

REC'D IN FILES SECTION
AUG 27 1942

August 15, 1942.

Mr. W. W. Paddock, President,
Federal Reserve Bank of Boston,
Boston, Massachusetts.

Dear Mr. Paddock:

The weekly report of "Open Bill Market Conditions and Operations" which you send us each week has, as you know, become less and less significant with the dwindling of transactions. In this emergency, when unnecessary reports and paper work should be cut to a minimum, we suggest discontinuing this report. You might, however, keep in general touch with the one dealer reporting to you so that if there should be a significant revival in the volume of transactions these reports could be renewed.

Very truly yours,

E. A. Goldenweiser,
Director of Research and Statistics.

R.I.P.
RIR:ecg
G.T.

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REC'D IN FILES SECTION
AUG 27 1942
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4 August 15, 1942.

Mr. Goldenweiser:

It appears that the weekly reports from acceptance dealers in New York and Boston have been collected for a number of years, but as this market has fallen into disuse the report from Boston has come to be more and more meaningless. During the year 1942 so far there have been only six dates in which there have been any transactions to report.

We might even consider discontinuing the New York report although in this case there is a regular though small volume of transactions. The market, however, is without much significance and these reports probably could be dispensed with. There is attached a draft of a letter by which the Boston report can be discontinued and if desired a similar letter could be sent to New York.

R.I.R.

Attachment

I should recommend discontinuing N.Y. also, with It may be assumed that they will keep in touch with situation

FOR FILES
E. A. Goldenweiser

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November 21, 1941.

Mr. Goldenweiser

Mr. Van Fossen

The practice of buying acceptances and short-term Government securities from banks and dealers under repurchase agreement was adopted by some of the Federal Reserve Banks, notably New York, at a very early period. From the correspondence it appears that this practice was for the purpose of developing the bill and United States Government security markets and at the same time as regards bills was looked upon as being more convenient to the Reserve Banks than would be the discount of the bills to maturity.

On March 19, 1925⁴²⁹⁵ the Board adopted the following resolution:

"The Federal Reserve Board reaffirms previous decisions authorizing the practice, long continued, of purchase and sale in the open market of bankers' acceptances and Government securities, by Federal reserve banks from and to banks and qualified dealers, under 15-day 'repurchase agreements', it being understood that such transactions shall be open, under similar facts and conditions, to all Federal reserve banks with relation to banks and similarly qualified dealers in their respective districts".

In September 1928^{See memo 9/27/28} an analysis of schedules received from the Federal Reserve Banks covering United States Government securities taken under repurchase agreement indicated that such transactions were confined to purchases from dealers except in the case of two of the smaller Federal Reserve Banks, each of which was purchasing securities from member banks in a small volume. It is possible that the fact that member bank collateral promissory notes secured by Government obligations were eligible as collateral security for Federal Reserve notes, whereas Government securities could not be so used, may have had something to do with the practice of confining repurchase agreements to transactions with dealers. In this connection it may be stated that the rate charged on repurchase agreements was commonly, though not invariably, the same as the discount rate.

Regulation M, effective August 10, 1933^{See X-7527-7/29/33-664 250. M.}, prohibited the Federal Reserve Banks from purchasing or selling Government securities except in accordance with an open market policy approved by the Federal Reserve Board and in effect at the time, with certain specific exceptions. Following the passage of the Banking Act of 1935 the Federal Open Market Committee appointed under the terms of that Act adopted a Regulation on

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For Files
S. E. Fisher

To: Mr. Goldswaiser

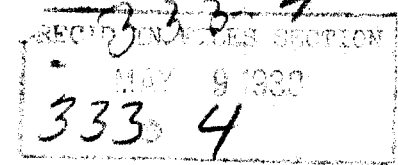
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Handwritten: 1/14/36 Resolutions

March 19, 1936, prohibiting the Federal Reserve Banks from purchasing or selling Government securities except pursuant to authority granted by the Committee or in accordance with the open market policy adopted by the Committee and in effect at the time. The Committee also reserved the right to require the sale of any Government securities then held or thereafter purchased by an individual Federal Reserve Bank or to require that such securities be transferred into the System Open Market Account. As you know, all Government securities held by the Federal Reserve Banks were transferred to the System Open Market Account as of July 1, 1936. On May 25, 1936 "Upon motion duly made and seconded and by unanimous vote, the Committee granted authority to each Federal reserve bank to make temporary purchases of Government securities under resale agreements for periods not exceeding fifteen days."

