3 7 2 21

#7

January 29, 1919.

Dear Governor McDougal:

I have your letter of the 27th instant advising that your bank is now being allotted 10% of the daily purchases of acceptances made by the Federal Reserve Bank of New York.

The Board is glad to learn of your bank's ability and willingness to cooperate in this matter.

Very truly yours,

Governor.

Mr. J. B. McDougal,
Governor Federal Reserve Bank,
Chicago, Illinois.

FEDERAL RESERVE BANK OF CHICAGO

79 WEST MONROE STREET

January 27, 1919. 333 4 (7)

RECEIVED
9 . 19
GOVERNOR'S OFFICE

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

Dear Governor Harding:

While, for a number of months, we have not been participating in New York's daily purchases of bankers' acceptances, on some occasions, when your Board has deemed it advisable, we have relieved the New York Bank by purchasing substantial amounts of bills. Noticing, however, the wide discrepancy between the reserve positions of the New York Bank and the Chicago Bank I have recently suggested to our Board of Directors that with a view to supporting the market and at the same time relieving New York to some extent, the time is now opportune for us to again enter the market. In response to our advice to New York expressing willingness to again share in the purchases we are now in receipt of telegraphic word that beginning today the Chicago Bank will be allotted 10% of their daily purchases.

I am advising you in the premises in order that you may be fully informed and trust the Board may concur in our belief that the time is opportune for such a step.

Very truly yours,

J B McDougal
Governor.

K.

1/29

333

333.4 (7)

November 29, 1918.

Mr. Albert Breton,
Guaranty Trust Company,
140 Broadway, New York, N. Y.

Dear Mr. Breton:

I have your letter of the 23d instant, and upon investigation find that the bank mentioned did sell through brokers in the open market, bankers' acceptances aggregating about one-half of the amount stated by you.

With the exception of this one instance, there is no record of any sale made in the open market, nor through bankers or brokers, for the account of a reserve bank. The Reserve Banks do not operate in the open markets in other districts. The banks do participate in purchases made by other Federal Reserve Banks, but it may be said that acceptances in other districts are not purchased except through, or with, the consent of the local Federal Reserve Bank. If it becomes necessary or desirable for a Reserve Bank to reduce its holdings, with the consent of the Federal Reserve Board acceptances may be resold to a Federal Reserve Bank through whom the acceptances were originally purchased, or through the Federal Reserve Board a sale or rediscount is arranged with other Federal Reserve Banks.

It is my understanding that as a general rule rates for prime bankers' acceptances at Chicago are similar to those quoted in New York. At times there is a variation of one-eighth per cent. Aside from the rate, it is natural, of course, that in purchases each Federal Reserve Bank gives preference to acceptances of its own member banks.

You may be interested to know that the Federal Reserve Board is advised daily of the loan and reserve position of each Federal Reserve Bank, and when the position of a Federal Reserve Bank is such as to render it necessary, the Board suggests the sale or rediscount of paper to, or by, other Reserve Banks. The policy of the Board in this connection is governed by the necessity of maintaining the equilibrium of the reserve situation of the System as a whole. The Board's careful supervision of this does, in effect, create a nation-wide open market for Reserve Banks, and make it neither necessary nor desirable for a Reserve Bank to resell its acceptances in the so-called open market.

Very truly yours,

Vice-Governor.

B/W

Mr Bretons letter in Mr Strauss file

ACCEPTANCE POLICY - Federal Reserve Banks.

Letter, Nov. 23, 1918, from A. Breton, Guaranty Trust Co.

Points raised.

1. Informed that the Federal Reserve Bank of Chicago had sold about $5,000,000 of bank acceptances in the New York market through Bernhard Scholle & Co.

Comment. On October 29th the Federal Reserve Bank of Chicago sold in New York through Bernhard Scholle and Company, $2,700,000 acceptances Chicago member banks, at 4 3/8%, maturities 60 to 90 days. The Federal Reserve Bank of New York was consulted before the sale was made and no objection was offered. From information obtained at the time the sale was effected, there was a big demand for bills and an excellent market.

