

333

November 19, 1917.

Federal Reserve Board,

Washington, D.C.

X-503.

Gentlemen:

Your favor of the 14th, x503 is before us, and we are somewhat surprised that any bank should have raised the question. In order that you may know what our attitude is, we are enclosing herewith a copy of a letter written to the New York bank on September 7th.

Yours very truly,

Governor

TW-C

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NOV 22 1917

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-copy

FEDERAL RESERVE BANK OF MINNEAPOLIS

September 7, 1917.

Mr. Benj. Strong, Governor,
Federal Reserve Bank,
New York, N.Y.

Dear Governor Strong:-

Your favor of the 31st ult. in reference to participation in open market operations, is at hand, and I wish that all the banks would have a little more definite policy than has heretofore obtained, and I feel that some explanation is due you as to the reason of our withdrawal from the market in May and our withdrawal at this time.

On May 4th the total reserve of your bank was 82.9, our total reserve was 59.6. We had been continuously in the market on the basis of participation as recommended by the Governors Committee. Our reserve was low as compared with the other bank. We were expecting unusual financing and therefore wrote to the other banks as well as your bank on April 30th as follows:

> "We expect to have, early in May, acceptances of the First & Security National Bank, and the Northwestern National Bank, Minneapolis, drawn against sale and shipment of flax and other cereals from Head of the Lakes to seaboard at New York. Acceptances will run about thirty days.
>
> We are enclosing herewith copies of last published statements of both banks, and ask you to advise us if you desire to participate with us in their purchase at the going rate."

We had favorable responses from Boston, Cleveland and Chicago, The letter received from your bank under date of May 23 was as follows:

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"We have your letter of April 30th, and note that you expect to have, early in May, acceptances of the First & Security National Bank and the Northwestern National Bank, Minneapolis, drawn against sale and shipment of flax and other cereals from the Lakes to New York, and that such bills will run about thirty days.

We appreciate your offer of participation in these purchases, and later may be glad to avail ourselves of it. For the present it looks as if we might have very considerable offerings of both acceptances and Treasury bills in this market. It seems to us desirable that the facilities of this bank should be extended freely to our open market, as well as to our member banks, in order that money rates may not be unduly affected by the large transactions of the government.

That we may be fully prepared to take some of the bills that you may have to offer us, however, we would thank you to send us for our files certified copies of their last reports to the Comptroller of the Currency and also specimens in duplicate of their authorized signatures on the signature cards which we enclose for that purpose.

We would also much appreciate having a line from you for our files in regard to these two institutions."

Under the circumstances we thought it advisable for us to withdraw from participating with you in the open market purchases, although it developed that we were able to handle the matter here without any assistance.

Our letter of August 27th expressed our feelings then and now, but the Board's suggestions, taken in connection with the volume of bills which you were sending us, and the information that our banks might be asked to help finance the Government's purchase of grain in this market and Duluth, together with the other demands on us by reason of the fact that the movement of grain was being retarded, caused us to withdraw, which action I think you will agree with me was justified when you consider our reserves of August 31st as compared with the reserves of the other banks.

Our action has been so erratic that I feel this explanation as to what caused it, is due you.

Sincerely yours,

TW:C

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FEDERAL RESERVE BOARD FILE
333.

November 26, 1917.

Mr. John Perrin,
Federal Reserve Agent,
San Francisco, Cal.

Dear Mr. Perrin:

I have your letter of the 19th instant in reference to purchases of bank acceptances in the New York market. The Board has, I think, taken exactly the view which is outlined in your letter, to wit; that as New York is a great national central market, the Federal Reserve Bank of that city should not be permitted to monopolize it, and the Board has therefore consistently urged that purchases of acceptances made by the Federal Reserve Bank be pro-rated among such other Federal Reserve banks as might desire to participate. Independent action by other banks in that market would necessarily have complicated matters, and might have resulted in purchases of acceptances not altogether desirable. It is obvious that the Federal Reserve Bank of New York has better facilities for judging credits in the New York market than could be obtained by other Federal Reserve banks acting independently.

With reference to the observations contained in your other letter of November 19th, I would say that I intended in my letter of the 14th to bring out the fact that no Federal Reserve bank is obliged to purchase acceptances or other paper from any other Federal Reserve bank without the endorsement of the selling bank, but that if endorsement is desired the selling bank should have the option of deciding whether or not it wished to part with the paper under that condition.

Very truly yours,

Governor.

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FEDERAL RESERVE BANK
OF SAN FRANCISCO

JOHN PERRIN
CHAIRMAN OF THE BOARD

RECEIVED
NOV 26 1917
GOVERNOR'S OFFICE

November 19, 1917.

The Honorable W. P. G. Harding,
Governor, Federal Reserve Board,
Washington, D. C.

Dear Sir:

In your letter of November 14th the following statement appears:

> "It has frequently happened that the Federal Reserve "Bank of New York has given other Federal Reserve banks "larger participations in these bankers acceptances than it "would have desired, had the matter been looked upon from "the viewpoint of its own interests alone."

If the New York market is looked upon as the exclusive province of the Federal Reserve Bank of New York, this would unquestionably be true. But would this be true if New York be looked upon as the great national, central market in which all Federal Reserve banks had equal rights of purchase? It is our understanding that the Federal Reserve Bank of New York has held the view that it alone, of all the Federal Reserve banks, could buy bankers acceptances in New York City, and in order to have the other Federal Reserve banks content with this program it agreed to make allotments of its purchases. The Federal Reserve Bank of San Francisco would have preferred to buy on its own account and felt that there was defense for the existence of competition even between Federal Reserve banks. However, it was agreed that this bank should be content in receiving 7 percent of the purchases made.

I submit this point to you, not that it is of great importance, but to make clear that there is another aspect to the participation in these purchases granted by the Federal Reserve Bank of New York to the other Federal Reserve banks.

Yours very truly,

John Perrin

Chairman of the Board.

11/26

JP:EHT

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FEDERAL RESERVE BANK
OF SAN FRANCISCO

JOHN PERRIN
CHAIRMAN OF THE BOARD

November 19, 1917.

RECEIVED
NOV 26 1917
GOVERNOR'S OFFICE

The Honorable W. P. G. Harding,
Governor, Federal Reserve Board,
Washington, D. C.

Dear Sir:-

Receipt is acknowledged of your letter of November 14 in reference to the matter of a Federal reserve bank endorsing acceptances sold to other Federal reserve banks. As I wrote you on 6th inst., the point was mentioned not because we had any inclination to request endorsements in the present instance or instances, but in order that the principle involved might have consideration by the Federal Reserve Board. A Federal reserve bank might for instance feel less inclined to buy from another Federal reserve bank without its endorsement, acceptances of banks of smaller cities.

Yours very truly,

John Perrin

Chairman of the Board.

JP:FK
Corr

11/26

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#6

RVE BOARD FILE
333.

FEDERAL RESERVE BANK OF RICHMOND

FIFTH DISTRICT

OFFICERS

GEORGE J. SEAY, GOVERNOR
CHAS A. PEPLE, VICE GOVERNOR
GEORGE H. KEESEE, CASHIER

DIRECTORS

CALDWELL HARDY, CHAIRMAN AND FEDERAL RESERVE AGENT
H. B. WILCOX, BALTIMORE, MD.
JAS. F. OYSTER, WASHINGTON, D. C.
JOHN F. BRUTON, WILSON N. C.
EDMUND STRUDWICK, RICHMOND
JAMES A. MONCURE, DEPUTY FEDERAL RESERVE AGENT
EDWIN MANN, BLUEFIELD, W. VA.
M. F. H. GOUVERNEUR, WILMINGTON, N. C.
D R. COKER, HARTSVILLE, S. C.

333

RECEIVED
NOV 17 1917
GOVERNOR'S OFFICE

November 16, 1917.

Hon. W. P. G. Harding, Governor,
Federal Reserve Board,
Washington, D. C.

Dear Sir:-

Your favor of the 14th, X-503, in reference to the acquisition of bankers acceptances from the Federal Reserve Bank of New York received and noted.

While we have never participated in the purchases of the New York Bank on the market, and there was therefore no obligation on us to purchase acceptances from them, other than a desire always to cooperate in the wishes of the Federal Reserve Board, and to promote the general efficiency of the System, we were glad to make the recent purchase of acceptances from the Federal Reserve Bank of New York, and fully understood that we were doing so without requiring its endorsement.

Very truly yours,

Caldwell Hardy

Federal Reserve Agent.

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BOARD FILE
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Ind. of accept.
EF.

#12

November 14, 1917.

X-503

Mr. John Perrin,
Chairman of the Board,
Federal Reserve Bank,
San Francisco, Calif.

Dear Sir:-

Receipt is acknowledged of your letter of November 6th in which you ask whether the Federal Reserve Bank of New York should not have endorsed the $5,000,000 of bankers' acceptances which you bought recently from that bank in accordance with the suggestion of the Federal Reserve Board.

Your point is well taken and the question was fully discussed by the Board when the transaction was arranged. In reviewing the conditions which led to this transaction, it should be remembered that the Federal Reserve banks, with hardly any exception, have been accustomed, with the approval of the Board, to invest liberally in bankers' acceptances which were purchased for them by the Federal Reserve Bank of New York. These transactions have been regularly engaged in and on a large scale, particularly by those banks which, like your own, did not find a sufficient field of investment in their own districts. The New York acceptance market has thus been developed to a considerable degree by the combined operations of the Federal Reserve banks. It has frequently happened that the Federal Reserve Bank of New York has given other Federal Reserve banks larger participations in these bankers' acceptances than it would have desired had the matter been looked upon from the viewpoint of its own interest

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alone. These liberal participations have been given other Federal Reserve banks when the New York Bank's earnings were not sufficient to meet its own dividend requirements, while the other banks, by receiving a liberal allotment of acceptances purchased in New York, were enabled thereby to make a better showing in the matter of earnings.

There have been other occasions when the Federal Reserve banks have discontinued their purchases in anticipation of heavy demands in their own districts, thus throwing the whole burden of sustaining the acceptance market upon the Federal Reserve Bank of New York. In this way they conserve their own resources, while the reserves of the Federal Reserve Bank of New York were correspondingly reduced because of the larger part of the burden which it had to assume. These facts are brought to your attention for the purpose of emphasizing the point that a participation in the purchase of acceptances is not only a privilege but that it is perhaps a duty also, the measure of which can hardly be gauged by the convenience of any individual bank. Final responsibility in the matter rests under the law upon the Federal Reserve Board, and it may become necessary for the Board in the future to undertake a more complete regulation of these functions.

In suggesting to a number of Federal Reserve banks which were in a strong position, to purchase bankers' acceptances from the Federal Reserve Bank of New York, the Board asked merely that they resume their purchases of acceptances in the manner in which they had engaged in these transactions heretofore; - i. e., without the endorsement of the Federal Reserve Bank of New York. The Board anticipates that there will be a quick change in

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banking conditions shortly after the fifteenth instant, when the pressure on New York should diminish and bear heavier upon some of the other districts. From this point of view, the most natural operation perhaps would have been the rediscount by other Federal Reserve banks of the fifteen day member banks' collateral paper, of which the Federal Reserve Bank of New York holds a very large amount at this time. Such a transaction, however, would necessarily have been dealt with as a rediscount, as it would have involved single name collateral notes of member banks taken under Section 13, endorsed by the Federal Reserve Bank of New York under instructions from the Federal Reserve Board. It would have been necessary to show a transaction of this kind in the weekly statement, thereby creating more or less comment, which might have been undesirable in the present circumstances, and the Board felt therefore, that it would be better for the adjustment to take the form of a sale of acceptances suggested by the Board rather than by a rediscount transaction ordered by the Board. The Board understands, of course, that in any case where a rediscount operation is ordered, Federal Reserve banks should have the right to require that the paper bear the endorsement of the selling bank; but where the Board invited the banks to resume purchases of bankers' acceptances upon the same conditions which have prevailed hitherto, it was felt that there was no necessity for requiring an endorsement. Had any bank to which the Board suggested a purchase, stipulated that the paper should be endorsed, the Federal Reserve Bank of New York in that event would have been called upon to decide whether it would prefer not to consider the proposed sale.

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While your letter was in transit the Board effected a second transaction of this kind. When the Federal Reserve bank governors were assembled here last Thursday, some of them, whose banks were in a particularly strong position, were asked if they were willing to take from the Federal Reserve Bank of New York a specified amount of bankers' acceptances. Without hesitation they all stated their willingness to do so. This transaction also had the character of a voluntary purchase on the part of the Federal Reserve banks, upon the suggestion of the Federal Reserve Board, and as there was no compulsion in the matter, the endorsement of the Federal Reserve Bank of New York was not required.

Respectfully yours,

Governor.

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FEDERAL RESERVE BANK
OF SAN FRANCISCO

RECEIVED
NOV 12 1917
GOVERNOR'S OFFICE

JOHN PERRIN
CHAIRMAN OF THE BOARD

No 2
Mr Warburg

November 6, 1917.

The Honorable W. P. G. Harding,
Governor, Federal Reserve Board,
Washington, D. C.

Dear Sir:-

Referring to the opportunity recently extended to this bank to participate to the extent of $5,000,000 in releiving the Federal Reserve Bank of New York of a total of $30,000,000 of acceptances, an opportunity of which we availed ourselves, the point was raised in our directors' meeting this morning whether these acceptances purchased should bear the endorsement of the Federal Reserve Bank of New York. This is a point which it appears should have consideration and determination by the Federal Reserve Board in order that the principle may be clearly defined. It is conceivable that a similar situation might arise, perhaps in the case of another Federal Reserve Bank than that of New York, in which the acceptors of the bills offered might be less likely to meet with our approval than will probably be the case in this instance. Under such circumstances it would seem appropriate that this bank should be protected by the endorsement of the selling Federal Reserve Bank. Uniformity would therefore call for such endorsement in all such cases.

Awaiting the favor of your reply, I remain,

Yours very truly,

John Perrin
Chairman of the Board.

11/14

JP:FK
enm

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Treasury Department

TELEGRAM

FEDERAL RESERVE BOARD FILE
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NOV 1 - 1917
GOVERNORS OFFICE

333

62WU MO 24 Govt

BU PHILADELPHIA Pa 1252pn Nov 1 1917

Harding Governor Federal Reserve Board

Washington

We have advised New-York that we will take five million acceptances today as per your telegram

Rhoades Governor

117pm

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Form 12[illegible]

CLASS OF SERVICE	SYMBOL
Day Message	
Day Letter	Blue
Night Message	Nite
Night Letter	N L

If none of these three symbols appears after the check (number of words) this is a day message. Otherwise its character is indicated by the symbol appearing after the check.

WESTERN UNION TELEGRAM

NEWCOMB CARLTON, PRESIDENT GEORGE W. E. ATKINS, FIRST VICE-PRESIDENT

CLASS OF SERVICE	SYMBOL
Day Message	
Day Letter	Blue
Night Message	Nite
Night Letter	N L

If none of these three symbols appears after the check (number of words) this is a day message. Otherwise its character is indicated by the symbol appearing after the check.

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RB CLEVELAND OHIO 350P NOV 1

HARDING

GOVERNOR FEDERAL RESERVE BOARD WASHINGTON

VERY GLAD TO COMPLY WITH BOARDS REQUEST IN REFERENCE TO TAKING ACCEPTANCES FROM NEWYORK BANK HAVE COMMUNICATED WITH THEM BY PHONE AND ARRANGED DETAILS

FANCHER

GOVERNOR

4P

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NOV 1 1917
GOVERNOR'S OFFICE

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Treasury Department

TELEGRAM

RECEIVED
NOV 1 - 1917
GOVERNOR'S OFFICE

82WU MO 54 collect Govt

SU MINNEAPOLIS Minn 1254pm Nov 1 1917

Harding, Governor Federal Reserve Board

Washington

We will take as suggested in your telegram even date five million acceptances from the Federal Reserve Bank of New-York such acceptances to be of the same kind and character as we have heretofore authorized them to purchase from time to time forour account

Wold Governor

239pm

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#10

Treasury Department

TELEGRAM

74WU MO 37 Govt

MT KANSAS CITY Mo 125opm Nov 1 1917

Harding Governor Federal Reserve Board

Washington

Referring your telegram it is perfectly agreeable with us to take five millions dollars acceptances from Federal Reserve Bank of New-York and we are wiring it to that effect

Miller Governor

211pm

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NOV 1 - 1917
GOVERNOR'S OFFICE

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99WU M 33 Collect GR Treasury Department
MK Sanfrancisco Calif Nov 1132am 1
TELEGRAM
Harding Governor

FEDERAL RESERVE BOARD FILE
333 Y

Federal Reserve Board,

Washington

Your telegram even date agreeable to us to take five million acceptances to-day we are transferring that amount to newyork and advising

Calkins Deputy Governor 327pm

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NOV 1 - 1917
GOVERNOR'S OFFICE

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Form 40 a

TELEGRAM

FEDERAL RESERVE BOARD

WASHINGTON

November 1, 1917.