Repurchase agreements covering United States Government securities have been reported separately in the Federal Reserve Banks' daily balance sheets among holdings of United States Government securities. Memorandum items showing such holdings by classes of securities, also holdings of bills taken under repurchase agreement, have also been carried on the reverse side of the balance sheet. No distinction has been made in the Board's weekly statement between bills and securities taken under repurchase agreement and bills and securities purchased outright.

FILE COPY



May 26, 1937

Mr. E. O. Douglas
Manager, Bill Department
Federal Reserve Bank of New York
New York, New York

Dear Mr. Douglas:

Thank you for your letter of May 21, in which was enclosed a table showing the System's purchases and holdings of acceptances by maturities for statement weeks.

We should like to suggest that the order of the two items "Acceptances held payable in foreign currency" and "Change in foreign suspense account" be reversed. It is our understanding that the mimeographed form will have space for figures for one date only.

Very truly yours,

E. A. Goldenweiser
Director of Research and Statistics

LHC:jh

[Handwritten signature]

Mr. Pinner

REC'D IN FILES SECTION
MAY 9 1938
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FEDERAL RESERVE BANK
OF NEW YORK

May 21, 1937

Dear Dr. Goldenweiser:

We enclose a Table giving figures on the System's purchases and holdings of acceptances at the close of the statement week ending May 19, as requested in your letter of that date.

5/19/38

Inasmuch as this inaugurates a new procedure, we have taken the liberty of making certain changes in the sample form you sent us. As we pointed out to Mr. Edmiston, we can only enter such items as have been purchased for System account by this bank as ordinarily we would not know about purchases made by other reserve banks in their respective districts. The same is true as regards maturing items.

We added a heading for Sale Contracts as well as one to take care of Foreign Currency Bills, for while we understand that you are otherwise advised of these figures, we felt that their might be possible advantage in having all acceptance data grouped on one page.

It is our intention to prepare a supply of mimeographed forms upon which, for the sake of convenience, we can enter the appropriate figures from week to week. Before preparing these forms, however, we should appreciate your advising us whether the captions as they now appear are satisfactory to you.

Very truly yours,

E. O. Douglas
E. O. Douglas,
Manager, Bill Department

Dr. E. A. Goldenweiser,
Director of Research and Statistics,
Board of Governors of the Federal Reserve System,
Washington, D. C.

see memo 5/26/37

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MAY 19 1937
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May 19, 1937

Mr. E. O. Douglas, Manager
Bill Department and Collection Department
Federal Reserve Bank of New York
New York, New York

Dear Mr. Douglas:

In accordance with your conversation of May 19 with Mr. Edmiston, we should appreciate it if you would send us the figures on the System's purchases and holdings of acceptances as shown in the attached table. We should also like for you to send us these figures currently at the end of each statement week in the future.

Very truly yours,

E. A. Goldenweiser
Director of Research and Statistics

Enclosure - 1

EE:ja

N.R.

Recd 5/21/37

FEDERAL RESERVE TRANSACTIONS IN ACCEPTANCES FOR SYSTEM ACCOUNT BY MATURITIES

<u>Week ended</u>	<u>March 24</u>	<u>March 31</u>	<u>Apr. 7</u>	<u>Apr. 14</u>	<u>Apr. 21</u>	<u>Apr. 28</u>	<u>May 5</u>	<u>May 12</u>
Purchases of dollar acceptances:								
1-15 days....								
16-30 days...								
31-45 days...								
46-60 days...								
61-90 days...								
91-120 days..								
121-180 days.								
Total....								
<hr/>								
Matured from portfolio.....								
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Change in foreign suspense account.								
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System's holdings at end of period.								
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BANKERS' ACCEPTANCES OUTSTANDING AND HELD BY FEDERAL RESERVE BANKS

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 APR 8 - 1938
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3/22/37

Reflex?

