

REPORT ON THE OPERATIONS OF THE DIVISION OF FOREIGN EXCHANGE
OF THE FEDERAL RESERVE BOARD

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Report on the Operations of the Division of Foreign Exchange of the Federal Reserve Board

This report was made by Fred I. Kent, Deputy Governor, Federal Reserve Bank of New York, called to Washington in 1918 to set up the Foreign Exchange Division of the Federal Reserve Board. With some changes it appears in printed form on pages 46-59 of the Fifth Annual Report of the Federal Reserve Board as an integral part of that report. The carbon copy herein was found among Mr. Kent's papers, ^{at his home,} 70 Morris Lane, S. Canadale N.Y., after his death. This copy is not signed but is believed authentic.

Michael Adams
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The Division of Foreign Exchange of the Federal Reserve Board was organized to carry out the provisions of the Executive Order of the President of January 26, 1918, and to co-operate with the Treasury Department of the United States in meeting the unusual problems in foreign exchange created by the war.

The work has been carried on under three divisions, Administrative, Research and Statistical. There are 98 employees in the Division, beside the Director and Assistant Director whose time has been given to the government without compensation.

Administrative Department.

All "dealers" in foreign exchange, including bankers, brokers, exporters and importers, who carry accounts in foreign countries, or carry accounts for foreign correspondents, are required under the Executive Order to register with the Division of Foreign Exchange of the Federal Reserve Board, through the Federal Reserve Banks of their districts, in order to do a foreign exchange business. Under the system of reports required, together with the close relationship which has been developed with the Cable Censorship and the Postal Censorship in connection with communications covering financial transactions, it has been possible to exercise a control over the consummation of all foreign financial operations, and at the same time leave necessary freedom of action to "dealers".

While the headquarters of the Division were established in the Treasury Building in Washington, yet the main office was opened in New York City. This was necessary in order to place the Division in position to give immediate replies on applications of "dealers" for permission to carry out certain operations required under the Executive Order and the regulations issued in connection with it, as

probably 95% of such applications are made by New York "dealers". Although this necessitated a weekly trip between Washington and New York by the Director, yet the speed of service required, because of the nature of the financial operations involved, could not have been given otherwise.

Upon receipt of their Registration Certificates, "dealers" were authorized to carry on their foreign exchange transactions without reference to the Division of Foreign Exchange, with a few exceptions, provided reports were made on regular forms. As the war went on, however, it was found necessary to require the approval of the Director before a number of operations could be carried out, such as transactions in certain exchanges, the issuance of Letters of Credit or the making of transfers of funds to cover the shipment of goods from one foreign country to another foreign country, the issuance of Travelers' Letters of Credit in excess of \$5,000, the issuance of credits to cover goods to be warehoused, which could not be exported or imported because licenses were unobtainable from the War Trade Board, the investment of American funds in foreign countries, action upon confirmations of cablegrams where the cables themselves had never been received, arbitrage in certain exchanges and a number of other matters.

At the outset, rulings under the Executive Order were required in great number, which needed immediate decisions in order to allow the continuance of legitimate business without interruption. As these requests also came largely from New York institutions, the establishment of the main office in New York City was found to be fully warranted.

"Dealers" desiring to consummate transactions where approv-

al is required beforehand, make application by letter, in duplicate, through the Federal Reserve Banks of their districts, or direct to the Division of Foreign Exchange. Where approval can be given, it is stamped upon the duplicate letter, which is returned by the messenger from the "dealer" presenting the application. As such a large percentage of applications are made in New York, and practically all of such applications come from "dealers" situated in cities where there are Federal Reserve Banks which can communicate with the Director by telephone or telegraph, this system has enabled the carrying out of all transactions without friction, where approval could be given without extended investigation made necessary by the interests of the country. When enemies or allies of enemies have been involved, delays have been necessary, but even in such cases, where the interests of the United States were not jeopardized, nor the enemy benefited through the carrying out of the transactions applied for, and when it has been of value to our Nationals to have them consummated, authority to operate has been extended after receipt of license from the War Trade Board or proper release from any other department of the government that might be concerned.

Research Department.

A Research Department has been built up, as an aid to all bankers and other "dealers" who have been intent upon following the letter and spirit of the Executive Order of the President and of the Trading With the Enemy Act, and who otherwise would have been unable to determine with certainty in many cases whether it was in order for them to transact business with many foreign and American houses which had approached them, or where transactions for unknown persons were going through them. To protect such "dealers", and also the

interests of the country, the Research Department has been developed as a sort of Clearing House for all other governmental Research Bureaus, in so far as the work of such Bureaus covered persons or institutions attempting to carry out financial transactions. Oftentimes reports in the files of different government Bureaus, when brought together, have been found to be contradictory. In all such cases endeavor has been made to ascertain which report has been correct, and to see that the Bureau having the wrong information was notified.

The Research Bureau has access to all source books published by the Allied governments, viz:

England -	Cable Censor's Handbook Military Intelligence Who's Who British Statutory List Confidential Black Lists British White List British Cloak List
France -	Liste Noire Postal Bulletin
Italy -	Lista Nemica
United States -	Enemy Trading List Cloak List Confidential Consignors List Daily Reports

The Bureau is also in direct touch with all United States government departments of information and research, viz:

1. War Trade Intelligence.
2. Chief Cable Censor's office, and all sub-offices.
3. Postal Censor's office, and all sub-offices.
4. Department of Justice.
5. Military Intelligence Bureau.
6. Naval Intelligence Bureau.
7. Alien Property Custodian.
8. Custom House.

Direct private telephone and telegraph wires connect the Department with several of the Bureaus mentioned, and personal repre-

representatives of the Division of Foreign Exchange are stationed with the War Trade Intelligence, Office of Naval Intelligence and the Postal Censor's office. The Division also has personal representatives in all of the Cable Censorship offices in the country. The representative of the Division in the New York office of the Cable Censor is also the Head of the Financial Division of the Censorship, and he is called into conference in the Division of Foreign Exchange daily.

In addition to these regular connections, consultation has been had, when necessary, with the Shipping Board, the War Industries Board, the War Trade Board and the Departments of State and Treasury; also with the British Embassy and the French High Commission.

With these connections the Research Bureau has been in position at all times to obtain immediately up-to-date information bearing on persons or institutions in all parts of the world, whose transactions have been brought before it. This has enabled the Administrative Department to make prompt decisions on important financial transactions in all cases except where further research was necessary before suspected parties could be cleared, or proved to have enemy connections or interest.

The information received from all other governmental departments is brought together in the Research Bureau of the Division of Foreign Exchange, and filed. Under this system it has been possible to stop many transactions which might have been of value to the enemy, and to afford constant protection to bankers and other "dealers" in the United States who might otherwise have inadvertently carried out transactions for enemy account.

It has also been possible to turn over many matters to the Alien Property Custodian.

When cablegrams are suppressed, it is essential, if such suppression is to be effective, that their confirmations also be suppressed, and all confirmations of cablegrams from "dealers" in the United States have been censored through the Research Department. Such confirmations average about 2,000 a day. Under the regulations "dealers" in the United States are obliged to apply to the Director of the Division of Foreign Exchange for approval, before they can act upon any confirmations of cablegrams which are received by them, and that refer to cablegrams that have never reached them.

Copies of all suppressed cablegrams concerning financial matters are delivered to the Head of the Research Bureau each day, and all names of senders, receivers, beneficiaries or others mentioned in the cablegram are researched at once. Application is made to the proper department for release of cablegrams before receipt of the confirmations, if it is found that the transactions themselves cannot be harmful to the interests of the country, even though some of those connected with the transfers may have been of doubtful standing, and the machinery to obtain proof in doubtful cases is well under way long before "dealers" receive their confirmations and apply for permission to act under them. Through this system it has been found possible to release great numbers of cables covering important transactions, whose temporary suppression might have been thoroughly justified, but where later investigation showed that their delivery was not incompatible with the interests of the country.

The bringing together in the Research Bureau of intercepted letters received from the Postal Censorship, and intercepted cables from the Cable Censorship, together with information from the other sources outlined, has been of great value in determining the status of many persons and institutions whose names have come up through

taking some part in foreign financial transactions.

In cases where those concerned in a cablegram cannot be cleared, 90 day postponement notices are served on "dealers" applying for permission to consummate the transactions, and if before the maturity of the 90 days it is still impossible to clear all names, a prohibition notice is issued by the Federal Reserve Board.

The activity of the Administrative and Research Departments is partially shown in the fact that an average of 400 pieces of mail is handled in the filing room each day, and that something over 20,000 letters of correspondence and 10,000 letters concerning credits or remittances are on file.

Under the Executive Order, all foreign correspondents of American "dealers" are obliged to sign a declaration agreeing not to carry on any business through or for their American correspondents for account or benefit of an enemy or ally of enemy. Such declarations, when received by American "dealers", have been turned in to the Division of Foreign Exchange, and all names have been researched for the purpose of checking up the standing of the foreign correspondents of American "dealers" in connection with their attitude toward transactions for account of enemies or allies of enemies. 150,000 of such declarations have been received, checked and filed for ready reference.

A large number of foreign correspondents did not forward declarations. From intercepted correspondence and reports received from "dealers", it was found that in a large percentage of cases the declarations were not signed because the foreign correspondents were Allies themselves, and seemed to look upon the matter as one not con-

cerning them, apparently not understanding that this requirement had been written into the law of the United States. Steps have been taken to correct this misunderstanding, in order that no injustice may be done to any who may have ignored the request of "dealers" for declarations in good faith, based on the thought that they were not concerned.

Another form of declaration has been required from foreign holders of American securities who might wish to collect dividends, interest or maturing principal, or sell their securities in the United States. In addition to covering the usual statement regarding non-interest of enemies or allies of enemies, this form included the statement that foreign held securities had not been enemy owned since February 3, 1917. These declarations are also filed with the Division of Foreign Exchange, and the names of the signers of the declarations are researched in the same manner as those of the foreign correspondents of American "dealers". This requirement unquestionably deterred many enemies owning American securities from endeavoring to sell them, or collect income upon them.

Another regulation which required careful checking in the Research Department covered deposits made with American banks in dollars, for account of foreign correspondents. Transfers of funds for enemy account could be accomplished so easily through the deposit of money to the credit of foreign correspondents with American banks or other "dealers", for account of some neutral cloak in a foreign country, that all such deposits must be accompanied with information as to the name of the original party requesting the deposit, the purpose of the deposit, the name of the foreign beneficiary and the party for whose account it is to be received in the foreign country. This informa-

tion has been filed with the Division of Foreign Exchange daily by American "dealers", and the names of all persons concerned are researched for the purpose of uncovering enemy connections or interest, in case of their existence.

While there is no doubt but that through the use of cover names, and other means, enemy transfers have been constantly made, yet there is every reason to believe that the regulations of the Division of Foreign Exchange have resulted in their being reduced to a minimum, and that any extended operations for enemy account have been made impossible.

Through its Ambassadors and Ministers the State Department has been constantly informed of the operations of American "dealers" with foreign institutions, where enemies or allies of enemies have been involved. All such operations have been investigated through the Research Department, after which proper action has been taken by the Administrative Department. It speaks well for bankers and other "dealers" in the United States to be able to report that in practically all such cases investigation has shown conclusively that since the United States entered the war there has been no intent or purpose on the part of Americans involved to act contrary to the letter and spirit of the law, nor to carry out transactions which might be of benefit to the enemy.

Statistical Department.

"Dealers" holding Registration Certificates authorizing them to do a foreign exchange business are obliged to make weekly reports at the close of business each Wednesday night of all their foreign exchange operations, giving balances due them from each country of the world, and balances held by them for account of each country of the world.

Records of "dealers" registrations are made in the Statistical Department. On December 1, 1918, 13,653 banks, bankers, exporters and importers, and others had applied for and received Registration Certificates. Of this total 10,208 are "dealers" of Class A, who are authorized to do a regular foreign exchange business with the public. 2,087 are "dealers" of Class B, under which authority is extended to carry accounts with foreign correspondents, but not to sell exchange or deal with the public. 1,358 are "dealers" of Class C, who are authorized to carry accounts in the United States for foreign correspondents, but are not authorized to trade with the public.

Registered "dealers" divided as to Federal Reserve districts are as follows:

<u>DISTRICT</u>	<u>CLASS "A"</u>	<u>CLASS "B"</u>	<u>CLASS "C"</u>	<u>TOTAL</u>
Boston	740	711	376	1827
New York	984	820	812	2616
Philadelphia	473	37	20	530
Cleveland	710	23	1	734
Richmond	247	4	2	253
Atlanta	211	8	6	225
Chicago	2091	315	127	2533
St. Louis	262	---	2	264
Minneapolis	2491	161	---	2652
Kansas City	742	1	1	744
Dallas	190	3	2	195
San Francisco	<u>1067</u>	<u>4</u>	<u>9</u>	<u>1080</u>
	10208	2087	1358	13653

It will be noted in the foregoing table that in the Minneapolis, Chicago and San Francisco districts there are more "dealers" of Class A than is true in the New York district. This is due to the large number of bankers in small towns who have arranged with their metropolitan correspondents to draw drafts against their foreign accounts over their own names. About 9,500 of the 10,208 Class A "dealers" operate in this manner. This system enables bankers in country districts throughout the United States, as well as in towns and cities, to extend a foreign exchange service to their customers when there is any demand in their localities. 708 Class A "dealers" do a direct foreign exchange business. 160 of the 708 Class A "dealers" have such an active foreign exchange business that they are obliged to turn in reports every week. Of this number the foreign business of 65 is confined to Canada and Mexico, while the other 95 do more or less of a world business.

All of these "dealers" are required to make reports to the Division of Foreign Exchange covering their financial foreign exchange operations. Dealers of the different classes are supplied with forms prepared especially to meet their business and that will bring together in the Division of Foreign Exchange such statistics as are desirable. Banks which do their foreign exchange business through metropolitan correspondents make their reports through such correspondents.

of the world.

The reports divide the operations into different classes, aimed to place before the Administrative Department a clear statement of developing conditions. The classes of particular interest are those covering exports and imports and arbitrage. While reports of the purchase and sale of demand and cable transfers between "dealers" are interesting in showing the volume, yet as one "dealer" buys and another "dealer" sells, the relationship between the United States and other countries of the world is not changed, as is true when exports, imports and arbitrage transactions are recorded.

A number of other valuable divisions are made, where the amounts involved are smaller, such as dealings in securities, coupon and dividend checks, gold and silver shipments, remittances to cover freights and insurance, income taxes, etc., and purchases of exchange for the use of travelers.

The causes for the change in balances between the United States and each country of the world as they occur from week to week are clearly defined, and the trend of conditions is readily followed. Balances for and against the United States with the other countries of the world have never been given out, except to the Treasury Department and the Federal Reserve Board, for reasons which are self-evident. There are certain figures of considerable interest, however, that can be referred to without harm.

The total purchases and sales of demand and cable exchange between "dealers" in the United States from February 20, 1918 (when the Executive Order went into effect) to October 1, 1918, were \$3,636,784,150 and of this total \$2,601,268,742, or 71.50% were for exchange on Great Britain. Trading in demand and cable exchange between American "dealers"

in such large totals shows the free competition which exists in this

country in the foreign exchange business, and is most interesting on that account. The total exchange from all sources on all countries of the world purchased by American "dealers" for the same period was \$4,564,457,977, and the total sales \$4,583,864,305, of which 55% represented dealings in Sterling.

No other figures would seem to be required to show the relative world financial position which Great Britain holds, but the statement of arbitrage operations is also wonderfully illuminating in this respect. Exchange on Great Britain was sold to the United States by foreign countries to the equivalent of \$421,069,000, and exchange on Great Britain was purchased from American "dealers" by foreign countries to the total of \$296,079,000. Of these amounts British banks supplied the United States with the equivalent of \$218,857,000 in Pounds Sterling against dollars credited to them, which were undoubtedly largely used to pay for imports from the United States to Great Britain, whereas British institutions only bought from ^{American banks} Sterling with dollars to the equivalent of \$68,693,000. Some of these transactions were undoubtedly carried out at the instance of foreign banks in other countries which operated through Great Britain, but proof of this is only available from British records. On balances of Sterling exchange bought from and sold to the United States by the whole world, excepting through Great Britain itself, the sale of Sterling exchange by the United States exceeded the purchase of Sterling exchange by the United States by \$25,174,000. The principal countries which purchased more Sterling exchange from the United States than they sold were France, Greece, Holland, Italy, East Indies, Straits Settlements, Chile, Colombia, Ecuador, Uruguay, Canada, Central America and the West Indies. The principal countries selling the United States the greatest amount of Sterling exchange on balance were Norway, Portugal, Spain, Sweden, Switzerland, China, India, Japan, Argentine, Brazil, Peru,

Africa and Australasia.