Rhoads,

Governor Federal Reserve Bank,
Philadelphia, Penna.

As ~~was~~ the case with the first Liberty Loan demands upon New York appear heavier during period preceding payment of first installment. New York's investments accordingly have increased largely while those of other Federal Reserve banks have remained practically unchanged. To equalize matters Federal Reserve Board wishes to relieve New York of about ~~forty~~ Thirty million dollars in acceptances of short maturity by distributing same among other Federal Reserve banks. Board therefore requests you to take from New York ~~seven~~ 5 five million acceptances today. As soon as movement turns transaction will be reversed. New York has been advised accordingly. Answer.

Harding.

OK. I think this should be sent in cypher to each Bk for the acts respectively called for. J.T.W.

OFFICIAL BUSINESS
GOVERNMENT RATES
CHARGE FEDERAL RESERVE BOARD

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TELEGRAM

FEDERAL RESERVE BOARD

WASHINGTON

November 1, 1917.

Fancher,

Governor Federal Reserve Bank,
Cleveland, Ohio.

As was the case with the first Liberty Loan demands upon New York appear heavier during period preceding payment of first installment. New York's investments accordingly have increased largely while those of other Federal Reserve banks have remained practically unchanged. To equalize matters Federal Reserve Board wishes to relieve New York of about ~~forty~~ million dollars in acceptances of short maturity by distributing same among other Federal Reserve banks. Board therefore requests you to take from New York ten million acceptances today. As soon as movement turns transaction will be reversed. New York has been advised accordingly. Answer.

Harding.

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TELEGRAM

FEDERAL RESERVE BOARD

WASHINGTON

November 1, 1917.

Wold,

Governor Federal Reserve Bank,
Minneapolis, Minn.

As was the case with the first Liberty Loan demands upon New York appear heavier during period preceding payment of first instalment. New York's investments accordingly have increased largely while those of other Federal Reserve banks have remained practically unchanged. To equalize matters Federal Reserve Board wishes to relieve New York of about ~~forty~~ thirty million dollars in acceptances of short maturity by distributing same among other Federal Reserve banks. Board therefore requests you to take from New York ~~Four~~ Five million acceptances today. As soon as movement turns transaction will be reversed. New York has been advised accordingly. Answer.

Harding.

OFFICIAL BUSINESS
GOVERNMENT RATES
CHARGE FEDERAL RESERVE BOARD

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TELEGRAM

FEDERAL RESERVE BOARD

WASHINGTON

November 1, 1917.

Miller,
Governor Federal Reserve Bank,
Kansas City, Mo.

As was the case with the first Liberty Loan demands upon New York appear heavier during period preceding payment of first installment. New York's investments accordingly have increased largely while those of other Federal Reserve banks have remained practically unchanged. To equalize matters Federal Reserve Board wishes to relieve New York of about forty million dollars in acceptances of short maturity by distributing same among other Federal Reserve banks. Board therefore requests you to take from New York five millions acceptances today. As soon as movement turns transaction will be reversed. New York has been advised accordingly. Answer.

Hurd mg.

OFFICIAL BUSINESS
GOVERNMENT RATES
CHARGE FEDERAL RESERVE BOARD

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#11

333

335 -

August 27, 1917.

Mr. R. L. Van Zandt,
Governor Federal Reserve Bank,
Dallas, Texas.

Dear Governor Van Zandt:

In reply to your letter of the 22nd instant, I would state that it was not the intention of the Board to discourage the purchase by any Federal reserve bank of bills already owned by another Federal reserve bank. It merely wished to call attention to the heavy demands which it feels will come upon the Federal reserve banks a little later on, and to point out the necessity of being well prepared. With this thought in mind, it would feel that the Federal Reserve Bank of New York, for instance, should not be required to go into the market to purchase acceptances for other Federal reserve banks at rates lower than those established by it for its own protection in that market.

Very truly yours,

Governor.

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EX-OFFICIO MEMBERS
WILLIAM G. McADOO
SECRETARY OF THE TREASURY
CHAIRMAN
JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD

WASHINGTON

W. P. G. HARDING, GOVERNOR
PAUL M. WARBURG, VICE GOVERNOR
FREDERIC A. DELANO
ADOLPH C. MILLER
CHARLES S. HAMLIN
H. PARKER WILLIS, SECRETARY
SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT
ADDRESS REPLY TO
FEDERAL RESERVE BOARD

X-345.

August 24, 1917.

Dear Sir:

The Board is of the opinion that it is important that Federal reserve banks should, at this time, keep themselves in as strong a position as possible, without declining to meet legitimate demands made upon them in their own districts. The statements of August 17th show that the reserves of the banks range from 68.3% to 91.1%. The view of the Board is that for the present the Federal reserve banks should endeavor to maintain a reserve position against note issues and deposits combined of between 75% and 85%, and that whenever this reserve should fall below 70% in any case, the Federal reserve bank should dispose of some of its bills to other banks which are in a stronger position.

The Board has concluded, therefore, that the proper policy for a Federal reserve bank to pursue at this time would be for it to discontinue any participation in open market transactions outside of its own district whenever its reserve falls below 75% of its deposit and note liability. This policy, of course, is subject to modification as conditions change, and the object of this letter is merely to outline a proper course of action for the next few weeks. The Board will advise the banks whenever any change in this policy appears to be expedient.

Very truly yours,

Governor.

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FEDERAL RESERVE BANK
OF DALLAS

R. L. VAN ZANDT, GOVERNOR
J. W. HOOPES, VICE-GOVERNOR
LYNN P. TALLEY, CASHIER
SAM R. LAWDER, ASST. CASHIER

333.4

August 22nd 1917.

RECEIVED
AUG 25 1917
GOVERNOR'S OFFICE

Hon. W. P. G. Harding, Governor,

Federal Reserve Board,

Washington, D. C.

Dear Governor Harding:

Acknowledging receipt of your letter of the 15th instant, No. X-331, and referring further to my letter of the 13th instant relative to purchases of Acceptances by us from the Federal Reserve Bank of New York, I beg to advise you that our executive committee in reconsidering the advisability of making such purchases, after having received your telegram stating that the Board did not disapprove the proposed purchase, we gave consideration also to the fact that by the purchase of these Acceptances from the Federal Reserve Bank of New York, and having said Acceptances pledged with the Federal Reserve Agent in New York in trust for our Federal Reserve Agent, we would be able to issue Federal Reserve Notes at this end of the line in order to fill shipping requests from member banks without the necessity of waiting for the money to be shipped down here.

You, no doubt, understand that when our cotton begins to move our demand is for currency in exchange for cotton drafts on New York, Boston and Philadelphia, and, by reason of such exchange, we accumulate large amounts of Eastern exchange for which we must pay out the currency at this end of the line. In purchasing Acceptances from the Federal Reserve Bank of New York we enable New York to avoid the necessity of paying us through the Gold Settlement Fund for these New York drafts, and also relieve them, to a certain extent, of their holdings of Acceptances without it being necessary for them to go into the open market and sell. It appears to us that such transactions are not only mutually advantageous to the Federal Reserve

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Banks interested, but, in a measure, succeed in acquiring gold (which is received for exported cotton) and holding it in the Federal Reserve System.

I will appreciate your further suggestions in this connection.

Yours very truly,

R. L. Vanzandt

Governor.

VZ-dls

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#12

FEDERAL RESERVE BOARD FILE
333.

FEDERAL RESERVE BANK
OF SAN FRANCISCO

333.7

JAMES K. LYNCH
GOVERNOR

21st August 1917

Dear Sir:

Your circular letter of 15th instant is received and we note that Federal reserve banks should not at this time request the Federal Reserve Bank of New York or any other Federal Reserve Bank to make purchases of acceptances in the open market for their account.

This Bank will therefore govern itself accordingly.

Yours very truly,

Governor

The Hon W P G Harding
Governor, Federal Reserve Board
Washington, D C

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FEDERAL RESERVE BOARD FILE
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OFFICERS
ROLLA WELLS, Governor
W. W. HOXTON, Deputy Governor and Cashier
JAMES G. McCONKEY, Counsel and Secretary
OLIN M. ATTEBERY, Assistant Cashier
R. R. CLABAUGH, Assistant Cashier

FEDERAL RESERVE BANK OF ST. LOUIS

DIRECTORS
W. McC. MARTIN, Chairman of the Board and Federal Reserve Agent
JOHN W. BOEHNE, Evansville, Ind.
D. C. BIGGS, St. Louis, Mo.
WALKER HILL, St. Louis, Mo.
W. B. PLUNKETT, Little Rock, Ark.
LE ROY PERCY, Greenville, Miss.
FRANK O. WATTS, St. Louis, Mo.
S. A. ZIEGLER, Albion, Ill.

RECEIVED
AUG 22 1917
GOVERNOR'S OFFICE

August Twentieth
Nineteen Seventeen

Hon. W. P. G. Harding, Governor,

Federal Reserve Board,

Washington, D. C.

Dear Sir:

I wish to acknowledge receipt of your letter of the 15th (x331) in regard to the purchase of acceptances at this time.

The Board's wishes in this connection have been duly noted.

Yours very truly,

Wm. McCm. Martin, Federal Reserve Agent.

By C. M. Stewart
Assistant Federal Reserve Agent.

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FEDERAL RESERVE BOARD FILE
333.

FEDERAL RESERVE BANK
OF SAN FRANCISCO

JOHN PERRIN
CHAIRMAN OF THE BOARD

333.x

August 20, 1917.

The Honorable W. P. G. Harding,
Governor, Federal Reserve Board,
Washington, D. C.

Dear Sir:

Receipt of your letter of 13th X 15 inst. (X-331) is acknowledged, and copies have been given to the Governor and Deputy Governor of this bank.

Yours very truly,

John Perrin
Federal Reserve Agent.

JP:EHT

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FEDERAL RESERVE BOARD FILE
332.*
Fed 1/25/17

Percentages of allotments
In Purchases of Warrants and Acceptances
In effect Feby 5. 1916 - since changed

New York	42%
Boston	7
Phila	8
Cleveland	7
Chicago	16.
St Louis	6
Minn.	4
Kansas City	4
San Francisco	6
	100%

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FEDERAL RESERVE BOARD FILE
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OFFICERS
ROLLA WELLS, Governor
W. W. HOXTON, Deputy Governor and Cashier
JAMES G. McCONKEY, Counsel and Secretary
OLIN M. ATTEBERY, Assistant Cashier
R. R. CLABAUGH, Assistant Cashier

FEDERAL RESERVE BANK
OF
ST. LOUIS

DIRECTORS
W. McC. MARTIN, Chairman of the Board and Federal Reserve Agent
JOHN W. BOEHNE, EVANSVILLE, IND.
D. [illegible], ST. LOUIS, MO.
WALKER HILL, ST. LOUIS, MO.
W. B. PLUNKETT, LITTLE ROCK, ARK.
LE ROY PERCY, GREENVILLE, MISS.
FRANK O. WATTS, ST. LOUIS, MO.
S. A. ZIEGLER, ALBION, ILL.

August 18, 1917.

Hon. W. P. G. Harding, Governor,
Federal Reserve Board,
Washington.

Dear Governor Harding:

33532

I wrote you yesterday an official communication acknowledging receipt of your letter X-331, dated August 15th. I stated that we had on our books at the close of business August 17th, $2,800,000 in bills bought, and that we would discontinue making any additions to that item. You will probably notice in our next statement a considerable addition, which I wish to explain.

I wrote yesterday to the Federal Reserve Bank of New York requesting them to discontinue purchasing warrants for our account until further notice. We received today $1,025,000 in acceptances from New York bearing their date of the 15th, concerning which we did not receive a wire advice. Yesterday afternoon we received a wire advice from the New York bank that they had purchased for our account an additional $1,340,000. I immediately wired the New York bank to discontinue such purchases for our account, advising them that my letter would reach them later.

I may be mistaken, but I cannot help feeling that the New York bank on August 17th charged our account with this last batch of $1,340,000 out of their own portfolio, having at the time in hand a copy of your circular letter X-331, and knowing that we would, immed-

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OFFICERS
ROLLA WELLS,
GOVERNOR
W. W. HOXTON,
DEPUTY GOVERNOR AND CASHIER
JAMES G. McCONKEY,
COUNSEL AND SECRETARY
OLIN M. ATTEBERY,
ASSISTANT CASHIER
R. R. CLABAUGH,
ASSISTANT CASHIER

FEDERAL RESERVE BANK
OF
ST. LOUIS

DIRECTORS
W. McC. MARTIN,
CHAIRMAN OF THE BOARD AND
FEDERAL RESERVE AGENT
JOHN W. BOEHNE, EVANSVILLE, IND.
D. C. BIGGS, ST. LOUIS, MO.
WALKER HILL, ST. LOUIS, MO.
W. B. PLUNKETT, LITTLE ROCK, ARK.
LE ROY PERCY, GREENVILLE, MISS.
FRANK O. WATTS, ST. LOUIS, MO.
S. A. ZIEGLER, ALBION, ILL.

To Hon. W. P. G. Harding. 8-18-17

iately upon receipt of the said circular letter from you, cancel the arrangement. At all events, these last two purchases run our bills bought account up to a higher figure than I like. Even if my surmise is correct, the New York bank was technically within its right in the matter as they held at the time an uncountermanded letter from Mr. Wells dated July 16th, authorizing pro-rata purchases for the account of this bank.

With high personal regards, I am

Very sincerely yours,

W. W. Hoxton

Deputy Governor.

WWH-S

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FEDERAL RESERVE BOARD FILE
333.

OFFICERS
M.B.WELLBORN, CHAIRMAN OF THE BOARD.
EDW.T.BROWN, DEPUTY-CHAIRMAN.
JOS.A.McCORD, GOVERNOR.
W.H.TOOLE, SECRETARY.
J.M.SLATTERY, DEPUTY-SECRETARY.
M.W.BELL, CASHIER.

FEDERAL RESERVE BANK
OF ATLANTA.

DIRECTORS
EDW.T.BROWN, ATLANTA,GA.
F.W.FOOTE, HATTIESBURG,MISS.
W.H.HARTFORD, NASHVILLE,TENN.
L.P.HILLYER, MACON,GA.
W.H.KETTIG, BIRMINGHAM,ALA.
J.A.McCRARY, DECATUR, GA.
W.H.TOOLE, WINDER, GA.
M.B.WELLBORN, ANNISTON,ALA.

Aug. 18, 1917.

RECEIVED
AUG 20 1917

333.4

Hon. W. P. G. Harding, Governor,

Federal Reserve Board,

Washington, D. C.

Dear Governor Harding:-

I acknowledge receipt of your letter "X-331", under date of August 15th, relative to the purchase of acceptances in the open market, and note that the Board advises that we do not extend our efforts in this direction for the present, but that there is no objection to our purchasing bankers' acceptances held in the port-folios of any of the other Federal Reserve Banks.

On receipt of this information, we purchased from the Federal Reserve Bank of New York $500,000 of member banks' acceptances and $500,000 of non-member banks' acceptances, which have been held by them.

From the present outlook, we will have more funds to invest, and we may avail ourselves of further purchases from other Federal Reserve Banks and shall not attempt to purchase in the open market. We expect later on, say in sixty or ninety days, that we will have quite an amount of bankers' acceptances arising in our own district in the handling of the cotton crop; but, in view of the fact that we will have to furnish the currency to move this cotton crop, we will do this by the issuance of Federal Reserve Notes, and we feel ourselves in fairly good position to take care of the purchases we are making and still be of ample service to our member banks by the issuance of these Federal Reserve Notes, which are necessary for the movement of our crops.

Respectfully,

Jos. A. McCord

Governor.

JAM/sc.