	A		B		C		D		E	
	Acceptance ¹ Liabilities of Member banks		Member bank acceptances held by F. R. banks	Per cent of B to A	Total bankers' acceptances outstanding	Total bankers' acceptances held ² by F. R. banks	Per cent of D to C	Acceptances Held by member banks		
1915	Sept. 2-	13 085	Aug. 30-	6 274	47.9		13 850			
	Nov. 10-	26 895	Oct. 25-	8 109	35.6		19 958			
	Dec. 31-	32 876	Nov. 29-	10 302			16 122			
			Dec. 27-	13 970	42.5		20 599			
1916	May 1 -	62 452				*Apr. 28-	47 585			
	June 30-	73 641				*June 30-	71 095			
	Sept. 12-	81 290				*Sept. 15-	82 609			
	Nov. 17-	103 801				*Nov. 17-	97 789			
	Dec. 27-	107 909				*Dec. 29-	127 497			
1917	Mar. 5-	108 850				*Mar. 2-	114 058			
	June 30-	157 870				*June 19-	202 270			
	Dec. 31-	383 264				*Dec. 18-	275 366			
1918	May 10-	322				May 10-	286 034			
	June 27-	385 733				June 29-	316 648			
	Nov. 1-	521 823				Nov. 1-	377 072			
	Dec. 31-	480 6				Dec. 27-	305 672			
					"On a recent date"					
					477 500					
					Annual Report, p. 23					
1919	Mar. 4-	451 2	Feb. 28-	219 823	48.6		272 499			
	June 30-	466 5	June 30-	233 519	49.7		314 407			
	Nov. 17-	565 4	Oct. 31-	271 701	53.9		587 614			
			Nov. 30-	347 852			495 330			
	Dec. 31-	641 0	Dec. 31-	405 339	63.0	Dec. 31-	1 000 000	56.6	56.1	16.3

278 861 (own 74 675)
 % to total acceptances
 liabilities
 72.5 % own to
 total acc. out-
 standing in-
 cluding own
 16.2

(Jun 30 - 261 258 (own 90 654))

1920	May 4-	673 8	Apr.30-	270 800	40.3	Apr. 1-	799 001	396 859	49.6		
	June 30-	673 5	June 30-	255 554	37.9			372 541		306 696 (own 33 322)	
	Nov.15-	647 8	Oct.30-	194 908				296 070		45.1	0.8
	Dec.29-	593 7	Nov.30-	153 302	26.9			238 516			
			Dec.30-	169 387	28.5			258 873			
1921	Apr.28-	504 1	Apr.30-	62 327	12.2	Apr. 1-	644 092	109 142	16.9		
	Jun.30-	431 8	June 30-	26 787	6.2			40 223		110 620 (own 23 900)	
	Dec.31-	368 9	Dec.31-	110 264	29.9			145 045		25.6	5.2
1922	Mar.10-	316 755	Feb.28-	69 915	22.1	Apr. 1-	416 422	105 110	25.3		
	Jun.30-	320 770	Jun.30-	127 051	39.6					216 587 (own 47 964)	
	Dec.29-	400 191	Dec.31-	139 176	47.3					67.5	13.0
1923	Apr.3-	421 300	Apr.30-	139 198	44.8	Apr. 1-	523 708	Mar.31-	261 242	49.5	
	Jun.30-	348 200	June 30-	140 958	38.6					176 069 (own 23 756)	
	Sep.14-	313 300	Sep.30-	110 027	34.6					48.2	6.5
	Dec.30-	428 300	Dec.31-	239 366	56.0						
1924	Mar.31-	413 200	Mar.31-	144 625	35.0	Apr.1-	617 580	Mar.31-	226 990	36.7	
	Jun.30-	304 600	Jun.30-	18 934	6.2					233 575 (Own 61 798)	
	Oct.10-	357 000	Sep.30-	87 472	24.5					76.6	20.3
	Dec.31-	497 700	Dec.31-	257 786	51.6	Dec.31-	821 417	Dec.31-	386 873	47.1	
1925			Jan.31-	206 009		Jan.31-	834 825		313 006	37.8	
			Feb.28-	205 574		Feb.28-	808 359		315 300	39.0	
	Apr.6-	517 587	Mar.31-	193 373	37.6	Mar.31-	800 137		312 947	39.1	
						Apr.30-	757 074		261 623	34.6	
						May 29-	680 245	May 31-	287 960	42.4	
	June 30-	407 816				June 30-	607 942		253 507	41.7	
						July 31-	569 386		207 299	36.4	
						Aug.31-	565 147		212 040	38.2	
	Sept.30-	425 327				Sept.30-	607 025		263 310	44.2	
						Oct. 31-	674 168		346 414	51.4	
						Nov.30-	689 768		357 601	51.8	
	Dec. 31-	540 156				Dec.31-	773 736		373 139	48.2	

1926

Apr. 12- 525 294

June 30- 467 905

Dec. 31- 550 963

1927

Mar. 23- 534 599

Jan. 30-	788 254	300 618	38.1
Feb. 28-	767 127	299 568	39.1
Mar. 31-	745 660	248 850	33.4
Apr. 30-	720 611	209 107	29.0
May 30-	685 333	237 110	34.6
June 30-	621 249	248 986	40.0
July 31-	600 497	214 917	35.6
Aug. 31-	582 636	257 094	44.1
Sept. 30-	614 151	279 125	45.1
Oct. 31-	661 647	320 391	47.0
Nov. 30-	726 395	363 306	51.5
Dec. 31-	755 360	379 723	50.3
Jan. 31-	773 604	319 244	41.3
Feb. 28-	765 488	295 393	37.6
Mar. 31-	809 446	238 119	29.4
Apr. 30-	810 966	237 830	29.3
May 31-	774 720	227 231	29.3
June 30-	751 270	210 349	28.0
July 31-	741 259	169 335	22.8
Aug. 31-	792 055	185 128	

Own acceptances held
by accepting banks

30 392

73 004

58 651

39 822

46 237

31

54

82 296

* Includes all bills bought.

¹ Does not include own acceptances held by accepting banks.

² Includes acceptances of branches and agencies of foreign banks but not trade acceptances except as indicated.

Form F. R. 181

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

REC'D IN GENERAL FILES JUN 1 - 1937 3330

Office Correspondence

Date May 19, 1937

To Mr. Morrill

Subject:

From Mr. Smead

As you know, the Federal Reserve Bank of New York has recently purchased a small volume of bankers' acceptances. On May 12 the Federal Reserve Bank of New York purchased a total of \$795,220.88 of acceptances from the Bank of Manhattan Company at a rate of 1/2 of 1 percent, participation in which was given to each other Federal Reserve bank except Boston.

The amount allotted to each of the eleven participating Federal Reserve banks was as follows:

FOR CIRCULATION

Table with 3 columns: Name, City, Amount. Includes entries for New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, San Francisco, and a TOTAL row.

Acceptances, payable in dollars, previously purchased during 1937 by

Please note check and re- Federal Reserve banks are as follows:

Table with 3 columns: Bank, Date, Amount. Lists payments to New York and San Francisco banks from March to April 1937.

No participations were given to other Federal Reserve banks by New York in acceptances purchased prior to March 12.

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May 19, 1937

Mr. Morrill

Mr. ^X Smead

[Handwritten signature]

As you know, the Federal Reserve Bank of New York has recently purchased a small volume of ^X bankers' acceptances. On May 12 the Federal Reserve Bank of New York purchased a total of \$795,220.88 of acceptances from the Bank of Manhattan Company at a rate of $\frac{1}{2}$ of 1 percent, participation in which was given to each other Federal Reserve bank except Boston.

The amount allotted to each of the eleven participating Federal Reserve banks was as follows:

New York	\$346,057.70
Philadelphia	75,647.49
Cleveland	81,508.61
Richmond	29,395.48
Atlanta	25,500.34
Chicago	76,064.52
St. Louis	26,067.26
Minneapolis	18,794.39
Kansas City	27,376.22
Dallas	25,552.48
San Francisco	63,256.39
TOTAL	795,220.88

Acceptances, payable in dollars, previously purchased during 1937 by Federal Reserve banks are as follows:

Bank	Date	Amount
New York	March 24	\$232,795.62
San Francisco	March 29	33,737.97
New York	April 2	87,388.34
New York	April 14	89,834.63
New York	April 22	<u>311,789.73</u>
Total		\$55,546.29

No participations were given to other Federal Reserve banks by New York in acceptances purchased prior to March 12.

VF/lw

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April 6, 1937

Mr. Morrill

Mr. Smead

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X FRBL (12)

In connection with Mr. Hale's letter of March 29, advising of the purchase of \$33,737.97 face amount of bankers' acceptances on March 29, there is attached a schedule received from that bank this morning listing the acceptances purchased. The only other purchases made by the Federal Reserve banks since March 19, 1936, were as follows:

Purchased by the Federal Reserve
Bank of New York from the First
Boston Corporation on March 24, 1937 \$232,795.62

Purchased by the Federal Reserve
Bank of New York from the First
Boston Corporation on April 2, 1937 87,388.34

The schedules reporting these purchases are attached.

Attachments.

m.p.c. ELS/jbs *EW* orig. filed 707mc 4. 12

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Mr. Roy A. Young, Governor,
 Federal Reserve Bank of Boston,
 Boston, Massachusetts.

JAN 9 1934

Dear Governor Young:

This refers to your letter of December 27, 1933, in reply to the Board's letter of December 22, with respect to the purchases of bills by the Federal Reserve Bank of Boston referred to in the two telegrams which you addressed to the Board under date of December 9, 1933. You state that the transactions in question were of a customary character, occurred in the ordinary course of business, were not engaged in for the purpose of affecting general credit conditions and did not have a material effect upon general credit conditions; and you express the opinion that the transactions, for these and other reasons mentioned in your letter, did not require the approval of the Federal Reserve Board under the terms of paragraph 5 of Section VII of the Board's Regulation M.

Upon consideration of the matter in the light of the statements contained in your letter, the Federal Reserve Board sees no reason to differ with your view that the Board's approval of the purchase from the National Shawmut Bank of Boston of bills in the amount of \$2,000,000, which was referred to in one of your telegrams of December 9, was not required under the provision of Regulation M in question. In your other telegram of that date, however, you advised that the Federal Reserve Bank of Boston had suggested to one of its member banks that, if it

✓ FILE COPY

Mr. Roy A. Young - - 2

later should find it necessary to offer any bills for sale, such offer be made to the Federal Reserve Bank of Boston instead of to the New York market; and the question whether the Board's approval will be necessary under paragraph 5 of Section VII of Regulation M as to any such purchase should be determined by the circumstances existing at the time that the particular purchase takes place and will depend upon the character of the transaction, the amount involved, and other factors. Attention is invited to the fact that all such transactions, whether or not the Board's approval is required, must be reported daily to the Federal Reserve Board under the requirement of paragraph 1 of Section VII of Regulation M and the other applicable requirements of the regulation, of course, are to be observed in any such case.

Very truly yours,

Chester Morrill,
Secretary.

FOR APPROVAL

- Gov. Black ✓
- Mr. Hamilton ✓
- Mr. Fisher ✓
- Mr. James ✓
- Mr. Thomas ✓
- Mr. Szybczak ✓
- Mr. Martin ✓ GBV/sad

If you approve, please
initial and return to
Mr. Carpenter

EBM

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ENTERED IN MINUTES
OF MEETING ON

JAN 22 1934

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JAN 9 1934

Mr. Roy A. Young, Governor,
Federal Reserve Bank of Boston,
Boston, Massachusetts.

Dear Governor Young:

Receipt is acknowledged of your letter of January 11, 1934, in which you advise that the Federal Reserve Bank of Boston has purchased bills in the amount of \$1,000,000 with maturities up to forty-five days at a rate of one-half of one per cent from the Rhode Island Hospital Trust Company, a nonmember bank, with its indorsement.

You state that you bought the bills in question in the usual course of business to increase your earnings and that the transaction was a usual one having no material effect upon the general credit situation; and you advise that you are reporting this matter to the Board in accordance with paragraph 5 of Section VII of Regulation M. You apparently feel, however, that this purchase was not one which required the approval of the Federal Reserve Board under the paragraph mentioned and, on the basis of the information contained in your letter, the Federal Reserve Board sees no reason to differ with this conclusion with respect to this transaction. The only provision requiring a report of this purchase, therefore, is that in paragraph 1 of Section VII

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Mr. Roy A. Young - - 2

of the regulation which requires that all open market transactions other than the purchase and sale of Government securities shall be reported daily to the Federal Reserve Board.

Very truly yours,

(Signed) Chester Morrill
Chester Morrill,
Secretary.

FOR APPROVAL

- Gov. Black ✓
- Mr. Hamlin ✓
- Mr. Miller ✓
- Mr. James ✓
- Mr. Thomas ✓
- