

August 7, 1947.

Mr. Edward F. Bartelt,
Fiscal Assistant Secretary,
Treasury Department,
Washington 25, D. C.

Dear Mr. Bartelt:

Mr. Musgrave mentioned to me your telephone conversation with regard to the protest of the Colorado State Bank in Denver against the discontinuance of the safekeeping service for nonmember banks. As you may recall, this service was provided as a means of facilitating war financing operations. Actually, comparatively little use is made of the privilege by nonmember banks. I am sure that you need not be disturbed about it so far as peacetime financing operations of the Treasury are concerned.

In September 1942 the presidents of the Federal Reserve Banks approved of extending the safekeeping privilege to nonmember banks for Treasury bills and certificates of indebtedness on the ground that it might help to broaden the market for these short-term securities. The Board of Governors approved the action in October of 1942. The privilege was extended for the period of the war only. At their conference in June, the presidents agreed upon a procedure whereby they would notify nonmember banks that new custodies would not be received on or after July 1, 1947, and that those already in safekeeping would be held until they matured during the year or were otherwise withdrawn. The Board approved of this proposal.

It is unfortunate, of course, that all commercial banks are not required to be members of the Federal Reserve System. Since they are not, however, it would be entirely inconsistent to grant to nonmembers the same services and privileges that are accorded to member banks. To do so would obviate all reasons why the nonmember bank should try to qualify for membership. It is clear, I think, that if the same services and privileges are to be extended regardless of membership, there would be no reason for member banks to remain in the System and comply with its regulations and other requirements, including the reserves against deposits which they are obliged to keep with their respective Federal Reserve Banks. If we were still in a period of rapidly expanding public debt, there would of course be some justification for maintaining this privilege, but the entire situation is now reversed and the objective of public policy is to contract and not expand bank holdings of the debt.

Mr. Edward F. Bartelt - (2)

August 7, 1947

I am sure you will appreciate the viewpoint of the Reserve System, which is unanimous among the Bank presidents and the Board members.

Sincerely yours,

M. S. Eccles,
Chairman.

ET:b