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FEDERAL RESERVE BOARD FILE
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FEDERAL RESERVE BANK OF CHICAGO

79 WEST MONROE STREET

OFFICERS

JAMES B. McDOUGAL GOVERNOR
C. R. McKAY DEPUTY GOVERNOR
W. F. McLALLEN SECRETARY
B. G. McCLOUD CASHIER
S. B. CRAMER ASST. CASHIER

DIRECTORS

W. A. HEATH
CHAIRMAN AND FEDERAL RESERVE AGENT
J. W. BLODGETT GRAND RAPIDS, MICH.
J. B. FORGAN CHICAGO, ILLINOIS
M. B. HUTCHISON OTTUMWA, IOWA
W. F. McLALLEN
DEPUTY FEDERAL RESERVE AGENT
E. L. JOHNSON WATERLOO, IOWA
E. T. MEREDITH DES MOINES, IOWA
G. M. REYNOLDS CHICAGO, ILLINOIS
A. H. VOGEL MILWAUKEE, WISCONSIN

AUGUST 17, 1917.

Mr. W. P. G. Harding, Governor,
Federal Reserve Board,
Washington, D.C.

Dear Governor Harding:

We are in receipt of your favor of the 15th instant, and note therefrom all that is said indicating the Board's attitude in regard to buying bills or open market transactions under existing conditions.

We thoroughly agree with you as to the advisability of strengthening our position rather than seeking investments in the open market at this time and this will be our aim.

Very truly yours,

Governor.

NF

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FEDERAL RESERVE BOARD FILE
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FEDERAL RESERVE BANK OF MINNEAPOLIS

NINTH DISTRICT

OFFICERS
THEODORE WOLD, GOVERNOR
S.S. COOK, CASHIER — FRANK C. DUNLOP, ASST. CASHIER

DIRECTORS
JOHN H. RICH, CHAIRMAN AND FEDERAL RESERVE AGENT — W.H. LIGHTNER, DEPUTY CHAIRMAN AND DEPUTY FEDERAL RESERVE AGENT
J.C. BASSETT, ABERDEEN, S. DAK. — E.W. DECKER, MINNEAPOLIS, MINN.
F.R. BIGELOW, ST. PAUL, MINNESOTA — L.B. HANNA, FARGO, N. DAKOTA
JOHN W. BLACK, HOUGHTON, MICH. — F.P. HIXON, LA CROSSE, WISCONSIN
N.B. HOLTER, HELENA, MONT.

August 17, 1917.

Mr. W. P. G. Harding, Governor,
Federal Reserve Board,
Washington, D.C.

Dear Mr. Harding:

Your circular of the 15th regarding the purchase of acceptances in the open market is at hand and noted. I beg to assure you that we are entirely in accord with the position of the Board in this matter. There were special reasons entirely disconnected from the Liberty Loan transactions that caused us to discontinue in June participating with the Federal Reserve Bank of New York in the purchase of acceptances. Later when we saw the volume in which acceptances were being offered by them, we thought the position taken by us was rather narrow and therefore advised them last week that we would again participate with them in their purchases of acceptances, confining our purchases however, to the names and limits heretofore set by us.

We have not asked them to go out and purchase acceptances for us in the open market, but simply advised them that we were willing to again take our proportion as fixed by the committee in further investments of that character made by them. We leave it entirely to their discretion, so that our purchase of acceptances depends entirely upon whether the Federal Reserve Bank of New York goes in the market or not.

Yours very truly,

Governor

TW-C

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FEDERAL RESERVE BOARD FILE
333.2

ALFRED A. AIKEN
GOVERNOR
FLORRIMON M. HOWE
CASHIER
ERNEST M. LEAVITT
ASSISTANT CASHIER
CHESTER C. BULLEN
ASSISTANT CASHIER
WILLIAM WILLETT
ASSISTANT CASHIER
HARRY A. SAUNDERS
ASSISTANT CASHIER

FEDERAL RESERVE BANK
OF BOSTON

DIRECTORS
FREDERIC H. CURTISS, CHAIRMAN
AND FEDERAL RESERVE AGENT
ANDREW J. PETERS, VICE-CHAIRMAN
AND DEPUTY FEDERAL RESERVE AGENT
THOMAS P. BEAL, BOSTON, MASS.
THOMAS W. FARNAM, NEW HAVEN, CONN.
ARTHUR M. HEARD, MANCHESTER, N. H.
CHARLES A. MORSS, BOSTON, MASS.
EDMUND R. MORSE, PROCTOR, VT.
CHARLES G. WASHBURN, WORCESTER, MASS.
ALLEN HOLLIS, CONCORD, N. H.

RECEIVED
AUG 20 1917
FEDERAL RESERVE BOARD

August 17, 1917.

333.4

Hon. W. P. G. Harding,
Governor, Federal Reserve Board,
Washington, D. C.

Dear Sir:

I beg to acknowledge receipt of your letter of the 15th inst., being your X-331, in regard to orders for purchase of acceptances.

Very truly yours,

Alfred L. Aiken
Governor.

ALA/M

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FEDERAL RESERVE BANK
OF CLEVELAND

FEDERAL RESERVE BOARD FILE
333

August 17, 1917.

Hon. W. P. G. Harding, Governor,
Federal Reserve Board,
Washington, D. C.

Dear Sir:

Your letter of August 15 concerning the policy to be pursued in respect to the purchase of Acceptances has been received.

We have endeavored to keep in close touch with those Reserve Banks offering us participations in purchases of Acceptances, and at no time have we requested purchases in the market when these banks themselves were not buying. The Federal Reserve Bank of Cleveland is one of the banks that have recently been relieving the Federal Reserve Bank of New York from some of the Acceptances in its own portfolio.

The policy of the Federal Reserve Board has been carefully noted, and will be brought to the attention of our Board at its next meeting.

Very truly yours,

Chairman of the Board.

DCW-MM.

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FEDERAL RESERVE BOARD FILE
333

FEDERAL RESERVE BANK OF KANSAS CITY

TENTH DISTRICT

333.7

AUGUST
17th
1 9 1 7

Federal Reserve Board,
Washington,
D. C.

Gentlemen: -

Your stencil letter of August 15th in the matter of the purchase of Acceptances by the Federal Reserve Bank of New York for the account of other Federal Reserve Banks is acknowledged and our proceedure will be in line with the policy suggested.

Very truly yours,

MAT-U

Geo. M. Dawson

Federal Reserve Agent.

BY _____
ASST. FEDERAL RESERVE AGENT

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FEDERAL RESERVE BOARD FILE
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333.4

FEDERAL RESERVE BANK OF RICHMOND

FIFTH DISTRICT

OFFICERS

GEORGE J. SEAY, GOVERNOR
CHAS. A. PEPLE, VICE GOVERNOR
GEORGE H. KEESEE, CASHIER

DIRECTORS

CALDWELL HARDY, CHAIRMAN AND FEDERAL RESERVE AGENT
H. B. WILCOX, BALTIMORE, MD.
JAS. F. OYSTER, WASHINGTON D. C.
JOHN F. BRUTON, WILSON N. C.
EDMUND STRUDWICK, RICHMOND
JAMES A. MONCURE, DEPUTY FEDERAL RESERVE AGENT
EDWIN MANN, BLUEFIELD, W. VA
M. F. H. GOUVERNEUR, WILMINGTON, N. C.
D. R. COKER, HARTSVILLE, S. C.

RECEIVED
AUG 17
GOVERNOR'S OFFICE

August 16, 1917.

Hon. W. P. G. Harding, Governor,
Federal Reserve Board,
Washington, D. C.

Dear Sir:-

Your favor of the 15th - X331, has been received, in reference to purchasing through the Federal Reserve Bank of New York, or otherwise, acceptances on the open market.

This Bank, as you are doubtless aware, has confined its operations entirely to its own district, and we have no investments outside of it, other than U. S. Bonds. We are supplying demands in the District on a conservative basis, and discounts have declined in volume a little during the past week. The high prices of tobacco, which has already commenced to move, and the prospective returns from the cotton crop, indicate that the business of the District will be comfortably handled, with possibly a surplus of funds later in the season.

Very truly yours,

Caldwell Hardy

Federal Reserve Agent.

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FEDERAL RESERVE BOARD FILE
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FEDERAL RESERVE BANK OF PHILADELPHIA

408 CHESTNUT STREET

CHARLES J. RHOADS, GOVERNOR
EDWIN S. STUART, DEPUTY GOVERNOR
FRANK M. HARDT, CASHIER
THOMAS GAMON, JR. ASSISTANT CASHIER

RICHARD L. AUSTIN, CHAIRMAN OF THE BOARD AND FEDERAL RESERVE AGENT
HENRY B. THOMPSON, DEPUTY CHAIRMAN OF THE BOARD AND DEPUTY FEDERAL RESERVE AGENT
ARTHUR E. POST, ASSISTANT TO FEDERAL RESERVE AGENT

333.7

August 16, 1917.

S i r:

In the absence of Governor Rhoads on a short vacation, I beg to acknowledge receipt of your letter of August 15th in reference to the purchase of acceptances in the market by a Federal reserve bank for the account of another Federal reserve bank.

While this bank has never requested the Federal Reserve Bank of New York to purchase acceptances for us in the open market, we have agreed to share in a moderate way purchases made by them in amounts greater than their needs at the moment. We thoroughly appreciate the situation, but from your letter do not understand that we are to cease receiving acceptances through the Federal Reserve Bank of New York in the ordinary course of business, whose purchases, we are assured, will for the present be made as small as possible.

Very truly yours,

Deputy Governor and Cashier.

RECEIVED FEDERAL RESERVE BOARD AUG 17 1917

HON. W. P. G. HARDING,

Governor, Federal Reserve Board,

Washington, D.C.

FMH-R

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#2

FEDERAL RESERVE BOARD FILE
333.
GOVERNOR'S OFFICE

FEDERAL RESERVE BANK
OF NEW YORK

333

August 16, 1917.

X-331

Dear Governor Harding:

Receipt is acknowledged of your letter of August 15th to Mr. Jay relative to purchases of acceptances under present conditions.

We are much pleased with the position taken.

Very truly yours,

R. M. Gidney

Assistant Federal Reserve Agent.

Honorable W. P. G. Harding,
Governor, Federal Reserve Board,
Washington, D. C.

FEDERAL RESERVE BOARD
AUG 17 1917

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EX-OFFICIO MEMBERS
WILLIAM G. ADOO
SECRETARY OF THE TREASURY
CHAIRMAN
JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

Incomplete

FEDERAL RESERVE BOARD

WASHINGTON

FEB 333

W. P. G. HARDING, GOVERNOR
PAUL M. WARBURG, VICE GOVERNOR
FREDERIC A. DELANO
ADOLPH C. MILLER
CHARLES S. HAMLIN
H. PARKER WILLIS, SECRETARY
SHERMAN P. ALLEN, ASST. SECRETARY AND FISCAL AGENT

X-331.

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

August 15, 1917.

333.7

Dear Sir:-

The Board is advised that several of the Federal reserve banks have recently requested the Federal Reserve Bank of New York to buy acceptances for their account. That particular institution is very wisely, in the opinion of the Board, not investing its funds in the market at this time, but is on the contrary liquidating its maturities. In order to fill the orders which have been received from other Federal reserve banks, the New York bank has been selling to them from its own portfolio. From the standpoint of the Board, there is no objection to this, because the cash and reserve position of the system as a whole, is not affected. The Federal reserve banks, however, should not request the Federal Reserve Bank of New York, or any other Federal reserve bank to make purchases in the market for their account, at a time like the present, when the intermediary bank is not buying for its own account; in other words, while there is no objection to having Federal reserve banks participate if mutually agreeable, in the purchases which have already been made by the two or three banks which hold the bulk of acceptances, the Board does not feel that additional purchases should be encouraged at this time, and believes that the Federal reserve banks should adopt the policy of strengthening their position while money is easy, and that they should not seek investments for the sake of the income to be derived therefrom. The banks will have ample opportunities to increase their earnings during the periods of payments for government loans.

Very truly yours,

Governor.

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FEDERAL RESERVE BOARD FILE

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CHAIRMAN
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H. PARKER WILLIS, SECRETARY
SHERMAN ALLEN, ASST. SECRETARY

HS

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

333.4

October 29, 1915.

Sir:

This is to advise you that the Board's letter of October 8 relating to open market operations, has been slightly modified by the insertion of the words "~~relating~~ with respect to bills of exchange" on the last page of the letter after the words "free to exercise the authority granted under Section 14". This addition does not alter the sense of the letter [redacted], but has been introduced for the sake of clearness. The letter as thus modified will be officially published in the Federal Reserve Bulletin for November.

Respectfully,

Secretary.

Mr. Frederic H. Curtiss,
Chairman, Board of Directors,
Federal Reserve Bank of Boston.

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3334

Excerpt from the Minutes of the Federal Reserve Board
Meeting of October 29, 1915.

On motion it was voted that the Secretary of the Board notify all Federal reserve agents officially of the change in the wording of the letter relating to open market operations authorized at yesterday's meeting.

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333.4

Excerpt from the Minutes of the Federal Reserve Board
Meeting of October 27, 1915.

On motion it was voted to correct the letter to reserve banks on open market operations - to be published in the forthcoming Bulletin - by inserting the words "relating to bills of exchange," on the last page of the letter.

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FEDERAL RESERVE BOARD

WASHINGTON

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FREDERIC A. DELANO, VICE GOVERNOR
PAUL M. WARBURG
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ADDRESS REPLY TO
FEDERAL RESERVE BOARD

FEDERAL RESERVE BOARD
262
-330-
333.4
380

October 9, 1915.

S I R :

In the matter of open market operations provided for by Section 14 of the Federal Reserve Act, as I understand the question submitted for consideration, you desire to know whether there is any duty or obligation on the part of the Federal Reserve Board to prescribe rules and regulations governing conditions under which Federal reserve banks may purchase and sell in the open market cable transfers, bankers' acceptances and bills of exchange, or whether the Board, by failure to prescribe such regulations, may withhold from such banks the right to exercise these powers.

To answer this question it is necessary to determine the legal effect of the provision in question. The language of the Act is -

> " Any Federal reserve bank may, under rules and regulations prescribed by the Federal Reserve Board, purchase and sell in the open market, at home or abroad, either from or to domestic or foreign banks, firms, corporations, or individuals, cable transfers and bankers' acceptances and bills of exchange of the kinds and maturities by this Act made eligible for rediscount, with or without the indorsement of a member bank."

The legal effect of this provison seems clearly to be to vest in the Federal reserve bank the right to exercise this power and to vest in the Federal Reserve Board only the power to regulate its exercise. In other words, Congress did not intend to vest a discretion in the Board to determine whether Federal reserve banks should purchase and sell cable transfers, acceptances and bills of exchange, but merely to regulate their purchase and sale.

While there are a great many cases dealing with the question of how far Congress, or any legislative body, may delegate to an administrative body the power to regulate, it is not necessary to consider these cases at length since we are dealing

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not with the question of what the regulation shall contain but merely with the Board's duty in the premises. Generally speaking "while Congress can not delegate the power to make laws it can delegate the power to determine some fact or state of things upon which the statute makes or intends to make its own action depend ". For collection of cases see Encyclopedia of Law and Procedure, Volume 8, page 830.

Congress might, therefore, have vested in the Federal Reserve Board, the power to determine whether Federal reserve banks should purchase in the open market cable transfers, acceptances and bills of exchange. Had it intended to do so, however, it would have incorporated this power in Section 11 in defining the powers of the Federal Reserve Board instead of in Section 14 which deals with the powers of the Federal reserve banks. For example, Section 11 authorizes the Federal Reserve Board -

> "(b) To permit, or, on the affirmative vote of at least five members of the Reserve Board to require Federal reserve banks to rediscount the discounted paper of other Federal reserve banks at rates of interest to be fixed by the Federal Reserve Board.
>
> (c) To suspend for a period of not exceeding thirty days, and from time to time to renew such suspension for periods not exceeding fifteen days, any reserve requirement specified in this Act.
>
> (k) To grant by special permit to national banks applying therefor, when not in contravention of State or local law, the right to act as trustee, executor, administrator, or registrar of stocks and bonds under such rules and regulations as the said Board may prescribe.

Inasmuch, therefore, as the power to purchase and sell cable transfers, acceptances and bills of exchange in the open market is vested in the Federal reserve banks subject only to rules and regulations of the Federal Reserve Board, it would seem to be the function of the Board either to prescribe the rules and regulations referred to, or should the Board determine

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not to make such rules and regulations at this time, to inform the Federal reserve banks that these powers may be exercised within the limitations of Section 14, until further restricted by such rules and regulations as the Board may adopt.

Respectfully,

M. C. ELLIOTT

Counsel

Hon. William G. McAdoo,
Secretary of the Treasury.

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FEDERAL RESERVE BOARD

WASHINGTON

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SHERMAN ALLEN, ASST. SECRETARY
ADDRESS REPLY TO
FEDERAL RESERVE BOARD
Carded

332 / 262 / 376

October 8, 1915. 3304

Sir:

The Federal Reserve Banks are empowered under Section 14 of the Federal Reserve Act, subject to rules and regulations prescribed by the Federal Reserve Board, to

> "Purchase and sell in the open market, at home or abroad, either from or to domestic or foreign banks, firms, corporations or individuals, cable transfers and bankers' acceptances and bills of exchange of the kinds and maturities by this act made eligible for rediscount, with or without the endorsement of a member bank."

The Board has already issued regulations covering the purchase in the open market of bankers' acceptances, of United States Government bonds and of municipal warrants, but it has not yet issued regulations relating to "cable transfers" or to the purchase of "bills of exchange of the kinds and maturities by this act made eligible for rediscount." The original bill for the establishment of Federal Reserve Banks, etc., permitted the purchase in the open market of "notes, drafts and bills of exchange," but in the bill as finally enacted the words "notes and drafts" were stricken out in Section 14, although they are retained in Section 13 which relates to discount operations for member banks. After careful study and investigation the Board has reached the conclusion, in which it is sustained by opinion of Counsel,

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that Congress beyond question drew a distinction in Sections 13 and 14 between the several forms of commercial paper, and that promissory notes, even though bearing an additional endorsement, must be regarded as excluded from open market purchases under Section 14. There remain then, as eligible for purchases under this Section, "cable transfers," and "bills of exchange" of two kinds, - (1) so-called foreign bills of exchange and (2) domestic bills of exchange (other than bankers' acceptances) drawn by one party on another, as by a seller of goods upon the purchaser, such as have been classified by the Board as "trade acceptances," either accepted or not accepted at the time of purchase. In view of the abnormal conditions prevailing in Europe, the Board feels that the banks should be more than usually cautious in any foreign exchange operations entered into at this time. As to open market dealings in "domestic bills," while the special rate authorized for this class of paper may prove in the future a helpful factor in developing its freer use, the Board has been informed that the supply of desirable paper is still very limited. There are also other objections that may be urged against open market operations in "domestic bills" at this time. However, the Federal Reserve Board recognizes that the Federal reserve banks have the right to engage in open market

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operations in bills of exchange and that the decision whether the Federal reserve banks should engage in such open market transactions rests entirely with them, severally, and not with the Federal Reserve Board. Should the transactions engaged in by any bank assume very large proportions or develop along lines which would make regulation appear desirable, the Federal Reserve Board will exercise its right at any time to regulate such transactions, but at present the Board deems it best to leave each Federal reserve bank free to exercise the authority granted under Section 14, without governing or restricting regulations, it being understood, of course that any Federal reserve bank desiring to establish an open market rate for domestic bills of exchange by this Act made eligible for rediscount, will submit such rate to the Board for approval and determination, in the customary way. You are cautioned that no bill may be bought in the open market which, even if endorsed by a member bank, would be ineligible for rediscount under Section 13.

The Board appends opinions of Counsel bearing upon the subject of open market transactions. Minutes #379, 380.

Please call this letter to the attention of your Board of Directors.

Respectfully,

Acting Governor.

Secretary.

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FEDERAL RESERVE BOARD

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PAUL M. WARBURG
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ADOLPH C. MILLER
S. [illegible] WILLIS, SECRETARY
SHERMAN ALLEN, ASST. SECRETARY

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

FEDERAL RESERVE BOARD FILE
262.

October 8, 1915.

Memo 371

Sir:

2

The question has been raised whether Federal Reserve Banks may, under the provisions of Section 14 of the Federal Reserve Act, purchase single name paper in the open market.

Section 14 provides in part that -

"Any Federal Reserve Bank may, under rules and regulations prescribed by the Federal Reserve Board, purchase and sell in the open market, at home or abroad, either from or to domestic or foreign banks, firms, corporations, or individuals, cable transfers, and bankers' acceptances and bills of exchange of the kinds and maturities by this Act made eligible for rediscount, with or without the indorsement of a member bank".

Under the provisions of this Section a Federal Reserve Bank may purchase bills of exchange (that is, orders drawn by one person on another to pay on demand, or at a fixed or determinable future time, a sum certain in money to order or to bearer), whether before or after acceptance, provided, they are of the kinds and maturities made eligible for rediscount under Section 13.

It is clear, however, that promissory notes as distinguished from bills of exchange are not eligible for purchase under Section 14 irrespective of the number of names thereon.

Respectfully,

M. C. Elliott,

Counsel.

Hon. Charles S. Hamlin,
Governor.

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333.4-2

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Excerpt from the Minutes of the Federal Reserve Board
Meeting of October 8, 1915.

Mr. Hamlin reported that a meeting of the Committee on Open Market Operations had been held since the adjournment of the morning meeting of the Board, and that the committee had agreed to present to the Board a majority and a minority report.

On behalf of the Majority of the committee, Mr. Harding presented as its report a modified form of the proposed letter 10-8-15 to Federal reserve agents which had been read at the morning meeting, recommending that the same be transmitted to Federal reserve agents, and that it be considered as in lieu of formal regulations on open market powers.

Mr. Hamlin presented as a minority report the recommendation that the Board proceed to the formulation of a regular circular and regulation relating to open market operations, the same to be promulgated at once. It being agreed that the minority report should be regarded as a substitute offered for the majority report of the committee then before the Board, a vote on the minority report was called for, and resulted as follows:

Affirmative, Mr. Hamlin, Mr. Williams.

Negative, Mr. Harding, Mr. Warburg, Mr. Delano.

So the minority report of the committee was rejected.

The question recurring on the report of the majority and the consequent authorization to issue the proposed letter to Federal reserve agents relating to open market purchases under Section 14, the proposed draft was put to a vote and declared unanimously adopted. See also file 252.

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3334

Excerpt from the Minutes of the Federal Reserve Board
Meeting of October 8, 1915.

A report relating to the open market purchase of bills of exchange, in the form of a proposed letter 10-8-15 to Federal reserve agents, was presented by the majority of a special committee on open market purchases, and was read to the Board. On motion the proposed report was referred back to the committee with instructions to report to the Board later in the day, subject to call of the chairman.

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C.S.H. 10/7/15.

333

MEMORANDUM BY MINORITY IN REPLY TO THE MAJORITY REPORT OF THE COMMITTEE APPOINTED TO FRAME REGULATIONS GOVERNING PURCHASES BY FEDERAL RESERVE BANKS OF DOMESTIC BILLS OF EXCHANGE IN THE OPEN MARKET.

10-7-15

333.7

I.

The Majority originally reported against framing regulations covering open market purchases by Federal Reserve banks of domestic bills of exchange. The Minority reported in favor of framing such regulations.

The Majority then filed another report answering the arguments in the Minority report and reaffirming its opposition to framing regulations permitting such open market purchases. This memorandum is filed by the Minority in reply.

II.

The undersigned has carefully studied the two Majority reports, - the latter written for the Majority by Mr. Warburg, - and will endeavor to answer, as briefly as possible, the arguments advanced.

No answer, however, is considered necessary to the somewhat sarcastic references, running through the Majority report, to the statement of the Minority that the Federal reserve banks should not be permitted to languish unassisted by the Member banks, - as "this pathetic appeal to our sentiments"; nor to the further charge that "To Governor Hamlin, evidently, the making of immediate earnings is more important than the question of the future and the safety of the System".

Discussions of law and policy as important as those herein involved should be entered into without sarcasm and without innuendo, and in that spirit this reply to the Majority report will be governed.

III.

The Minority report, in favor of open market regulations, rested upon two principal propositions, - first; that the right to engage in such open market purchases is given to the Federal reserve banks by Section 14 of the Federal

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Reserve Act and that it is the duty of the Board to frame appropriate regulations; second: that the exercise of such right may be necessary, at least to some of the Federal reserve banks, in order to secure revenues with which to meet current expenses and the dividends prescribed by the Act.

The Majority report takes an adverse position as to both these propositions, and it, accordingly, becomes necessary to consider the reasons upon which such adverse report is based.

IV.

At the outset the Majority report denies that any duty is imposed upon the Federal Reserve Board to issue such regulations and points out that many regulations on other subjects have not yet been framed and that it is the duty of the Board to go slowly and not issue regulations which may break the entire credit structure of the Country and undermine its safety.

As to the question of the duty of the Board to issue these regulations there can hardly be any reasonable doubt.

Section 14 of the Act gives to Federal reserve banks the right to buy in the open market;

> "Bills of exchange of the kinds and maturities by this Act made eligible for rediscount" ***
>
> "Under rules and regulations prescribed by the Federal Reserve Board."

Section 11 (i) of the Act prescribes that:

> "Said Board shall perform the duties, functions, or services specified in this Act, and make all rules and regulations necessary to enable said Board effectively to perform the same."

One of the duties laid down in Section 14 is that of prescribing methods by which open market purchases of bills of exchange shall be conducted, and it would seem clear that to refuse to issue such regulations amounts to a

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refusal to perform the duties prescribed by the Act.

Assuming, however, as above stated, that no such duty rests upon the Board, the Majority report takes the further position that no such regulations should be issued or are necessary.

The Majority report states that the matter should be considered under two separate headings, - First: Domestic bills accepted by banks or bankers; Second: Domestic bills drawn on or accepted by actual sellers or purchasers and known as "trade acceptances."

As to the first proposition, - the purchase of domestic acceptances of banks and bankers, - the Majority report enters into a discussion of the advisability of amending the Act to permit National banks to accept such domestic bills, strongly approving such an amendment, in which position the writer of the Minority report gladly concurs.

Much more attention, however, is given by the Majority to the advisability of amending the Act than to the question now before us as to the duty and advisability of permitting open market purchases of such acceptances under the Act as it now stands.

To this question little attention is paid, and the subject is dismissed with the statement that the writer of the Minority report "brushes aside the danger that State banks might derive rediscount advantages without becoming Members".

The Majority report, in this connection, seems to confuse rediscount operations with open market purchases.

For example, on page 3, it says that "whether or not it is advisable at this moment to permit Federal reserve banks to rediscount domestic acceptances before Member banks shall have secured an amendment permitting banks to accept for these domestic transactions is a question of policy which ought to be carefully discussed".

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Again, on the same page, it says, - "If it should be decided to permit the rediscount of domestic bankers acceptances" the draft of the Minority report "will have to be revised in many respects".

In making the above statements the Majority apparently forgets that under the construction placed upon Section 13 of the Act, by the Federal Reserve Board, the only acceptances which Federal reserve banks can rediscount are foreign trade acceptances and that the question before the Board is as to the purchase of domestic bills or acceptances in the open market under Section 14, and not the rediscount of such bills or acceptances under Section 13.

The Majority report states, as quoted above, that "if it should be decided to permit the rediscount of domestic bankers acceptances" the draft submitted in the Minority report "will have to be revised in many respects", and points out that it should provide for more than acceptances by bankers "in behalf of the purchaser", and should be extended to include drafts drawn "for the purpose of carrying commodities" against "warehouse receipts, warrants, railroad, elevator, or terminal receipts and shipping documents covering all kinds of staples".

This is tantamount to saying that the regulations of the Minority report, as to purchase of domestic bills, are too restrictive and should be broadened.

It is hardly necessary to reply that the Minority will gladly broaden the scope of these proposed regulations in any manner permitted by the Act, but, it is submitted with some confidence, the fact that the Majority believes the Minority draft of regulations should be liberalized, is surely no reason for the position taken in the Majority report that no regulations should be issued at all on the subject.

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V.

To sum up: as to the question of regulations for the purchase of domestic bankers acceptances the Majority apparently takes the position that no such regulations should be issued until the Act is amended so as to permit domestic acceptances by National banks, the chief objection being that the State banks would be given rediscount advantages without becoming Members.

The obvious answer to the latter objection is that the privilege of purchase in the open market of such acceptances was given by Section 14 of the Act for the direct benefit of the Federal reserve banks, and the fact that incidentally the non-member banks might also derive some benefit is no good reason for refusing this privilege and right to the Federal reserve banks.

It may also be pertinent to point out that the Federal Reserve Board, in the acceptance regulations, ruled, - against the unanimous opinion of the Federal Advisory Council, - that the power granted to Federal reserve banks, under Section 13 of the Act, to discount acceptances in the foreign trade included acceptances of non-member State banks and Trust Companies, as well as those of Member banks.

It would seem clear, therefore, that consistency would require either that the above ruling should now be revoked or that the equivalent right of purchase of domestic acceptances of State banks and Trust Companies should be given to Federal reserve banks.

Furthermore, it should be pointed out that even if the Act were amended, as recommended by the Majority, to permit of domestic acceptances by National banks and then the right to purchase such acceptances in the open market were given to Federal reserve banks, it would still be open to the objection, - referred to later at great length in said Majority report, - that it would lead to dangerous competition by the Federal reserve banks with the

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Member banks, exciting their antagonism and distrust.

VI.

The Majority report having disposed, to its satisfaction, at least, of the purchase of domestic bankers acceptances, next takes up the question of permitting, by regulation, the purchase in the open market of trade acceptances, so-called, that is, bills drawn or accepted by the actual sellers or purchasers of goods. The report vigorously attacks the arguments of the Minority report and takes the position that regulations permitting such purchases should not be issued. Its arguments will now be considered in detail.

1. The Majority report apparently denies that the Federal reserve banks have any right to go into the open market in order to earn their expenses and dividends; such right, the report implies, is restricted to purchases and sales in the open market for the purpose of influencing, through rediscount rates, the rates of Member banks, and of controlling the movements of the precious metals.

While the latter purposes undoubtedly come within, and may very likely be the chief purposes of the open market powers, it would be a manifestly absurd construction of the Act to limit these powers to these purposes only and to exclude the right to go into the open market to earn money to pay expenses and dividends.

It must be manifest that the same construction must be given to the provision authorizing open market purchases of bills of exchange as to that authorizing the purchase of warrants, Government bonds and acceptances. To exclude the one for purely revenue purposes would necessitate excluding the others. And yet we see the Federal reserve banks today purchasing Government bonds, municipal warrants and acceptances for the sole purpose of securing revenues to meet their expense and dividend requirements, not only with the full approval of, but, as well, under regulations prescribed by the Federal Reserve Board.

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Apparently, according to the views of the Majority report, the Federal reserve banks must depend upon the good nature of the Member banks in offering paper for rediscount, and if such offerings be not made in sufficient amount for their expenses and dividends the Federal reserve banks must stand by and announce to the Country that they are forced to levy an assessment upon their Member banks for the reason that the Federal Reserve Board will not allow them to purchase bills in the open market for fear of the antagonism of the Member banks.

Such an interpretation of the Federal Reserve Act would plainly defeat the intent of Congress. The Federal reserve banks have clearly the right to live and to use every power granted under the Act to this end.

2. That regulations permitting the purchase of trade acceptances would permit the Federal reserve banks to compete all over the Country for unsecured paper (meaning thereby, apparently, paper not indorsed by bankers) from parties remote from the Federal reserve banks and with whom they could not possibly be in touch.

This argument reveals an amazing distrust of and lack of confidence in the officers and directors of the Federal reserve banks. National banks, State banks, and Trust Companies are today busily engaged in purchasing paper all over the United States which has not the indorsement of a banker, and they are considered competent to pass upon the standing and credit of the names on such paper, and of the collateral, as well, if any. It can scarcely be denied that the officers and directors of the Federal reserve banks are the peers of the officers and directors of the various National banks, State banks and Trust Companies, yet while the Majority report presumably is satisfied with the business ability of the latter, it objects to trusting to the ability of the former, although one-third of the Directors of the former, including the Chairmen

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of the respective Boards, are appointed by the Federal Reserve Board.

3. That to permit such purchases for the sake of obtaining revenue with which to pay expenses and dividend requirements would be so exceed the bounds of prudence in their management.

This again displays utter lack of confidence in the management of the Federal reserve banks. One would almost believe that the framer of the Majority report believes that the direct management of Federal reserve banks is vested not in the banks but in the Federal Reserve Board. This argument will be referred to again later.

4. That even if these powers were needed and could lawfully be used for securing revenue needed for expenses and dividend purposes, the banks would still "languish," for the reason that they could not be forced to use this means of replenishing their treasuries; and further, that they have never asked for any such power and in fact would never use it if granted.

If this be true in fact, it would seem clear that, as the power would never be used, the disastrous consequences predicted by the Majority report from such use would never come to pass.

5. That while "under some pressure" some of the banks have been "willing" to say that it might be "proper" for them to receive the power to undertake such open market operations, none of them has yet said that it wishes actually to engage in them.

The "pressure" above referred to was a direct question to Governors Fancher and MacDougal, in the presence of the Federal Reserve Board, without any previous consultation with either of these gentlemen, - asking whether they believed or did not believe in the propriety and expediency of the Federal Reserve Board issuing regulations granting this power; whereupon both these officers, one representing the Chicago bank, and the other the Cleveland bank, replied

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that, in their opinion, such action was both proper and expedient.

6. That the Federal reserve banks, if given the power, could not possibly buy enough domestic bills for this purpose.

If this be true, considering that the total sum needed for both expenses and dividends is only about five millions of dollars for all the Reserve banks, and considering further the relatively large proportion of this amount now furnished by rediscounts and purchases of Government bonds, municipal warrants and acceptances, it would seem to follow that the Majority report exaggerates the dangers, even if they are dangers, - which the Minority report denies,- which would follow as the result of such purchases.

7. That investing in such purchases would leave the Federal reserve banks out of commission when a period of active money comes in again, as their available means would, to a dangerously large extent, be tied up in these investments, and they would thus cease to be Reserve Banks.

One would naturally suppose from this statement in the Majority report that the Federal reserve banks were proposing to invest the bulk of their resources in, say, fifty year bonds. The fact is, however, that these purchases would be of the same paper as could be now rediscounted, the only difference being that the indorsement of a Member bank would not be required.

8. That, in order to earn the amount needed for expenses and dividends, the banks, assuming the rate of purchase to be 3%, would have to acquire 120 millions of trade acceptances.

Mathematically this is probably correct. It would be equally correct to say that if the rate was 1% three times as much would have to be acquired, or that, if the rate was 6% only one half as much would be required.

Such a statement, however, rests upon the underlying premise that the banks abandon all banking functions, including rediscounting, and purchase of

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acceptances, Government bonds and municipal warrants, and devote themselves exclusively to the purchase in the open market of these domestic bills.

When, however, it is considered that the banks will still perform the usual banking functions for which they were created, it will be seen that only a relatively small portion of the amount needed for expenses and dividends would in any event ever have to be made up from earnings on these purchases, and the imposing 120 million trade acceptance castle thus vanishes into thin air.

9. That to earn said expenses and dividends the banks would have to invest an enormous and unsafe proportion of their deposits and capital, - varying from 60% in the case of the Boston bank to 112% in the case of the Dallas bank, - leaving only the New York and Chicago banks in a state of reasonable liquidity.

The fact that the Majority report says that the banks would never invest <u>any</u> of their resources in such purchases deprives the above statement of much of its terror. Such a statement, furthermore, rests upon the assumption that the banks would cease to be banks and would turn themselves into money lenders or pawn brokers, and merely lend out their cash and cease to bank upon their reserves.

10. That while ordinarily reserves and not capital and deposits are the measure of loaning power, this rule does not apply at the present time, and the latter and not the former is the source today from which loaning or purchasing power must come.

Three reasons are given for this statement:

(a) Reserves are the measures of loaning power only when there is a demand for circulation, that is, for Federal reserve notes.

(b) There is no demand for such circulation today, therefore, purchases of domestic bills must be made by cash payments, thus depleting the resources of the Reserve banks.

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(c) Bills of exchange so purchased could not be used as collateral for new issues of Federal reserve notes.

As to the first reason, - that there is no demand for circulation at the present time, - i.e. for Federal reserve notes, - it is only necessary to point to the fact that there are today over 133 millions of such notes outstanding, - representing an increase of over 38 millions in the last two months. This would seem to indicate that there is a steady and increasing demand for such notes and that the only difficulty is to secure commercial paper to serve as collateral for such issues.

As to the second reason, - that, because of lack of demand for such circulation, purchases of domestic bills must be made by drawing down the cash resources, we have already shown that there is a steady demand for Federal reserve notes, the only difficulty being a lack of commercial paper to serve as collateral for such notes. This difficulty has been, however, overcome by the now familiar process of depositing gold to reduce liability on notes outstanding.

It may be claimed that this method is really carried out by reduction of the cash resources of the banks, but, if true, it would apply to notes issued for other purposes than the purchase of domestic bills. It would seem, however, that this process is rather a change in the character of the resources of a bank than a reduction of such resources.

The third reason, - that bills so purchased could not be used as collateral for the issue of new Federal reserve notes, - is certainly correct as a matter of law, and, of itself, would furnish a reason for caution in purchasing such bills. The same reasoning would, however, apply to the purchase of Government bonds and municipal warrants, as well as to acceptances of non-member banks and bankers.

An examination of the present condition of the Federal reserve banks ,

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however, would show that, taking all the banks together, there is now held a supply of commercial paper and acceptances of Member banks, not pledged as collateral, sufficient to serve as the basis of further issues of Federal Reserve notes, which would contribute, in part at least, towards payment of bills purchased to secure revenue to meet expenses and dividends, - over and above the revenue derived from investments in Government bonds, municipal warrants and acceptances of non-member banks and bankers.

A computation of possible future issues of Federal reserve notes based on present unpledged holdings of commercial paper and Member bank acceptances shows -

AMOUNTS OF COMMERCIAL PAPER AND ACCEPTANCES AVAILABLE AS COLLATERAL FOR FEDERAL RESERVE NOTES OVER AND ABOVE AMOUNTS DEPOSITED WITH FEDERAL RESERVE AGENTS ON SEPTEMBER 30, 1915.

	Commercial paper available as collateral for notes	Acceptances available as collateral for notes	Excess of paper held by agent
Boston	$ 152,580	$2,124,990	- - - -
New York	223,341	2,359,921	- - - -
Philadelphia	460,643	989,248	- - - -
Cleveland	787,358	115,445	- - - -
Richmond	1,256,847	50,000	$53,582
Atlanta	1,370,195	- - - -	2,545
N.O.Branch	579,560	- - - -	- - - -
Chicago	1,322,044	425,227	- - - -
St. Louis	820,599	105,397	2,654
Minneapolis	1,007,941	69,763	1,908
Kansas City	883,997	- - - -	460
Dallas	1,608,322	- - - -	59,544
San Francisco	1,276,555	239,653	- - - -
TOTAL	$11,749,980	$6,479,644	$120,693

Gross amount of paper available as collateral for notes - - - - - - - $18,350,317

Less 10% - estimated amounts of paper in course of collection - - - - 1,835,032

Net amount $16,515,285

11. That the question of earnings is relatively unimportant at the present time.

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Inasmuch as the Majority report states, - as is undoubtedly true, - that in normal conditions the Reserve banks will have no difficulty in making there expenses and dividends, this is tantamount to saying that the question of earnings is of no importance at all.

This would seem to be a very short sighted and mistaken view, especially when we consider the reasons given later in the report for such opinion.

It is certainly true that the question of profits, over and above expenses and dividends, is relatively unimportant. In fact, we might go further and point out that Congress never intended that these banks should be maintained as purely money making institutions.

To state, however, that it is of no importance whether or not these twelve Federal reserve banks are able to earn enough revenue to keep them alive is to mistake the whole purpose of the Federal Reserve Act.

If earnings are not sufficient to meet expenses it will be necessary to levy an assessment upon the Member banks for this purpose, and the response to the inquiries of the Board as to how such an assessment would be viewed shows conclusively that, - except possibly as to the most powerful banks, - it would be viewed with alarm and the deepest dissatisfaction.

Such an assessment would also require a marking down below par of the book value of the stock and would be hailed by the opponents of the Federal Reserve System as an official declaration of the failure of the System.

For fear of this very result, the Board has directed the banks not to mark down said book value until, at least, a complete financial year has elapsed.

The question would seem plain, - either the banks must be given the opportunity to increase revenues through these open market purchases or an assessment must be levied against some of the Member banks. As between these

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alternatives there would seem to be no reasonable doubt as to the course to be pursued.

Those who favor the alternative of an assessment, apparently, unconsciously, rest upon the belief that the Federal reserve banks are not banks at all but purely eleemosynary institutions, - a kind of financial fire insurance companies, - and that they, like fire engines, are to lay unused except during financial conflagrations.

They are certainly all this but also much more. They are, in short, banks in the true sense of the term, and when in the judgment of the directors such course is necessary, they have the lawful right to go direct to the individual over the heads of the Member banks.

Such a right is possessed, though in much more effective form, by the Bank of England, the Reichsbank, and the Bank of France, and it is too late, at the present day, to deny this right to the Federal reserve banks.

The Majority report characterizes the desire of the Minority to secure to the banks an earning power sufficient to meet expenses and dividends, as a "pathetic appeal to our sentiments".

It might well be answered that sentiment is of great force in banking, as witness the beneficial effect of the Federal Reserve System last year even before the banks were opened.

To test the matter in another way, suppose that the directors of a Member bank should report to the stockholders that the desire for earnings expressed by a Minority was merely a "pathetic appeal to the sentiments" of the Majority of the directors and that accordingly the Majority had voted to levy an assessment to meet the expenses of the bank rather than to continue business on the exceptionally low rates then prevailing, - how long, it may be asked, would those directors be allowed to remain in office?

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12. That those who sold domestic bills to Federal reserve banks, under such grant of power, would thereby antagonize their regular banking connections upon which they will remain dependent for the sale of the bulk of their paper. (p.6.)

This thinly veiled, if not openly expressed, fear that the Member banks would "black list" those individuals, firms and corporations which had the temerity to exercise their legal right to sell their paper to Federal reserve banks, would, if true, indicate an extraordinary state of affairs, for which, however, the Anti trust laws would offer a speedy and efficacious remedy.

The Minority knows, however, of no reason for such an arraignment of the Member banks, and is loath to believe that any such black-listing would be undertaken. If the Majority have knowledge of any such intention on the part of any of the Member banks the facts should be made known to the Federal Reserve Board for its immediate consideration.

13. That such purchases would antagonize the Member banks which would no longer make voluntary deposits with Federal reserve banks if their reserve money is to be used in competition with them. (pp.6. & 9.)

To those who apparently fear that the Member banks would black list all who dared to sell their paper to Federal reserve banks, the transition is easy to the belief that the same banks would resent the use of Federal reserve money in competition with themselves, even to the extent only of insuring sufficient revenue to meet expense and dividend requirements.

The Minority, however, believes that these apprehensions are not well founded. As already pointed out, it was not the intent of Congress that the Federal reserve banks should use the money supplied by the Member banks for the purpose of entering into a competitive warfare with them for the sake of huge profits. On the contrary, the intent of Congress was that the Federal reserve

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banks should use every lawful power in order to secure their expenses and the prescribed dividend, and a reasonable surplus, but beyond this the intent was clear that these banks should use their open market powers to make their regular discount rates influential and effective upon general rates, at times when they could be made effective in no other way, and also to regulate in the public interest the movement of the precious metals.

It is very likely true today, - at least in the large industrial and financial centers, - that there is no necessity for the use of the open market powers to influence general rates through discount rates established by the Federal reserve banks and approved by the Federal Reserve Board; as regards localities removed from said centers, however, disturbing instances of excessively high rates continue to occur in, requiring careful investigation.

Assuming, however, that the only necessity for such purchases at the present time is for expense and dividend purposes, there still remains the fact that the Federal Reserve Act has given the right to the Federal reserve banks to engage in such purchases, and that the Federal Reserve Board is in effect taking away said right by its refusal to enact the necessary regulations.

The Minority does not believe that the Member banks will be antagonized by the incidental competition involved in purchases of domestic bills for such revenue purposes. If such antagonism were created, however, it would not change the opinion of the Minority as to the necessity of framing regulations covering such purchases.

Competition at certain times is essential to the well being of the Federal Reserve System, as it is to the Bank of England, the Reichsbank, or the Bank of France, and it is the belief of the Minority that the Member banks will not be disturbed or antagonized by such incidental competition as the best interest of the Federal reserve banks and of the people of the United States,

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in the judgment of the Federal reserve banks and the Federal Reserve Board, seems to demand.

14. That to break down rates for the whole credit structure of the Country "to secure a paltry return" is to undermine the safety of the Country.

It is submitted with some confidence that the purchase of commercial bills to an amount needed to secure the "paltry return" of expense and dividend requirements would not break down the whole credit structure.

The small effect of such competition will be appreciated from Mr. Forgan's statement, at the recent meeting of the Federal Advisory Council, that the Member banks of the Chicago district would have to give to the Federal reserve bank paper for rediscount only to the amount of 15 millions of dollars to enable it to earn its dividends and expenses, - an amount, Mr. Forgan added, only equal to the annual business of one very moderate sized bank.

So, also, Federal Reserve Agent Wills stated that if the Member banks in the Cleveland district were to rediscount with the Federal reserve bank only enough paper to learn how rediscounts were made, it would incidentally give to the Cleveland bank earnings enough to pay its expenses and dividends.

Thus the Member banks have it easily in their power to prevent the use of such open market purchases for expense and dividend purposes by simply rediscounting a really "paltry" amount of paper with the Federal reserve banks. In fact if this power is given by the Federal Reserve Board to the banks, and there is any such antagonism to its use on the part of the Member banks, as the Majority seem to fear, these banks would rush to the Federal reserve banks with the necessary rediscounts.

There is also another side to this question. A few days ago, Federal Reserve Agent Wills, or Governor Fancher, of the Cleveland bank, stated that recently a Member bank in his District secured a large loan from a New York

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Member bank, and on being asked why it did not obtain this at the Cleveland Bank, the President replied that the rate offered was far below the rate of the Cleveland Bank, and added that it was an exceptionally low rate only given because of the ease of money and of the necessity of placing the loan by the New York Member bank.

Presumably this exceptionally low rate was made in order that the New York bank might earn its expenses and dividends. Can it be that the Majority will pronounce the action of a Federal reserve bank in purchasing paper at low rates as sin and at the same time extoll the action of the New York bank as righteousness, although the motive in both cases would be precisely the same, - the necessity of revenue to meet expenses and dividends.

Will the Majority take the position that the needy Federal reserve bank shall cease to do banking business and make good its losses by an assessment upon its Member banks when it thinks rates are unreasonably low, while the needy New York Member bank shall have the privilege of meeting these unreasonably low rates with rates even lower in order to secure its revenue?

Will the Majority set its foot down upon competition of Federal reserve banks with Member banks and at the same time view with equanimity competition of Member banks with Federal reserve banks, - all for the same purpose - of avoiding an assessment upon the stockholders?

15. That the use of reserve money for breaking down interest rates below reasonably low rates will, in the long run, be injurious to the business community.

This is one of those axiomatic statements which no one will care to dispute. It is obvious, however, that the use by any bank of reserve money or of any other money, and whether by a Federal reserve bank or by a Member bank, for the purpose of unreasonably breaking down rates, will, in the end, not

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work advantageously for the business community.

The difficulty, however, lies in the definition of what are "unreasonably low rates". The same rate might be unreasonably low under certain conditions and unreasonably high under others.

Rate making is a matter largely of judgment born of experience and no hard and fast rule can be laid down.

Nor can the test of the selfish interest of the banks alone be taken as a safe guide. The business of banking is clearly among those affected with a "public interest", so called, and the judgment of banking officers, if against the real interests of the public, may be controlled by State, or, in case of National banks, by National legislation. See 219 U.S. pp.104, 121 and 128.

Congress has given to the Federal reserve banks, under the general control of the Federal Reserve Board, the right to fix rates of interest for rediscounting which it is hoped will exercise a controlling effect upon the rates charged by the Member banks to their customers. If these rates, however, do not exercise this controlling effect, these banks are given the right to go direct to the public over the heads of the Member banks.

As stated above, the real test of reasonableness, in banking, depends upon judgment. In some industries it is possible to find with some exactness what would be a reasonable rate or price, based upon the cost of production, but no such test could be applied to banking. We certainly could not base rates of interest upon the actual expense of operation of the banks, for such expense would vary so greatly that any general rates based upon it would be purely conjectural. Nor could we base interest rates upon the value of the banking units, such value depending in large part upon the original cost of the plant or the cost of substitution. Nor would it be a proper method to base commercial interest rates upon the rates paid by banks to their depositors, for these rates, when any interest is allowed, vary from 2% to 6 or 7%, and, in addition, the best banking opinion seems

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to be that no such interest should be paid at all.

It may help to lead us out of these difficulties if we are able to recognise - what is largely a fact - that banks do not so much make rates as "record" rates, and that these rates are really the resultant between the forces of supply and demand of credit, - that is to say, they are the market value of credit reached by negotiations between willing borrowers and willing lenders.

When, for example, discount rates are said to be advanced in order to keep gold from leaving the country, what really happens is that the banks merely record a fact which they do not arbitrarily create or fix, and this fact is that the balance of rates as between this and other foreign countries is out of adjustment and that gold therefore, may leave the country for that country in which rates are relatively higher and this exodus of gold will at once operate to make credit more scarce in relation to the demand for it in this country, which will almost automatically operate to raise rates here. The banks may possibly anticipate or, as it were, discount this operation, but they do not create the conditions inevitably producing it.

In the long run, both in domestic and international operations, demand and supply of credit will fix the rates of interest. The banks have credit to sell which their customers wish to buy, and the relation between the demand and supply fixes the rate.

Of course the above presupposes normal conditions. It is perfectly conceivable that the supply of credit may be artificially reduced, e.g., by combination among the banks, but in any event the rate of interest is fixed by the credit placed on the market as compared with the demand for the same in such market.

If the above be true, under normal conditions, as long as there is a

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legitimate demand for credit it can not be said that there can be an "unreasonably low rate" so long as demand and supply, both domestic and international, meet in the market.

To deny this fact is to fall into the error expressed in the phrase, - once often heard, - that "a cheap coat makes a cheap man".

We often hear the statement that what a borrower wants is accommodation and that he is willing to pay any rate for it.

It would be as true to say that all a shipper wants is transportation and should not object to any rate the common carrier sees fit to impose.

The most that can be said is that when rates are so low that further reduction will not call forth any legitimate demand for credit, but will only encourage unhealthy speculation, then such further reduction might be an unreasonably low rate and injurious to the country.

Clearly, however, all banks have the right, and have always in the past exercised the right, to make rates low enough to insure expenses and reasonable dividend requirements.

If this proposition is denied then the principle of free banking is denied, and the position must be taken that banking charters must be, as it were, monopolized by restriction in number, and from this the path to Government ownership of all banking institutions would be an easy one.

16. That the question of reducing the capital and the number of Federal reserve banks should be carefully considered.

In any such consideration the inability of some of the banks to earn expenses and dividends at the present time would surely be no argument in favor of reduction in number, unless, at least, they be given open market powers granted by the Act, to enable them, among other things, to earn these expenses and dividends.

If, after the use of all their powers of rediscount and purchase, certain of the banks can not earn their fixed charges, then it may become of

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importance to consider whether the number should be reduced. The question would still be left, however, for careful inquiry, whether the fixed charges of the reduced number would not be increased in exact proportion to the decrease in number, leaving the System in no better condition than before.

Should, however, investigation reveal the fact that in certain districts the Member banks were refraining from rediscounting for the purpose of crippling their Federal reserve bank, then the question whether such banks needed or deserved a separate Reserve bank would become a very serious one.

VII.

Conclusion.

To sum up: The Majority report rests upon the necessarily implied premise that the Federal Reserve Board should do nothing which is likely to antagonize the wishes of the Member banks; that the Federal reserve banks are not to be trusted and should be denied rights explicitly given to them by the Act for fear these rights may be abused; in short, that the Federal Reserve Board members are merely trustees for the Member banks to carry out their will and pleasure.

Such a conception of the Act is, in the opinion of the Minority, absolutely unwarranted, and it is not believed will be entertained by a Majority, or by more than a small minority, of the Member banks themselves.

The Minority, on the other hand, rests its report upon the conviction that the Federal Reserve Board represents the public interest as well as that of the Member banks, and that the greatest good of the greatest number of the people, and not that of the Member banks alone, should be its maxim of action.

For the foregoing reasons, the Minority reports in favor of the immediate issue of such open market regulations.

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September 15, 1915.

MINORITY REPORT OF SPECIAL COMMITTEE ON SUBJECT OF DOMESTIC TRADE ACCEPTANCES.

I agree with the majority report submitted by Messrs Harding and Warburg in so far as it states that the purchase of promissory notes in the open market is not permitted under the Federal Reserve Act. I further agree that there is no necessity at the present time for the purchase of foreign bills of exchange by Federal reserve banks under present international conditions, but I believe it would be wise to frame proper regulations covering such purchases, thereby discharging what I conceive to be a duty of the Federal Reserve Board.

I cannot concur in the opinion of said majority that no public good would be subserved by enacting regulations authorizing Federal reserve banks to purchase trade acceptances in the open market. It is a fact becoming more and more apparent that the member banks are doing little or no business through the Federal reserve banks, and that unless we authorize these banks to extend their activities into the open market, they will not be able to earn their expenses, much less their dividends. In my opinion, Congress supposed that Federal reserve banks would be able at least to earn their expenses and the 6% dividends, as well as a reasonable surplus. Furthermore, the 6% dividend is a cumulative one, and if it cannot be earned at the present time, may place a heavy burden upon the reserve banks in the future. Consequently, I believe that the Federal reserve banks should be permitted to go into the open market and purchase trade paper, as they are now authorized to purchase warrants and import and export acceptances.

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It is pointed out that if the purchase of trade acceptances in the open market be authorized, it would thereby afford to non-member banks one of the greatest benefits to be derived from membership in the system. This, however, is not the reason for permitting such purchases. They should be permitted in order to benefit the Federal reserve banks, and if, indirectly, the non-member banks obtain a benefit from this practice, it is a benefit resulting from the failure of member banks to give a reasonable amount of business to the Federal reserve banks with which to sustain them.

Furthermore, I believe that the privilege of purchasing bankers' acceptances, now confined to import and export transactions, should be extended to domestic acceptances made by State banks, trust companies and bankers in behalf of the purchaser of goods. I realize that at the present time National banks are not permitted to make such acceptances, and I cordially agree that the Act should be amended so as to give them this power under reasonable limitations.

It may seem inconsistent to permit Federal reserve banks to buy acceptances of State banks and trust companies in the open market, when National banks cannot make such acceptances. This, however, although an inconsistency, is one which arises from the dual system of National bank and State bank membership. It is no more inconsistent than the fact that we permit State banks and trust companies to join the Federal Reserve System, bringing in their branches with them, while National banks cannot at the present time have branches. There are also many other inconsistencies, as I have stated, resulting from the dual system of membership, but

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these we can, I am confident, correct ultimately by increasing the powers of National banks, making them more commensurate with the powers given to State banks and trust companies by the respective states.

The question at issue before us is, shall the Federal reserve banks be permitted to languish unassisted by the member banks, while it is in our power to permit them to extend their business operations in the open market, so as probably to insure earnings sufficient to pay their expenses and the 6% dividend. I do not believe it would be wise to postpone this desirable result to await the action of Congress in amending the law, so as to give National banks the similar privilege of domestic acceptance.

The argument of the majority seems to be based upon the supposition that Federal reserve banks are merely emergency banks, and that the question whether or not they make their expenses or dividends is immaterial. On this subject the Board in its annual report, page 18, said:

"The Reserve Banks have expenses to meet, and while it would be a mistake to regard them merely as profit-making concerns and to apply to them the ordinary test of business success, there is no reason why they should not earn their expenses, and a fair profit besides, without failing to exercise their proper functions and exceeding the bounds of prudence in their management. Moreover, the Reserve Banks can never become the leading and important factor in the money market which they were designed to be unless a considerable portion of their resources is regularly and constantly employed."

In my opinion it is the plain duty of the Federal Reserve Board to see that the Federal reserve banks maintain themselves. The very fact that no provision was made in the Act for assessing deficiencies of reserve banks upon the member banks, shows that it was clearly in the mind of Congress that these banks should exercise all proper functions in order to meet their expenses and dividends, as well as to assist the member banks in rediscounting.

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I attach hereto a draft of Regulation covering the purchase of domestic bills of exchange in the open market, and another draft covering the purchase of domestic bankers' acceptances in the open market.

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C. S. H. 9/15/15

SECOND DRAFT OF NEW REGULATION.

Regulation S,
Series of 1915.

FEDERAL RESERVE BOARD

Washington, _____, 1915.

Open Market Operations.

Domestic Bills of Exchange.

I.

In this regulation the term "domestic bill of exchange" is defined in the same language employed in the definition of the term "trade acceptances" in Regulation P (I), except that the bill of exchange need not be indorsed by a member bank.

II.

Character of Paper Eligible.

Domestic bills of exchange to be eligible for purchase under Section 14 of the Federal Reserve Act

(a) Must arise or have arisen out of actual commercial transactions, that is, they must have been drawn for agricultural, industrial, or commercial purposes, or their proceeds must have been used or must be used for such purposes.

(b) Must have a maturity at the time of purchase of not more than 90 days, or, in case of agricultural or live stock paper, of not more than six months.

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III.

Method of Certifying Eligibility.

Such bills must bear on their face, or be accompanied by, evidence in form satisfactory to the Federal reserve bank, that they were drawn by the seller of goods or live stock on the purchaser.

Such evidence may consist of a certificate on or accompanying the accepted bill of exchange, to the following effect:

> "The obligation of the acceptor of this bill of exchange arises out of the purchase of goods or live stock from the drawer."

Such certificate may be accepted by the Federal reserve bank as sufficient evidence; provided, however, That the Federal reserve bank, in its discretion, may inquire into the exact nature of the transaction underlying the acceptance of said bill.

IV.

Other Limitations.

All domestic bills of exchange purchased under these regulations, will be subject to the following limitations:

(a) A bill of exchange, covering domestic transactions, accepted by a purchaser, may be considered as drawn in good faith against actually existing values when the acceptor thereof is secured by a lien on or by transfer of title to the goods on which the bill of exchange is based, or by other adequate security.

(b) Except in so far as such bills may be drawn in good faith against actually existing values, as defined supra in IV (a), the bills of any one drawer drawn on and accepted by any one purchaser, and purchased by a Federal reserve bank, shall at

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no time exceed in the aggregate a sum equal to

(c) The aggregate of bills accepted by any one purchaser, purchased by a Federal reserve bank, shall at no time exceed a sum equal to

(d) No Federal reserve bank shall purchase domestic bills of exchange not secured by a lien on or by transfer of title to the goods on which the bill of exchange is based, or by other adequate security, unless a satisfactory statement of the financial condition of the acceptor is first secured by the Federal reserve bank in form to be approved by the Federal Reserve Board.

V.

Attention is called to the fact that bills of exchange so purchased cannot be used as collateral for Federal reserve notes, unless they are indorsed by a member bank; nor is the open market purchase of notes and drafts, as distinguished from bills of exchange, authorized by the Federal Reserve Act.

VI.

It will be necessary for Federal reserve banks to watch carefully the aggregate amount of such bills purchased and held from time to time. Such banks should consider carefully not only the regular requirements of their member banks and the probable demands of other Federal reserve banks for rediscounts, but, as well, the possible demands upon their resources in rediscounting acceptances in the import and export trade. They should, in short, always keep in mind the constantly varying needs of the country.

H. PARKER WILLIS,
Secretary.

CHARLES S. HAMLIN,
Governor.

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OPEN MARKET OPERATIONS.

Section 14 of the Federal Reserve Act provides:

> "Any Federal Reserve bank may, under rules and regulations prescribed by the Federal Reserve Board, purchase and sell in the open market, at home or abroad, either from or to domestic or foreign banks, firms, corporations, or individuals, cable transfers and bankers' acceptances and bills of exchange of the kinds and maturities by this Act made eligible for rediscount, with or without the endorsement of a member bank." (notes and drafts not mentioned. They were in original draft of bill, but were stricken out).

The Board has already issued a regulation covering the purchase in the open market of bankers' acceptances (Regulation J, Series 1915) and it has also provided for the rediscount by member banks at rates somewhat lower than those applicable to other commercial paper, trade acceptances, which must be accepted by the purchaser of the goods sold to him by the drawer of the bill and the bill must have been drawn against indebtedness expressly incurred by the acceptor in the purchase of such goods (Regulation P, Series 1915).

Under the terms of the Act it is evident that promissory notes, however secured, cannot be purchased in the open market by a Federal Reserve bank, as Section 14 expressly limits such purchases to "cable transfers and bankers' acceptances and bills of exchange of the kinds and maturities by this Act made eligible for rediscount." The character of paper eligible for rediscount is defined in Section 13, which provides that

> "Any Federal Reserve bank may discount notes, drafts and bills of exchange arising out of actual commercial transactions; that is, notes, drafts, and bills of exchange issued or drawn for agricultural, industrial or commercial purposes * * * * *."
> "Nothing in this Act contained shall be construed to prohibit such notes, drafts, and bills of exchange * * from being eligible for such discount; but such definition shall not include notes, drafts or bills covering merely investments * * * * *."

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> "Notes, drafts and bills admitted to discount under the terms of this paragraph must have a maturity at the time of discount of not more than ninety days; provided that notes, drafts, and bills drawn or issued for agricultural purposes or based on live stock and having a maturity not exceeding six months may be discounted * * * * ."

It is clear, therefore, that Congress intended to distinguish in Sections 13 and 14 between the several forms of commercial paper as represented by promissory notes, drafts, and the more formal documents known as bills of exchange. While Section 14 admits of the purchase of bankers' acceptances and bills of exchange, with or without the endorsement of a member bank, it is clear that no provision is made for the purchase of one name paper or paper having an accommodation endorsement. A bill of exchange usually accompanies or follows an actual sale or transfer of goods, and is accepted either by the purchaser or by some individual, firm or banking house in behalf of the purchaser, for a consideration and upon proper security. The purchase of foreign bills of exchange by Federal Reserve banks under present international conditions is not to be considered, and it would seem that the purchase of bankers' acceptances, payable in dollars, is the only form of open market operation that can be legally and safely engaged in by Federal Reserve banks at this time. It may be argued that permission might be given the Federal Reserve banks to purchase trade acceptances on the open market, but it is not clear that any public good would be subserved thereby. Rates ranging from 3 to 3½% have been established for the rediscount of this class of paper for member banks, and it does not seem desirable to put the Federal Reserve banks in direct competition with their member banks for the purchase of the best of this kind of paper. It would be very undesirable

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to open the door for the purchase by Federal Reserve banks of any paper that is not the best of its kind. Again, it is desirable that the benefits of the Act accrue to the public through member banks rather than through non-member banks. In Section 19 of the Federal Reserve Act, which provides for the admission of State banks and trust companies as members, it is expressly provided that " no member bank shall act as the medium or agent of a non-member bank in applying for or receiving discounts from a Federal reserve bank under the provisions of this Act except by permission of the Federal Reserve Board." In view of the efforts that are being made by the Board to induce the State banks to come into the Federal Reserve system, it would seem particularly unwise at this time for the Board to permit the purchase of trade acceptances by Federal Reserve banks in the open market, as a means would thereby be afforded for extending to non-member banks one of the greatest benefits derived from membership in the system.

With comparatively few exceptions, the membership of the Federal Reserve system is composed of National banks. Under existing laws, these banks, while permitted to accept against transactions involving the importation or exportation of goods, are not allowed to accept against domestic transactions.

It would be well to ask Congress to amend the law so as to ~~admit~~ permit, under reasonable restrictions, ~~of~~ acceptances by National banks against domestic purchases and sales, and should the law be so amended, a class of business would develop which would be desirable for Federal Reserve banks to engage in under open market regulations. For the present it would be

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best not to extend the scope of open market transactions beyond the purchase of bankers' acceptances, which has already been provided for in Regulation J.

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CIRCULAR NO._____
Series of 1915

FEDERAL RESERVE BOARD

Open Market Operations.

The Board issued several months ago formal regulations covering the purchase in open market of bankers' acceptances, of United States Government bonds, and of municipal warrants. In view of the disturbed conditions abroad the Board has felt, and still feels, that the banks should be extremely cautious in any foreign exchange operations entered into at this time.

The rates that have prevailed during several months past for high grade domestic bills of exchange eligible for purchase in the open market under the act have been abnormally low, and the Board was informed, furthermore, that the supply of desirable paper was very limited. Under all the circumstances, the Board has deemed it unnecessary to issue regulations covering every branch of open market operations that are permitted under the act, feeling that it was generally recognized, as was expressly pointed out by the Board in a letter addressed to all Federal reserve banks on October 8, 1915, that the Federal reserve banks have the right to engage in open market operations in bills of exchange, and that they have full power to do so without regulations by the Federal Reserve Board.

In view of the general revival of business which will doubtless be followed by a greater volume of desirable commercial bills, the Board deems it proper at this time to issue the appended regulation, which is drawn in general terms, and is made as little restrictive as possible, as the Board feels that in operations of this kind the greatest dependence is to be placed in the judgment of officers and directors of the Federal reserve banks.

CHARLES S. HAMLIN,
Governor.

H. PARKER WILLIS,
Secretary.

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REGULATION NO.___
Series of 1915.

FEDERAL RESERVE BOARD

Open Market Operations.

The Federal reserve banks are empowered under Section 14 of the Federal Reserve Act, subject to regulations prescribed by the Federal Reserve Board, to---

"purchase and sell in the open market, at home or abroad, either from or to domestic or foreign banks, firms, corporations or individuals, cable transfers and bankers' acceptances and bills of exchange of the kinds and maturities by this Act made eligible for rediscount, with or without the indorsement of a member bank".

Regulations covering purchases in the open market of United States Government bonds and municipal warrants have already been issued and published. Acceptances by National banks are limited under the Act to transactions involving the importation or exportation of goods, but in a number of states Trust companies and banks operating under state charters are permitted to accept against domestic transactions. The Board authorizes the purchase by Federal reserve banks of such acceptances, provided--

1. That any purchases made by any member bank be confined to paper originating in its own Federal reserve district.

2. Purchases to be limited so as not to have an excessive amount from any one accepter or drawer, in no case to be more than 25% of the capital of the accepting bank.

3. In all cases a statement must be furnished the Federal reserve bank by the accepters and drawers of the paper offered it.

Trade acceptances as defined by and complying with Regulation _____, may also be purchased in the open market by Federal reserve banks. No bill, however, may be purchased in the open market, which, even though endorsed by a member bank, would be ineligible for rediscount under Section 13.

The Federal Reserve Board will review rates for open market transactions that may be established from by any Federal reserve bank.

CHARLES S. HAMLIN,
Governor.

H. PARKER WILLIS,
Secretary.

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Excerpt from the Minutes of the Federal Reserve Board
Meeting of September 9, 1915.

The question of regulations as to the open market purchase of paper by Federal reserve banks, which had been set as a special order for this meeting, having been taken up for consideration, Mr. Warburg and Mr. Harding were, after discussion, named a special committee to formulate regulations on that subject, the report to be presented to the Board on Thursday, September 16, at 3:00 p. m.

See also file 252.

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333.4 ab

Excerpt from the Minutes of the Federal Reserve Board,
Meeting of the Executive Committee, July 15, 1915.

The Secretary of the Board read a letter addressed to Governor Hamlin by Secretary McAdoo, with reference to the adoption of open market regulations by the Federal Reserve Board, in which Mr. McAdoo called attention to the discussion of the matter which had occurred immediately prior to Mr. McAdoo's illness. After discussion it was agreed that the subject should be considered with the Governor of the Board on Friday, July 16, with a view to such further action as may be necessary.

See also file 252.

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Warburg

FEDERAL RESERVE BOARD

WASHINGTON APR 9 1915

Federal Reserve Board

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APR 8 1915
OFFICE OF
VICE-GOVERNOR

FEDERAL RESERVE BOARD FILE
333.1
Lot

April 7, 1915.

Dear Governor Delano:

I take the liberty of sending you herewith copy of a paper which I have written concerning present financial conditions and the policy which, in my mind, they render advisable by the Federal Reserve Board, both as to bank acceptances and as to open market operations.

I have sent a copy of this paper to every member of the Board present at this time, and shall be glad to have a copy filed with the records of the Board.

Very truly yours,

Paul M. Warburg

Hon. F. A. Delano,
Vice-Governor.

Enc.

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We take many things for granted and consider them axiomatic without stopping to consider why. That easy money rates create expansion and that expansion ultimately brings about a reaction accompanied by high money rates, is a doctrine in point. What, however, is the theory underlying this process?

If a country bank has a capital of $20,000 and invests $80,000 of its resources at 5%, it earns $4,000 gross. (Though this equals 20% gross and appears a large return, it may not be excessive if we consider that from this $4,000 there must be paid salaries, rent, etc.). If credit is worth only 2%, this bank will have to invest $200,000 at 2% in order to earn $4,000; and those who cannot put out a larger volume of loans will take chances in making poorer investments, from which liberal returns can always be obtained. In other words, the lower the rate, the stronger the temptation to the banks to act without due caution. The greater the desire of the bank to put out its money, the easier it will be for the borrower to secure over-generous credit facilities, which in turn will lead him to expansion. He may thus be induced to put borrowed money into plant and machinery or into large supplies of goods. When general apprehension

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of over expansion is awakened, or when some additional seasonal or extraordinary demands occur - often demands directly caused by the artificially increased activity - all simultaneously realize that the limit of credit expansion has been reached. A dearth of credit, accompanied by violent contraction and extreme interest rates are the consequences then sure to follow.

It should be the duty of all banks to recognize this sequence of conditions and to govern their conduct accordingly. The large and conservative banks, on which the brunt of the burden falls in case of a general collapse, are fully aware of the danger and try to remain conservative. Nevertheless, in the long run, the spirit of selfishness and competition makes itself felt, and the old adage that "John Bull can stand anything, but he cannot stand 2%" holds good in every country. Against this dangerous tendency to expansion the strongest element of protection is found, when wisely managed, in the large central note-issuing banks. They fulfil their duty of preventing over-expansion by working in time for harder money rates. Either by refusing to do new business they gradually liquidate their holdings of paper or they sell Treasury bills or other securities, accumulating cash against them, or, as is frequently done by the Bank of England, they even borrow in the open market.

Have we in the United States at present conditions that are pregnant with the dangers following great ease of money? With hundreds of millions suddenly released and a future

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highly uncertain, I believe there can be no doubt as to what the conclusions of the Board will be on this point. In order to gain a clear basis for future discussions concerning the policy to be adopted and the best ways and means of carrying it into effect, it is however important that a definite understanding be reached.

Some members of the Board still urge a policy of lower rates; others feel that while it was incumbent on the Board to aid in making money easier, when conditions prevailed such as were originally met, it is now a clear duty not to aggravate the existing plethora of money, but rather to ward off the evil effects certain to follow an over-abundance of credit.

It is my suggestion that a vote be taken on this question and a clear-cut policy agreed upon. Unless this be done, it is impossible to adopt the measures which must be taken from time to time without engaging in endless and fruitless discussions. There must be an understanding on theory and policy before we can pass upon the means of attaining the aims agreed upon.

If, as I suppose to be the case, a majority of the Board does not wish to increase the ease of money at this time, then we must accept these further conclusions :

First : When normal rates fail to bring business to the Federal Reserve Banks we must not try by underbidding to force

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our funds into the investments sought by the commercial banks. As it has been tried to show above, we should otherwise take the responsibility of forcing upon them a policy of either underbidding us or of going into fields of greater hazard. Into these we should be the last to drive them.

Are we then to sit still and not earn our expenses and dividends? What, in that case, would the people say? What will they say if, ultimately, by being short-sighted now, we ourselves should bring about a stringency - the very condition which we are justly expected to guard against? Would it not be better to have the people better informed of our duties and policies? It will not take long to gain the sympathy of those who are most interested in our earnings, the member banks. As a matter of fact, presidents of banks, large and small, north and south, have informed us that they would not be the least disappointed to have the Federal Reserve banks fail to earn their dividends under present circumstances, that they would be amply repaid, even if they received no return on their investment at all, if our system provided safety. They have expressed the hope that we should remain cool and conservative and should not permit ambition for earnings and quick results to tempt the Federal Reserve banks from the wise path of conservatism. I must confess to a feeling of humiliation that our members should have found it necessary to express these feelings to me when such admonition should more properly come from the Federal Reserve Board to them.

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We must reach then a conclusion as to the second question, viz., - is the policy of this Board to be framed according to misconceptions and prejudices prevalent among " the people ", or is it the duty of the Board to educate the people to a better understanding of the broad questions touching finance in general and the problems of the Federal Reserve System in particular ? It might be advisable to take a vote also on this question.

Third : While we have seen what investments we must avoid at the present time,we must on the other hand, consider the positive side of the program of what we may and must do. Before doing that,however, we shall have to undertake one more process of elimination.

If we were not confronted with entirely abnormal circumstances caused by the European war, present conditions would lead Federal Reserve Banks to a policy of investing heavily in foreign bills. Foreign exchange rates are remarkably low and would, therefore, favor such a venture. In addition, by investing in foreign bills, we should withdraw our funds from the home market and thereby exercise an influence in the direction of hardening money rates. We should invest our funds temporarily so as to bring some return from foreign countries. As we should buy only short paper,this would place us in a position,at any time when we should again want our funds for use in our own country, to rediscount the foreign paper thus acquired or to collect it as it matures and to sell foreign exchange against these funds as they

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became available at probably profitable prices. We should use foreign countries, therefore, as a means of steadying our own money rates and should keep these foreign countries as reservoirs to be drawn upon at our will.

Unfortunately, there are very serious objections to our going into that field of operation at this time. As long as the war continues, the holding of the paper of foreign countries involves the danger of laying ourselves liable to any measures that may be taken for their own protection by those foreign countries.

It cannot be foreseen whether this protection will take the form of renewed moratoria or of a refusal to ship gold or of increased prices to be paid for gold by the government banks. It is therefore impossible to foretell with any degree of safety whether a purchase of foreign exchange at this time would be likely to lead to a profit or to a loss. Moreover, the Federal Reserve Banks might subject themselves to severe criticism if they found their funds "tied up" in foreign countries when they wanted to withdraw them, or if they should incur losses in foreign countries, such as might result from critical financial conditions likely to prove to be the consequence of the present turmoil.

Confidential enquiries have elicited the general reply that Federal Reserve Banks would be disinclined at this time to go into foreign exchange transactions or to open the foreign accounts which would be necessitated by such transactions.

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It has been suggested that the Federal Reserve Banks do what the Bank of England would be apt to do under present circumstances; that is to say, borrow money. Such a plan might be carried out by an agreement on the part of the Federal Reserve Banks to pay interest - let us say 2% - on balances of member banks kept in excess of the minimum requirements. Mr. Delano has written a very interesting paper elaborating this thought.

Larger balances thus to be gained by the Federal Reserve Banks would no doubt constitute an important element of protection in dealing with the question of check clearings. It would also remove the opposition of a great many country banks which now object to increasing their balances with Federal Reserve Banks without, on the other hand, receiving on these larger balances the interest they now receive from their reserve correspondents. It is clear that in Central Reserve cities and even to a larger extent in Reserve cities, strong objections would be offered against such a plan which, it might be claimed, would tend to bring about within six months what the law advisedly intended to bring about within two and a half years. Moreover, there is a danger that where once the Federal Reserve

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System begins to pay interest on balances, great pressure will be brought so to amend the law as to force the Federal Reserve Banks to continue doing so. As a broad principle it is unsound to pay interest on reserve money. Interest on reserve money is in itself a stimulus to the employment of reserve money. If, on the other hand, it should not be employed, the Federal Reserve Banks would incur a loss which would curtail the income to be received by the Government, and would, therefore, be a constant opportunity for political attack and interference. While such a policy of paying interest on borrowed money could, with entire propriety, be adopted as an extraordinary measure in time of dangerous ease of money (which normally would drive gold from the country, - a question which it would lead us too far to elaborate here), it would be unsound to adopt such a policy permanently. It is, therefore, not believed that the Board would, or that indeed it should, embark upon a policy of paying interest on excess balances, tempting though this proposal may be in some respects.

Fourth: There remains, however, one large and new field of enterprise heretofore unoccupied by American banking; the bank acceptance, an investment in every respect desirable for

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the Federal Reserve Banks. The American bank acceptance, drawn against the importation or exportation of goods, implies, indeed, at present in most cases, competition not with American, but with foreign banks. Heretofore these transactions have been financed by foreign banks and they have received the commissions for accepting, while the discount markets of such foreign countries have carried the acceptances until they matured. In other words, advances against goods in transit from one country to another were carried by foreign countries. In purchasing these acceptances, Federal Reserve Banks are, therefore, not using reserve money to compete with domestic banks in domestic credits or domestic investments, but, on the contrary, American is loaned to take the place of foreign, money. Moreover, while the rate of these bank acceptances is low, the business man who secures the credit in order to carry his goods, pays a commission to the accepting bank, plus the discount rate at which he sells the acceptance. A rate of ½% to ¼% for three months, is equal to 1% to 2% per annum. Adding to that a discount of from 2½% to 3% brings the rate at which he secures his money up to between 4% to 5%. There is, therefore, no overstimulation so far as the business man is concerned. Moreover, if properly restricted, acceptances should be given only for

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goods actually sold. The acceptance, therefore, in this case is only a helpful instrument in liquidating a close transaction which matures and ends at a definite time. It is consequently free of the criticism that it stimulates business expansion as might the ordinary credit granted for the general purposes of business.

Fifth: If American banks would give their acceptances (as our Counsel advises us they could) to finance shipments from one foreign country to another, the purchase of such acceptances would, under present conditions, be the ideal investment for Federal Reserve Banks. A transaction of that kind may properly be considered a foreign investment free of the risks of foreign exchange operations. Instead of drawing on London, the Argentine shipper would draw on New York against goods which he had shipped to London. When the bill matures, he must remit to the United States, and if he cannot find bills of exchange on New York to cover the transaction, it is his duty to find gold. He is by contract bound to secure such gold just as, in the fall of 1914, American houses were obliged to send gold to cover their maturing obligations in London, independent of whether or not gold payments had been suspended by the American banks.

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Investments in acceptances of this kind would permit the Federal Reserve Banks to secure a return from some part of their idle money without increasing the ease of money here. Such investments would, indeed, be the best reserve investments because if, within the next ninety days, conditions should change here so as to make it desirable to strengthen our own reserves by putting up the bank acceptance rate, we could force the shipper or the importer to cover his indebtedness, meeting the acceptance and using for his new shipments credits in countries which are willing to offer him lower discount rates. If we put out our money in the United States by investing in so-called American commercial paper, our investment is endowed with very much less of the reserve quality because if the money has gone into investments or plants, we can collect our maturing paper only by forcing the commercial banks of the country to take it over from us. We are only shifting the investment from one American pocket into the other, while if at this time we should finance foreign shipments with our bank acceptances, the liquidation of these acceptances would mean that we should be drawing on the surplus of other countries to strengthen our own. It is this feature of the bank acceptance market which cannot be sufficiently

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emphasized. It possesses an element of elasticity both on account of international relations and on account of the fact that these acceptances can be collected without considering the convenience of the acceptor. This renders the acceptance market the most desirable field of investment for all banks. The larger this market grows and the wider the public it reaches, the safer it becomes and the more readily will the ultimate aim be achieved of making the acceptance market take the place of the stock exchange call money market.

The Federal Reserve System will not be a really safe and efficient organization until the acceptance market is thoroughly developed. It can already be seen that, in the acceptance market, the Federal Reserve Banks will be a controlling factor and, when once sufficiently firmly established, their discount rates for bank acceptances will become not only barometers but, through this agency, important governors, of the money market. It must be borne in mind that the safety of note issuing banks lies in their ability actually to collect and actually to influence money rates.

Our rates for commercial paper will naturally have to remain fairly high because these rates must be granted in every district to the smallest country banks in remote corners, where rates are naturally comparatively high. The

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rediscounting of the long maturity commercial paper will, therefore, be largely restricted to the smaller and weaker banks, and will, therefore, have little direct bearing upon the larger banks whose transactions with their Federal Reserve Banks will probably generally be based on short time paper bearing a lower rate. The most effective money rates will, therefore, be the short term rate and the bank acceptance rate, particularly when, as it is hoped will ultimately be the case, the acceptance covers domestic transactions as well.

It is the bank acceptance that will bring about real fluidity of credit and will serve as an equalizer of money rates all over the country; for the acceptance of a good bank in New Orleans will sell substantially at the same discount rate as the acceptance of a bank in New York, no matter whether the local rate for commercial paper in one district be five and in the other four per cent. If country banks, instead of keeping call money loaned on the stock exchange, are to hold bank acceptances as part of their working reserve, the market for bank acceptances must be wide and reliable, and the more it is internationalized, the more the foreign banks begin to buy our acceptances, and the more we accept in foreign trade, the stronger this market will be and the more perfectly will it

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act as a safety valve should we find it necessary to increase our rate. By accepting for foreign countries, we should be creating a gold reserve which can be quickly marshalled so as to enable us to respond to the commercial demands of the country. At the same time, this reserve would act as a buffer in case exchange should turn against us and the danger of gold exports arise.

Sixth: The sentiment has been quite frequently expressed that we commit an injustice by permitting these low rates for bank acceptances when we could not or would not permit the same low rates for commercial paper. The difference between the two kinds of paper has already been pointed out. Furthermore it must be apparent that we could, of course, lower our rates for commercial paper but that we ought not to do so because such action would be unsound and dangerous. Incidentally, it might be well to consider that if we want to keep our machinery going and want Europe to continue to purchase without bringing about a depletion of gold holdings which might render it impossible for those countries to continue to buy of us, we have to a certain extent to provide the means with which Europe can pay.

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Europe will either sell us back our own securities (which evidently she is not very much inclined to do for the present) or we may give Europe short term credit facilities or buy her issues of securities. To invest our money in European long term securities would not be advisable. The time has not yet come when this country can act as the World's banker and as a permanent investor in foreign securities. Moreover, for political reasons, it is not desirable that large public issues be made here for belligerent powers at this time. On the other hand, should we become the temporary banker of Europe, by granting these acceptance facilities,-a banker who at any time on short notice can call back his funds, - that indeed would be the safest and the most useful position for the United States in present circumstances.

Open market transactions in domestic bills of exchange would have exactly the same effect as a lowering of our bank rates for commercial paper. They would in effect result in competition with the commercial banks in the purchase of commercial paper, such an invasion of their legitimate field of operation would force them to counter the stroke by underbidding us, or - as already shown,- drive them into undesirable investments. The Federal reserve Banks, by taking such a step, would invite the most bitter - and well-deserved - criticism.

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While these two classes of open market operations may appear to be very similar, careful examination will show that the open market purchase of domestic "bills of exchange" would, at this time, weaken our general situation, while the purchase of bank acceptances drawn for foreign account to finance importations or exportations, would add an element of strength.

Seventh. There are now excess reserves of $500,000,000. A loan expansion has already taken place in the past few months of about $220,000,000. There is nothing but the sound common sense of the commercial banks that can prevent a further expansion which may reach to an amount of over $1,000,000,000. The inverted pyramid is likely to grow, but the basis on which the entire structure stands, the reserves, has been reduced by the Federal Reserve Act. Every dollar that the Federal Reserve System puts out at this time further weakens these lessened reserves. The entire safety of the expanded situation rests on the Federal Reserve Banks. At a time at which our usual European credit facilities have become unavailable, and when the European investment markets, on which we formerally relied to a certain extent, have been closed, the additional elasticity which our new system provides, is the only means of replacing what thus we have lost. It would appear the part of prudence and sound business judgment to husband our resources and not to increase, but

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rather to counteract, the ease of money which again will drive the banks into fixed investments, These always have proved to be their ruin after a time of great plethora. Within the next two years we must withdraw $200,000,000 from the banks and add this amount to our own resources. Until then, it will be advisable not to let the inverted pyramid grow to an extent which will render it extremely difficult to withdraw such funds. Even if European conditions were entirely normal it would be advisable in these first two years of growth to proceed cautiously. With conditions as they are, there cannot in my mind be any doubt as to our policy.

Trade does not follow the flag unless there is something behind the flag to fasten it to. Trade follows finance as often as finance follows trade. Present conditions - deplorable as they are in many respects - offer us a unique opportunity of establishing ourselves as a financial world power. Now is the time when a friend in need is wanted in all parts of the globe; and when valuable relations can be established with foreign countries.

If we miss this opportunity, if we show hesitation and pettiness where boldness and statesmanship are required, if we cannot get beyond the distinctly local point of view, the

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European countries - when peace will be restored - will remain the masters of the situation as in the past. We cannot be a world power if we do not adopt the broad principle that we must be willing not only to take but also to give, just as other nations are willing to give us the advantages of their facilities whenever, and to the extent that, their own conditions permit. A banker who has the reputation of being essentially selfish will never secure a good class of customers. Our new system can rank with the Bank of England, the Reichsbank and the Banque de France, only if it be administered on broad principles of financial statesmanship and not like a country bank which looks only to what it can earn and seeks to serve only the selfish interests of its immediate customers.

P. M. W.

3-30-15.

P.S. From the point of view of a Federal Reserve Board member- disregarding all other considerations which the Government as a whole must weigh - a sale of United States Government bonds or short term notes would just now have a most desirable effect; provided, that the issue were sold to the public and the commercial banks, the proceeds being actually withdrawn and locked up in the Treasury. It must not be forgotten that the net cash lost by the Treasury during the past few months has gone into circulation and into the banks.

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EXCERPT FROM MINUTES OF THE FEDERAL RESERVE BOARD, MEETING OF JANUARY 9, 1915.

Discussion of the future policy of the Board ensued and on motion it was voted to take up the question of framing regulations governing the purchase of domestic and foreign bills of exchange, the work to be undertaken immediately after the circular on acceptances had been disposed of.

It was agreed that nothing in the action relating to bills of exchange should be permitted to interfere with the prompt issuance of the acceptance circular and regulations.

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99.

Tentative Regulation

BOARD FILE
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FEDERAL RESERVE BOARD.

333

Washington, D. C.

December 22, 1914.

Subject: The Purchase of Warrants.

Section 14 of the Federal Reserve Act reads in part as follows:

"Every Federal reserve bank shall have power:

(b) To buy and sell, at home or abroad, bonds and notes of the United States, and bills, notes, revenue bonds, and warrants with a maturity from date of purchase of not exceeding six months, issued in anticipation of the collection of taxes or in anticipation of the receipt of assured revenues by any State, county, district, political subdivision, or municipality in the Continental United States, including irrigation, drainage and reclamation districts, such purchases to be made in accordance with rules and regulations prescribed by the Federal Reserve Board".

For brevity's sake, the expression "warrant" when used in this regulation, shall be construed to mean: "bills, notes, revenue bonds, and warrants with a maturity from date of purchase of not exceeding six months", and the expression "municipality" shall be construed to mean: "State, county, district, political subdivision or municipality in the Continental United States, including irrigation, drainage, and reclamation districts".

I. A Federal reserve bank may purchase such warrants as are issued by a "municipality".

(a) In anticipation of the collection of taxes or in anticipation of the receipt of assured revenues. The taxes or assured revenues, against which such "warrants" have been issued, must be due and payable

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on or before the date of maturity of such "warrants". For the purposes of this regulation taxes shall be considered as due and payable on the last day on which they may be paid without penalty.

(b) As the general obligations of the entire "municipality", it being intended to exclude as ineligible for purchase all such obligations as are payable from "local benefit" and "special assessment" taxes when the "municipality" at large is not directly or ultimately liable.

(c) 1- Which has been in existence for a period of ten years;
2- Which for a period of ten years previous to the purchase has not defaulted, for a period exceeding fifteen days, in the payment of any part of either principal or interest of any funded debt authorized to be contracted by it; and

3- Whose net funded indebtedness does not exceed ten per centum of the valuation of its taxable property, to be ascertained by the last preceding valuation of property for the assessment of taxes.

As a definition of the term "net funded indebtedness" as used in I (c) -3, above, and in further explanation of 1(c)-1 and 2, relative to the term of existence of and non-default by the "municipality", the Federal Reserve Board has adopted in substance the definitions and regulations of the Board of Trustees of the Postal Savings System, which, as printed hereunder as an appendix hereto is made a part of these regulations.

II Except with the approval of the Federal Reserve Board, no Federal reserve bank shall be permitted to purchase and hold an amount in excess of 25 per cent of the total amount of "warrants" outstanding at any time issued in conformity with provisions of Section Fourteen (b) and actually sold by a "municipality".

III Except with the approval of the Federal Reserve Board, the aggregate amount invested by any Federal reserve bank in "warrants" shall not exceed at the time of purchase a sum equal to ten per centum of the deposits kept by its member banks with such Federal reserve bank.

IV Except with the approval of the Federal Reserve Board, the aggregate amount which may be invested at the time of purchase by any Federal reserve bank in "warrants" of any single "municipality" shall be limited to the following percentages of the deposits kept by it's member banks with such Federal reserve bank.

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5% of such Deposits in "warrants" of a "municipality" of 50,000 population or over;
3% of such Deposits in "warrants" of a "municipality" of over 30,000 population but less than 50,000;
1% of such Deposits in "warrants" of a "municipality" of over 10,000 population but less than 30,000.

V. "Warrants" of a "municipality" of 10,000 population or less shall be purchased only with the special approval of the Board.

The population of a "municipality" shall be determined by the last Federal or State census. Where it cannot be exactly determined, the Board will give special rulings.

VI. Opinion of recognized Counsel on municipal issues, or of the regularly appointed Counsel of the "municipality" about the legality of the issue shall be secured and approved by Counsel for the Federal Reserve Bank in each case.

VII. This regulation is subject to such modification as the Board may deem proper from time to time.

H. Parker Willis,
Secretary.

Charles S. Hamlin,
Governor.

* * * * * * * * * *

DEFINITION OF "NET FUNDED INDEBTEDNESS"

The term "net funded indebtedness" is hereby defined to mean the legal gross indebtedness of the "municipality" (including the amount of any school district or other bonds which depend for their redemption upon taxes levied upon property within the "municipality") less the aggregate of the following items:

(1) The amount of outstanding bonds or other debt obligations made payable from current revenues.

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(2) The amount of outstanding bonds issued for the purpose of providing the inhabitants of a "municipality" with public utilities, such as water works, docks, electric plants, transportation facilities, etc.: PROVIDED, That evidence is submitted showing that the income from such utilities is sufficient for maintenance, for payment of interest on such bonds and for the accumulation of a sinking fund for their redemption.

(3) The amount of outstanding improvement bonds, issued under laws which provide for the levying of special assessments against abutting property in sufficient amounts to insure the payment of interest on the bonds and the redemption thereof: PROVIDED: That such bonds are direct obligations of the "municipality" and included in the gross indebtedness of the "municipality".

(4) The total of all sinking funds accumulated for the redemption of such gross indebtedness, except sinking funds applicable to bonds just described in (1), (2) and (3) above.

"Warrants" will be construed to comply with that part of paragraph (c) of this regulation, relative to term of existence and non-default, under the following conditions:

(1) "Warrants" issued by or in behalf of any "municipality" which was, subsequently to the issuance of such "warrants", consolidated with, or merged into, an existing political division which meets the requirements of these regulations, will be deemed to be the "warrants" of such political division: PROVIDED, That such "warrants" were assumed by such political division under statutes and appropriate proceedings the effect of which is to make such "warrants" general obligations of such assuming political division, and payable, either directly or ultimately, without limitation to a special fund, from the proceeds of taxes levied upon all the taxable real and personal property within its territorial limits.

(2) "Warrants" issued by or in behalf of any "municipality" which was, subsequently to the issuance of such "warrants", wholly succeeded by a newly organized political division, whose term of existence, added to that of such original political division, or of any other po-

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litical division so succeeded, is equal to a period of ten years, will be deemed to be "warrants" of such succeeding political division: PROVIDED, That during such period none of such political divisions shall have defaulted for a period exceeding fifteen days, in the payment of any part of either principal or interest of any funded debt authorized to be contracted by it; AND PROVIDED FURTHER, That such "warrants" were assumed by such new political division under statutes and appropriate proceedings the effect of which is to make such "warrants" general obligations of such assuming political division, and payable, either directly or ultimately, without limitation to a special fund, from the proceeds of taxes levied upon all the taxable real and personal property within its territorial limits.

(3) "Warrants" issued by or in behalf of any "municipality" which, prior to such issuance, became the successor of one or more, or was formed by the consolidation or merger of two or more, pre-existing political divisions, the term of existence of one or more of which, added to that of such succeeding or consolidated political division, is equal to a period of ten years, will be deemed to be "warrants" of a political division which has been in existence for a period of ten years: PROVIDED, That during such period, none of such original, succeeding, or consolidated political divisions shall have defaulted, for a period exceeding fifteen days, in the payment of any part of either principal or interest of any funded debt authorized to be contracted by it.

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Tentative

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WARRANTS.

BOARD FILE
FR 262.3

77.

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Regulation No..... Covering Sec.14 Clause (b)

This clause reads as follows:

"Every Federal reserve bank shall have power:

(b) To buy and sell, at home or abroad, bonds and notes of the United States, and bills, notes, revenue bonds, and warrants with a maturity from date of purchase of not exceeding six months, issued in anticipation of the collection of taxes or in anticipation of the receipt of assured revenues by any State, county, district, political subdivision, or municipality in the Continental United States, including irrigation, drainage and reclamation districts, such purchases to be made in accordance with rules and regulations prescribed by the Federal Reserve Board."

The power to buy and sell bonds and notes of the United States will be treated in a separate regulation.

For brevity's sake, the expression "warrant", when used in this regulation, shall be construed to mean: "bills, notes, revenue bonds and warrants with a maturity from date of purchase of not exceeding six months", and the expression "municipality" shall be construed to mean: "State, county, district, political subdivision or municipality in the Continental United States, including irrigation, drainage, and reclamation districts."

In order to be eligible for purchase by a Federal Reserve Bank, "warrants" must be issued

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First: In anticipation of the collection of taxes or in anticipation of the receipt of assured revenues by a "municipality"; and the taxes or assured revenues, against which such "warrants" have been issued, must be due and payable on or before the date of maturity of such "warrants".

Taxes shall be considered as due and payable on the last day on which they may be paid without penalty.

Second: By a "municipality" which has been in existence for a period of no less than ten years and which for a period of no less than ten years previous to the purchase has not defaulted in the payment of any part of either principal or interest of any funded or other debt authorized to be contracted by it, and whose net funded indebtedness does not exceed ten per centum of the valuation of its taxable property, to be ascertained by the last preceding valuation of property for the assessment of taxes.

In computing such "net" funded indebtedness, funded debt incurred for the acquisition of self-supporting property - such as water works, docks, electric plants, transportation facilities, etc. - may be deducted to the extent that such funded debt actually is self-supporting.

Third: No Federal Reserve Bank shall be permitted to purchase and hold an amount in excess of 25% of the total amount of "warrants" outstanding at any one time issued under the provisions of Sec. 14 (b) and actually sold by a "municipality".

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Fourth: The aggregate amount invested by any Federal Reserve Bank in "warrants" shall not exceed a sum equal to ten per centum of the deposits of its member banks except with the approval of the Federal Reserve Board.

Except with the approval of the Federal Reserve Board the aggregate amount which may be invested by any Federal Reserve Bank in "warrants" of any single municipality shall be limited as follows:

5% of Deposits in warrants of a municipality of 50,000 polulation or over

3% of Deposits in warrants of a municipality of over 30,000 population but less than 50,000

1% of Deposits in warrants of a municipality of 30,000 population or less.

Where the polulation of a municipality cannot be exactly determined, the Board will give special rulings.

This regulation is subject to such modification as the Board may deem proper from time to time.

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In prescribing the above regulations the Federal Reserve Board has been guided by the principle that it is the foremost object of the Federal Reserve Act to provide for a banking machinery which responds to the ebb and flow of commerce and trade. Investments of Federal Reserve Banks must, therefore, primarily be made in commercial and banking paper.

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Accordingly purchases of warrants by Federal Reserve Banks should normally be restricted to a small proportion of the aggregate investments, and limits should be exceeded only when general banking policy renders it advisable. In any and all cases the interest of Federal Reserve Banks must be considered first in making such investments and not that of municipalities desiring to sell their obligations.

The Board was guided by this point of view when adding the regulation that Federal Reserve Banks may invest only in 25% of any outstanding issue of warrants. Federal Reserve Banks ought not to be used as ready instruments created for the purpose of financing community requirements.

In order to preserve the highest degree of liquidity of Federal Reserve Banks, investments should be made by preference in such warrants as command a wide market, thus enabling the Federal Reserve Banks to dispose of these warrants whenever it becomes desirable to reinvest in commercial paper.

The regulation prescribing that only warrants be bought offering a definite assurance that the taxes and revenues will be actually in hand before maturity, is in keeping with the general policy of the Board of restricting the Federal Reserve Banks as far as possible to investments which are of short maturity and self liquidating.

12/10/14.

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