While no figures are available previous to the establishment of the gold embargo by the Gold Committee of the Federal Reserve Board, yet there is reason to believe, from reports received, that Sterling exchange was sold in this market by foreign countries in a large way. Since the embargo, as gold could not be obtained for Sterling exchange sold in the United States, such operations have been confined to more natural channels, based on current trade rather than on previously accumulated balances. This situation is particularly noticeable in connection with the arbitrage of the exchanges of the neutral countries of Europe, which have ruled at a high premium, and where it is found that the United States has obtained a greater total in such exchanges from Great Britain than it has furnished. The relative figures for the period given are as follows:

Purchased by United States
from Great Britain.

Sold by United States
to Great Britain.

<u>equivalent</u>		<u>equivalent</u>
\$3,052,000	Holland Guilders	\$2,666,000
2,979,000	Norwegian Kronor	1,569,000
3,345,000	Swedish Kronor	934,000
7,447,000	Spanish Pesetas	854,000
2,985,000	Swiss Francs	1,955,000

Instead of our having furnished Great Britain with these high priced exchanges, Great Britain has actually given us an excess on balance.

On the other hand we have purchased from these countries exchange on Great Britain greatly in excess of our sales of Sterling exchange to such countries. It is largely due to this fact that the exchange rates on the neutral countries mentioned ruled against the United States. For instance, Spain sold the United States \$12,143,000 in Sterling exchange, and purchased from this country

\$8,531,000 in Sterling exchange, a difference of \$3,612,000. This difference affected the rate for Spanish Pesetas in the United States, even though, strange as it may seem, such difference was more than offset in the case of Spain by the purchase on balance from Great Britain of the equivalent of \$6,593,000 in Pesetas, which, of course, affected the rate in the opposite manner. This left an equivalent of \$2,981,000 gained by the United States in arbitrage transactions with Spain and Great Britain. The effect of these particular transactions as a whole, therefore, was favorable to the United States dollar. The two operations are distinct in this respect - in one case American "dealers" purchased from British banks neutral exchanges when they were required to a greater extent than the British banks bought the same exchanges from American banks, whereas in the other case the banks of neutral countries sold American banks more Sterling exchange than they purchased from them. Such transactions were not based upon the attempt of any "dealers" concerned to help or injure the exchange on any country, but were undertaken because of the relation of demand to supply, and both classes of operations affected the rate for the foreign exchanges in the United States, even though one was carried out in the monies of the foreign countries, and the other in American dollars.

By refusing to allow American "dealers" to purchase Sterling exchange from other countries, this situation could have been positively controlled, but the harm that would have ensued would have been far greater than the good accomplished, and such prohibition would also have been most detrimental to our foreign financial position long after peace had been declared. It is most fortunate, therefore, that it proved possible to meet every emergency without the necessity of having to restrict the arbitrage of exchange.

As reports were not filed before the Executive Order of the President of January 26, 1918, it is impossible to determine with certainty exactly what expansion has occurred in the foreign business of the United States, but from the consensus of opinion of many of the principal foreign bankers who have been approached in the matter, it would appear as though arbitrage operations, as carried out by bankers and other "dealers" in the United States, before the beginning of the war, August 1, 1914, were practically confined to the three then principal commercial countries of Europe, with the occasional purchase, almost entirely through London, of other exchanges now and again, when required for special purposes. Since the war American "dealers" have had arbitrage operations with practically every commercial country of the world, as shown by figures covering actual transactions between February 20 and October 1, 1918. The total of such transactions shows \$645,128,000 in foreign exchanges purchased from other countries by the United States, and \$447,360,000 in foreign exchanges sold to other countries by the United States.

Another phase of our foreign financial transactions which has shown tremendous growth is represented in the activity of the dollar accounts of foreign banking institutions in the United States. During the same period used, combined debits and credits to such accounts from European Allied countries were \$16,134,958,424 (these extraordinary figures were largely due to loans made by the United States Government), from European countries other than those of our Allies \$1,698,360,023, from Asia \$1,961,018,278, South America \$1,373,084,387, Central America/^{Mexico} and the West Indies \$1,685,077,848, Africa \$5,439,765, Australasia \$24,011,018. Many of these transactions represent the purchase and sale of securities in the United

States for account of foreigners interested in our market. Other huge transfers represent payments against shipping documents or warehouse receipts, as many foreign countries have been buying goods in the United States through the payment of dollars which have accumulated here, instead of through Sterling, as before the war. The proceeds of exports to the United States from countries having balances with American "dealers" have also been credited to accounts in this country. Many of the neutral countries of Europe have used balances which have accumulated here for the purchase of British securities, and in large amounts.

Trading in securities in United States markets by foreign interests, both through dollars and foreign monies, has been large, and for the period covered purchases were made for foreign account to the value of \$298,573,000, and sales for foreign account to the value of \$216,824,000. The excess in purchases was of American, British and French securities.

Securities held in America for foreign account at the close of business November 6, 1918 amounted to \$1,830,047,000, and securities held abroad for American account \$106,038,000.

Commodities held in warehouse in the United States at the close of business September 26, 1918, which had been purchased and placed in warehouse for foreign account before July 1, 1918, in many cases extending back almost to the beginning of the war, amounted to \$69,258,097, and commodities which had been imported to the United States for foreign account previous to July 1, 1918, but which were still held in warehouse undistributed, either in this country or through re-export, amounted to \$31,078,841, or a total of \$100,336,938.

After the report for the final quarter of the year is re-

ceived, and the figures for the whole year can be brought together against estimated averages for the first few weeks of the year before the Executive Order went into effect, the foreign business of the United States can be analyzed as a whole very completely, and the trend of operations before and since the armistice can be uncovered, that should be of great value in determining whether we are to hold the world-wide financial development made possible by the war.

A further analysis of these reports for a few quarters following the signing of the Peace Treaty should give an even clearer idea of the part this country is to play in the world's finances during the period of world reconstruction, and possibly afterward,

Before undertaking any operations in foreign exchange with persons in the United States other than "dealers", it is necessary for such "dealers" to require their customers to sign the following statement:

"This transaction is made under representation by the undersigned that there is not involved in connection therewith any trading, directly or indirectly, with, to, from, for, or on account, behalf, or benefit of any enemy or ally of enemy of the United States, or any transaction violative of the Trading-with-the-Enemy Act of the United States."

All transactions covered in the reports of "dealers" to the Statistical Department of the Division of Foreign Exchange must have been consummated against such statements, when the operations have developed in this country, or against non-enemy declarations of foreign correspondents when they have originated outside of the United States. A statement of non-enemy interest, therefore, has had to stand before the creation and at the consummation of every transaction between the United States and every foreign country.

Co-operation With the Treasury Department.

The Administrative Department has constantly co-operated

with the Treasury Department of the United States in carrying out foreign exchange operations, and supervision or regulation made necessary to protect the interests of the United States. Many such matters have been handled in conjunction with the Federal Reserve Bank of New York, which has acted, when necessary, for account of all of the Federal Reserve Banks.

Under the Argentine agreement, deposits made with the Federal Reserve Bank had to be approved by the Federal Reserve Board, and such approval has been extended by the Board through the Division of Foreign Exchange. These transactions amounted to \$59,996,189.45.

Arrangements similar, but for lesser amounts, have been developed with Bolivia and Peru, and conferences have been held with representatives of many other countries, which would unquestionably have developed into active operations had the need for them continued.

Arrangements were made, through the Federal Reserve Bank of New York, at the request of the Treasury Department, with the Food Commission and certain other sources for the proceeds of commodity shipments made payable in Swedish Kronor, Norwegian Kronor and Dutch Guilders. These operations have resulted in the Treasury Department obtaining certain amounts of these exchanges at the mint par, which were required for governmental purposes. While the particular operations carried out in this manner were effective, and possibly not harmful, yet it was fortunate that other means for obtaining needed exchange made it unnecessary to extend such arrangements.

Lire.

Exchanges throughout the world on Italy had turned so against that country during the early months of 1918 that the importation of much needed raw material became most difficult. By June the

situation had developed with sufficient seriousness to make it advisable to take prompt action. The Italian Government had organized an Institute of Exchange in April, but Italy's requirements were so great that the co-operation of the other Allies was needed. As soon as this situation was realized the United States, Great Britain and France responded immediately. An arrangement was then made with the Director of the Division of Foreign Exchange to assume control of the Lire market for the Treasury Department of the United States, in co-operation with representatives of Great Britain, France and Italy. The Italian Institute of Exchange appointed a New York representative to be associated with the Division of Foreign Exchange for the purpose of handling the matter. Active control was assumed on June 5, 1918, when a notice was given out over the ticker by the Director of the Division of Foreign Exchange, prohibiting the sale of cable Lire under 9.10 to the dollar.

The day before, Italian exchange ruled at 9.15 Lire to the Dollar, and as a fair demand for Lire developed the rate was put up to 9.00 and then to 8.90 within a few days. In the meantime the rate for Lire in Paris was the equivalent of 9.46 Lire to the Dollar, and in order to prevent American buyers from purchasing Lire in Paris it was necessary to prohibit the purchase of Lire outside of the United States by persons or "dealers" in this country. An immediate effect was noted in a further demand for Lire in New York. The rate was then arbitrarily moved up by successive steps until it was stabilized at 6.35 Lire to the Dollar. In the meantime purchases of Lire had been made from the proceeds of the sales of Lire in the United States, in London, Paris, Argentine, Brazil and other countries, to help in keeping the Lire rate in other world markets in line. During the same

period the Institute in Italy adjusted its rates to a parity with the rate established in New York, and through the co-operation of the British and French Governments, together with the representatives of the Italian Institute in London and Paris, the parity was maintained in those two countries.

An arrangement was also made under which cotton purchased from the United States by Italy was taken up in Dollars by the representative of the Institute in New York.

During the period under which the rate for Lire was brought up from 9.15 to the stabilized point of 6.35, and up to the latter part of November, over 400,000,000 Lire were sold by the Representative of the Institute and the Director of the Division of Foreign Exchange, and the proceeds of such sales were used to purchase Lire in other markets of the world and to meet the cost of cotton shipped from the United States to Italy.

The Lire rate has been entirely within the control of the Italian Institute and the Division of Foreign Exchange from the day the situation was taken in hand, and is so to-day.

Spanish Pesetas.

The Quartermaster's Department of the army required funds in Spain to meet purchases for the American army in France. Mr. Norman Davis, as Special Financial Delegate of the United States to Spain, arranged a credit with certain Spanish banks of 250,000,000 Pesetas. In order to avail of the credit, it was necessary to form a group of American banks, and the Treasury Department arranged with the Federal Reserve Board to have this work accomplished through the Division of Foreign Exchange. All American banks and Trust Companies carrying balances in Spain, and having a capital and surplus of

\$1,000,000 or more, which are members of the Federal Reserve System, or banks, the stock of which under the law members of the Federal Reserve System are authorized to hold, were made eligible to take part in the credit. The capital and surplus of all such banks was added together, and each institution was notified that it could participate up to the proportionate amount that its capital and surplus represented to the whole. Banks eligible under the ruling were situated in the following cities: Boston, New York, Philadelphia, Pittsburgh, Chicago, Washington and New Orleans. All except two banks eligible under the regulations accepted their participations, and other members of the group willingly absorbed the allotments of these two institutions.

Under the arrangement American participants were obliged to purchase United States Certificates of Indebtedness in Pesetas, which were deposited with the Federal Reserve Bank of New York as security for their 90 day sight drawings upon the group of Spanish banks. The first transaction under the credit was for 75,000,000 Pesetas as of November 27, 1918, and the balance is subject to call from time to time at the request of the Secretary of the Treasury.

All the detail of the arrangement with the American group of banks has been conducted through the Division of Foreign Exchange.

Rupees.

The difficulty of importers of burlap and jute from India in obtaining Rupees to make payment for their purchases, and the unusual demand for these commodities, due to the war, made it necessary for a special arrangement to be made under which Rupees could be obtained as required.

The India Council arranged, through the Treasury Department,

with the Federal Reserve Bank of New York to allow deposits to be made with the Federal Reserve Bank in dollars for cable payment in Rupees in India, at a specified rate, covering the importations of commodities from India to the United States. The first rate established was $33\frac{1}{2}$ cents a Rupee. When the Pittman Act became operative and the price of silver was stabilized at $\$1.01\frac{1}{2}$ an ounce 1,000 fine, the Rupee rate was raised to $\$.3573$, which is the rate now prevailing. Rupee exchange has been obtained from time to time through the India Council, as required, and allotments of Rupees have been made through the Division of Foreign Exchange. Since this arrangement went into effect, 182,326,132 Rupees have been supplied to American importers.

Silver.

In connection with the Rupee arrangement, it became necessary to take control of the silver situation. This was done through the Director of the Division of Foreign Exchange, under arrangement made by him with the silver producers. Practically all production in and importations of silver to the United States are rationed by the Director, after which export licenses are issued by the Federal Reserve Board.

When the control of silver was assumed, it was found that a large number of banking institutions had purchased silver for the purpose of shipping it to China to make exchange. As such silver was needed to meet the emergency of the moment, the attention of bankers was called to the situation, and in every case they willingly gave up the silver which they had purchased to be used for Allied requirements. This was done in some cases at considerable expense to the banks, as exchange had been purchased in China at the same time that silver was bought in the United States to furnish cover.

banks, and they cannot be commended too highly for the prompt and effective manner in which they met the desire of the government. In recognition of their attitude, their interests were kept constantly in mind, and as soon as conditions changed sufficiently to warrant doing so, silver to an amount equal to that turned over by the banks was given back to them.

During the period involved up to date about 40,000,000 ounces of silver have been distributed.

The situation is still such that it is necessary to continue the control, which in effect means the allotment of silver in such manner as to best meet the requirements of the Allies.

Commodities.

A careful study of the whole world exchange situation, made possible through the reports filed with the Division of Foreign Exchange, led to the belief that in view of the restricted shipping facilities, adjustments in our export trade could be made, that would be most beneficial.

As ships available to obtain needed imports could also be used for exports to the same countries from which imports were obtained, it was clear that if the average export cargo exceeded in value the average import cargo, that the exchange would begin to turn toward the United States, and that an excess of foreign exchanges would be accumulated that could be used to make purchases for account of our Allies.

With the idea of developing this situation, an arrangement was made by the Director of the Division of Foreign Exchange for meetings to be held with a representative of the War Industries Board, a representative of the War Trade Board and the Exports Control Committee of the National Foreign Trade Council. An intensive study was

made of the weight and bulk values of such goods as were desired by foreign countries, those of South America being first considered. As a result, the War Industries Board agreed to consider requisitions which might be made by the Treasury Department for commodities for export, in the same light that was true with requisitions made by the War Department and the Navy Department to cover their needs. The development of the whole plan was based entirely upon war requirements, and not upon the expansion of our foreign trade, as it was recognized that the business of the country at the time was to win the war, and not to develop commerce.

The co-operation of the Committee of the National Foreign Trade Council in this connection was most valuable, and if the armistice had not intervened, there is good reason to believe that in a short time the trend of exchange might have turned very materially in favor of the United States in the case of a number of countries where imports for war purposes were required. Even though an armistice has been declared, the work accomplished by this Committee, together with the vast amount of data compiled by the War Trade Board, should be most valuable to the country, and should be particularly helpful after peace has been declared and present restrictions upon the world's commerce are removed.

Federal Reserve Banks.

The Federal Reserve Banks of the 12 districts have acted as local agents for the Division of Foreign Exchange in taking applications for Registration Certificates by banks, bankers and others who wished to do a foreign exchange business, in collecting weekly reports of foreign exchange operations, in passing upon applications of "dealers" for permission to transact business requiring approval, and in obtaining reports on institutions and individuals when occasion

required, and in carrying out many special duties that arose through the Executive Order and its regulations. This work, which, in the case of many of the Federal Reserve Banks, was very exacting, was carried out with great efficiency, and the co-operation of the Federal Reserve Banks has been thoroughly effective in every particular since the Executive Order of the President became operative.

Bankers and other "dealers" have at all times shown the greatest desire to live up to the regulations made by the Division of Foreign Exchange. While it is possible and probable that some "dealers" were not willing to undertake operations for enemy account, because of their knowledge that if they did so, and were discovered, that they would be prohibited from continuing their foreign exchange business for the period of the war, and while this fact was one of the important safeguards to the United States brought about through the Executive Order, yet on the whole the enthusiastic and patriotic co-operation of "dealers" has been a constant source of satisfaction. The great banking institutions which carry on the bulk of the foreign exchange business of the country have never once put the question of possible profit before their desire to carry on their business in such manner that the interests of our country were protected.

It is a great pleasure to have this opportunity to state this fact to the Federal Reserve Board, and to so certify to the patriotism of the foreign exchange "dealers" of the United States.

Respectfully submitted,

Director, Division of Foreign Exchange.

December 2nd, 1918.