This office knows of no similar sale, nor is there any record of any like transaction. The Federal Reserve Banks' officers consulted state that to the best of their knowledge no sales have been made in the so-called open market nor through banks or brokers for account of a Reserve Bank.

2. I do not think it is the intention of the Federal Reserve Act or the spirit of the law to have the Federal Reserve Banks in one district operate in the open market of another. It looks to me that by so doing the Federal Reserve Bank becomes a regular commercial bank competing against members of the System and loses its official character as a Reserve Bank.

Comment. Reserve Banks do not operate in the open market of other Reserve Districts. This has been an unwritten rule since the start of the acceptance market. For a long period practically all acceptance offerings were made in New York. The Federal Reserve Bank of New York made purchases for its own and also for the account of other Reserve Banks, distribution being in accordance with schedule of percentages agreed upon by the participating banks. It is safe to say that no Reserve Bank would purchase acceptances offered for sale in another Federal Reserve District, except through or with the consent of the local Reserve Bank. They do however purchase acceptances offered by their own member banks, regardless of the domicile of the accepting banks, which certainly is well within the province of a Reserve Bank.

Reserve Bank acceptance purchases are made through the following channels:

(1) From own member banks or brokers operating within district;
(2) Participation in purchases made by other Federal Reserve Banks;
(3) Through Federal Reserve Board,-acceptances endorsed by other Federal Reserve Banks and purchased from or rediscounted for other Federal Reserve Banks.

3. The reselling by Federal Reserve Banks of member bank acceptances in the open market of discount may cause a serious objection to arise from the leading banks in the country, and we know this to be a fact so far as the Guaranty Trust Company is concerned.

4. It would be impossible (for Guaranty Trust Company and other member banks) to pursue present policy if Federal Reserve Banks were to resell freely member bank acceptances in open market.

<u>Comment on 3 and 4.</u> With the exception of the one instance referred to, the Board has no record or knowledge of any sales made by Reserve Banks in the open market. If the reserve position of a Reserve Bank is such as to render it desirable to reduce holdings, with the consent of the Federal Reserve Board acceptances may be resold to Reserve Bank from whom acceptances were purchased, or through the Federal Reserve Board a sale or rediscount is arranged with other Federal Reserve Banks.

5. I have also heard that the Federal Reserve Bank of Chicago quotes lower rates of discount on bills accepted by member banks of its own district than on bills accepted by member banks located in other Federal Reserve Districts. If this happens to be the case, such a policy will work against the spirit of the Federal Reserve Act, which is to even up money rates all over the country.

<u>Comment.</u> The rates quoted by the Federal Reserve Bank of Chicago for prime bankers acceptances are similar to those quoted by the Federal Reserve Bank of New York, except that at times there is a variation of 1/8 percent. At present the Chicago bank is purchasing drafts accepted or endorsed by their own member banks (District #7), except that in a few cases the bank buys from its members, acceptances of member banks of other districts. Such bills are taken at the same rate as its own member bank bills.

In the past the Chicago bank has made large purchases through other Reserve Banks. On at least one occasion, with the approval of the Federal Reserve Board, it has sold other Reserve Banks' acceptances of its own member banks. Also at the suggestion of the Reserve Board it has purchased or rediscounted acceptances for other Reserve Banks.

<u>General Comment.</u> The Reserve Board is advised daily of the loan and reserve position of each Reserve Bank, and when the position of a Reserve Bank is such as to render it necessary, the Board suggests the sale or rediscount of paper to or by other Reserve Banks. The policy of the Board in this connection is governed by the necessity of maintaining the equilibrium of the reserve situation of the System as a whole. The Board's careful supervision of this situation in effect creates a nation-wide open market for Federal Reserve Banks, and makes it neither necessary or desirable for individual Reserve Banks to undertake independent action in the open market.

Nov 26 1918

Mr Kenzel F R Bank New York Phone 333.4(7)

Knew of Chicago purchase - ~~[illegible]~~ New York (Oct 24) - bank offered no objection - Sale made at time Good market ~~[illegible]~~ big demand limited offerings. Knows of no similar cases

Present rates - ~~[illegible]~~ Prime - Bankers 30 days 4

	30-60	4 1/8
	60-90	4 1/4

TELEGRAM

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)

333.4(7)

83 F Ott

RECEIVED AT WASHINGTON, D. C., Chicago Ills 245PM Nov 25 1918

Broderick

Reserve board., washington .

11/25

Replying your wire. On October twenty ninth we sold two million, seven hundred thousand dollars of our member banks acceptances to Bernhard, Scholle and Co NewYork maturities sixty to ninety days, at four three eighths percent. We consulted with Federal Reserve Bank of NewYork before making this sale and they offered no objections In August nineteen eighteen we sold nine million, nine hundred eighty four thousand dollars of our member banks acceptances to Federal Reserve Bank of NewYork with the approval of Federal Reserve Board. These transactions represent the only sales of acceptances made by us during past six months STOP Our current rates on unendorsed member banks bills are four one eighth percent thirty day maturities four one fourth percent sixty day maturities four three eighths percent ninety day maturities. Member banks bills endorsed by member banks four percent thirty days, four percent sixty days, four one eighth percent ninety days STOP At the present time we are only purchasing acceptances of our member banks excepting that in a few instances we have purchased from our members acceptances of member banks of other districts. These were taken at

TELEGRAM

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)

2—47:5

RECEIVED AT WASHINGTON, D. C.,

the same rate as our member banks bills.

McDougal,

4PM

Form 40

TELEGRAM

FEDERAL RESERVE BOARD

WASHINGTON

333.4 (7)

November 25, 1918.

McDougal
Chicago

Statement has been made that your bank has made sales of bankers acceptances aggregating five million dollars in New York market through a broker stop. Please advise what if any basis there is for the statement stop Have you made any resales of bankers acceptances to other than your own member banks stop Have any resales been made to other Reserve Banks stop What are your rates today for acceptances stop Do you purchase acceptances of your member banks at lower rates than those of banks of other districts stop Telegraphic reply will be appreciated

BRODERICK

H

OFFICIAL BUSINESS
GOVERNMENT RATES
CHARGE FEDERAL RESERVE BOARD
2—7720

Confidential

#7

333.4(7)

May 24, 1916.

Mr. C. H. Bosworth,
Federal Reserve Agent,
Chicago.

My dear Mr. Bosworth:

Referring to yours of May 17th; my letter of of the 15th was not intended to find fault with the reserves your bank has been keeping, but simply to express to you, as we have to other banks, the importance of keeping very strong in reserves. Perhaps this duty falls especially on the bigger banks like New York and Chicago, but we expect to stiffen up the condition in the Kansas City, San Francisco, or any other banks which are showing a little below what we think should be carried.

Thanking you for your letter, I am,

Yours very truly,

(SIGNED) F. A. DELANO.

FEDERAL RESERVE BANK OF CHICAGO 333.4(7)

79 WEST MONROE STREET

Chicago, May 17, 1916.

Mr. F. A. Delano, Vice-Governor,
FEDERAL RESERVE BOARD,
Washington, D.C.

Dear Mr. Delano:

5/17/16

I have telegraphed you today that the request in your confidential letter of the 15th instant will be followed by the management and that we will have an Executive Committee meeting on Monday and the matter will be submitted, and we have no doubt our action will meet with the Committee's hearty approval.

Our condition today is 72.3%, and with the additional reserve payments and the liquidation of short-time purchased paper we should be in an 80% condition inside of the next thirty days if we buy no more paper and no particularly increased demand for rediscounts develops from our members.

Mr. McDougal and I think this is a decidedly important matter because we have noticed, with surprise and some apprehension, the extremes to which several of the Reserve Banks have gone in the matter of outside investments - beyond the limits of safety and good practice.

While there is nothing in your letter to indicate that your motive is to merely correct this overextension in the Reserve Banks that have been guilty of it, and we will assume that that is not the motive, nevertheless, if it should be that that is responsible for your warning I wish to say that it will be a matter of relief to the management of the bank and to our Executive Committee also, to have an intimation to that effect from you, if you care to make it.

Yours truly,

C. H. Bosworth

CHB/S. Chairman.

Treasury Department

TELEGRAM

12PO MO 46 Collect Govt

333.4(7)

FX CHICAGO Ills May 17 1916

Mr F A Delano Vice Governor Federal Reserve Board

Washington

You can depend on the suggestions contained in your confidential letter being followed by the management Will have an executive committee meeting Monday and have no doubt the commit tee will support us

Bosworth, Chairman

122pm

333.4(7)

May 15, 1916.

Mr. C. H. Bosworth,
Federal Reserve Agent,
Chicago.

My dear Mr. Bosworth:

A matter which has come up for informal discussion of the Board and which, at the request of the Board, I wish to direct your attention to is that of getting your Bank in the strongest possible shape for eventualities in the next few months. The Board does not want to be understood as expressing alarm at the situation, but rather advising extreme prudence and caution on the part of each Federal Reserve Bank. We believe that it would be desirable to increase very considerably the loaning power of each of the Banks by increasing reserves to say 60%. The additional payment of reserve deposits, due tomorrow, May 16th, will of course very considerably help the situation, and it has occurred to us that it might be well to let investments in city warrants and bankers' acceptances, especially in central western banks, run down. Another thing which has occurred to us as desirable would be the sale of conversion 3% bonds and possibly also of the notes when you can avail yourselves of a good market.

Will you kindly bring this matter to the attention of your executive committee and directors?

Yours very truly.

PERCENTAGES OF GOLD AND TOTAL RESERVE CARRIED BY EACH FEDERAL RESERVE BANK AGAINST NET DEPOSIT AND NOTE LIABILITIES.

(Including Government deposits)

Bank	Percentages of Gold Reserve		Percentages of Total Reserve		Percentages of Cash Reserve to Net Deposit Liability (a)	
	May 12	May 19	May 12	May 19	May 12	May 19
Boston	54.2	55.1	55.2	55.9	55.2	55.9
New York	77.6	73.6	78.4	78.4	78.4	78.4
Philadelphia	53.9	61.4	56.8	63.9	56.8	63.9
Cleveland	64.2	65.2	67.8	68.7	67.8	68.7
Richmond	75.8	76.2	76.4	77.0	86.0	85.7
Atlanta	61.3	61.9	63.2	64.2	63.2	64.2
Chicago	69.9	68.0	72.4	72.5	72.4	72.5
St. Louis	58.7	54.5	64.6	60.3	64.6	60.3
Minneapolis	58.1	58.9	61.9	62.5	61.9	62.5
Kansas City	46.9	46.8	47.7	47.7	48.1	48.1
Dallas	66.4	63.6	70.1	67.9	76.0	72.8
San Francisco	44.3	49.0	44.6	49.0	44.6	49.0
Total for System	68.1	66.4	69.8	70.0	70.4	70.5

(a) After setting aside 40% gold against net amount of Federal reserve notes in circulation.

DIVISION OF REPORTS AND STATISTICS,
FEDERAL RESERVE BOARD,
May 23, 1916.

#7

FEDERAL RESERVE BOARD FILE
333.4(7)

FEDERAL RESERVE BANK OF CHICAGO

79 WEST MONROE STREET

RECEIVED
DEC 3 1915
OFFICE OF
VICE-GOVERNOR

Chicago, December 1, 1915.

Mr. F. A. Delano, Vice-Governor
Federal Reserve Board
Washington, D. C.

My dear Mr. Delano:

In reply to your inquiry of the twenty-ninth ultimo bearing upon our investments in "Bills Discounted - Bought", I am pleased to inform you that these bills are acceptances coming within the requirements of the Federal Reserve Board's regulation and all of which have been purchased for our account by the Federal Reserve Bank of New York.

These bills are acceptances made by strong banking institutions located in New York, Philadelphia and Boston. They do not carry the endorsement of our member banks.

I have always had in mind that you were kept well informed through Mr. Bosworth with respect to the affairs of the Chicago bank, nevertheless if at any time I can be of any service I shall be highly pleased.

Yours very truly,

J B McDougal
Governor

FRB

paper [illegible]

333.4(7)

November 29, 1915.

Mr. J. B. McDougal.
Governor, Federal Reserve Bank.
Chicago.

My dear Mr. McDougal:

Your letter of November 27th with attached statement of your investments is very interesting.

I notice a list of the paper rediscounted for members, and a list of paper bought, which interests me very much. Is this paper bought from members or from brokers; and if the latter, does the paper carry member banks' endorsements?

Yours very truly,

Investments of Chicago Banks

Ask Federal Reserve Bank #7

FEDERAL RESERVE BOARD FILE
262

Circulate

11/29

FEDERAL RESERVE BANK OF CHICAGO

79 WEST MONROE STREET

RECEIVED
NOV 29 1915
OFFICE OF
VICE-GOVERNOR

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

DIRECTORS
C. H. BOSWORTH CHAIRMAN AND FEDERAL RESERVE AGENT
J. B. FORGAN, CHICAGO, ILLINOIS
M. B. HUTCHISON, OTTUMWA, IOWA
E. F. JOHNSON, WATERLOO, IOWA
H. B. JOY, DETROIT, MICHIGAN
W. F. McLALLEN DEPUTY FEDERAL RESERVE AGENT
E. T. MEREDITH, DES MOINES, IOWA
G. M REYNOLDS, CHICAGO, ILLINOIS
A. H. VOGEL, MILWAUKEE, WISCONSIN

333.4 (7)

Chicago, November 27, 1915.

Mr. F. A. Delano, Vice-Governor
Federal Reserve Board
Washington, D. C.

My dear Mr. Delano:

A few days ago I sent to the members of our Board of Directors a memorandum indicating the amount and the range of our investments in the period from November 18, 1914 to November 1, 1915 and believing it may be of some interest to you I enclose a copy of the same brought up to November 15, 1915.

You will note therefrom that on November 15, 1915 bills discounted for member banks were at the highest point since January 2, 1915. The increasing demand comes almost entirely from sections of our district wherein farmers are asking for funds to purchase live stock in order that the best use may be made of large amounts of corn rendered unmerchantable as a result of being cut down by the frost.

Very truly yours,

J. B. McDougal
Governor

FRB

FEDERAL RESERVE BANK OF CHICAGO

COMPARATIVE STATEMENT OF INVESTMENTS- SEMI-MONTHLY

	Bills Discounted Members	Bills Discounted Bought	U.S. Bonds	Investments	Total
Nov. 18, 1914.	$1,000,000.00				1,000,000.00
Dec. 1,1914.	2,602,108.08				2,602,108.08
" 15,1914.	3,161,780.11				3,161,780.11
Jan. 2, 1915.	2,667,074.44		555,000.00		3,222,074.44
" 15, 1915.	2,078,148.58		925,000.00	1,000,000.00	4,003,148.58
Feb. 1, 1915.	1,572,045.30		2,025,000.00	1,525,000.00	5,122,045.30
" 15, 1915.	1,089,216.98		2,875,000.00	1,530,000.00	5,494,216.98
Mch. 1, 1915.	787,581.60	489,864.74	3,375,000.00	2,330,000.00	6,982,446.34
" 15, 1915.	955,771.23	967,783.60	3,500,000.00	2,330,000.00	7,753,554.83
Apr. 1,1915.	996,048.62	1,412,589.24	3,525,000.00	2,499,500.00	8,433,137.86
" 15, 1915.	813,940.71	1,589,849.24	3,525,000.00	2,633,500.00	8,562,289.95
May 1, 1915.	761,534.17	1,537,128.54	3,525,000.00	2,931,500.00	8,755,162.71
" 15,1915.	804,180.51	1,094,680.30	3,525,000.00	3,241,500.00	8,665,360.81
June 1,1915.	902,374.22	678,535.84	3,625,000.00	3,306,500.00	8,512,410.06
" 15,1915.	1,063,580.41	617,245.94	3,725,000.00	1,222,500.00	6,628,326.35
July 1,1915.	1,240,794.93	394,676.50	3,725,000.00	1,437,000.00	6,797,471.43
" 15,1915.	1,475,786.28	275,485.60	3,725,000.00	1,690,500.00	7,166,771.88
Aug. 2,1915.	1,453,923.41	533,499,54	3,725,000.00	2,023,000.00	7,735,422.95
" 16,1915.	1,284,777.02	717,380.78	3,826,000.00	2,075,000.00	7,903,157.80
" 26,1915.	1,244,518.94	913,304.46	3,951,000.00	2,027,000.00	8,135,823.40
" 27,1915.	1,226,892.29	1,144,060.65	3,951,000.00	3,502,000.00	9,823,952.94
Sep. 1,1915.	1,161,970.85	1,119,435.92	3,951,000.00	2,922,404.46	9,154,811.23
" 15,1915.	1,280,298.23	1,379,196.06	3,959,500.00	2,932,772.09	9,551,766.38
Oct. 1,1915.	1,576,061.96	1,551,563.30	3,986,000.00	2,984,679.35	10,098,304.61
" 15,1915.	1,832,551.39	1,527,493.64	4,006,000.00	2,970,489.35	10,336,534.38
Nov. 1,1915.	2,379,036.86	1,531,815.86	4,031,000.00	2,664,313.77	10,606,166.49
" 15,1915.	2,780,309.36	1,625,302.85	4,062,000.00	2,422,163.77	10,889,775.98

"Bills discounted bought" as used by Chicago bank = "bankers acceptances"

H.P.W.

OMC

#11

FEDERAL RESERVE BOARD FILE
333-4
~~242~~

222.4(7)

October 30, 1915.

S I R :

X 3rd

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 "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 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. C. H. Bosworth,
Chairman, Board of Directors,
Federal Reserve Bank of Chicago.

McDougal

Open Market #7

HS

333.4(7)

December 14, 1914.

Sir:

In answer to your letter of November 19 you are advised that the subject there referred to - the purchasing of certain securities, bonds, warrants, Etc., - has been in the hands of the committee for some time past, and is still under careful investigation.

You will be informed at the earliest moment when a definite position can be taken.

Respectfully,

Secretary.

Mr. J. B. McDougal,
Governor, Federal Reserve Bank,
Chicago, Illinois.

333.4(7)

FEDERAL RESERVE BANK OF CHICAGO
DISTRICT No. 7

Chicago, November 19th, 1914.

Mr. H. Parker Willis, Secretary,
Federal Reserve Board,
Washington, D. C.

Dear Sir:--

At a meeting of our board of directors held today, consideration was given to the matter of purchasing certain securities of the class referred to in Section 14, Article B., that is bonds and notes of the United States, and bills notes, revenue bonds and warrants issued by municipalities, which it is understood may be purchased in accordance with the rules and regulations prescribed by the Federal Reserve Board.

I have been authorized to address you on the subject and ask fon a ruling by the Federal Reserve Board in order that we may proceed. It is desirable that we have your regulations at the earliest possible moment and your prompt reply will therefore be highly appreciated.

Very truly yours,

Governor.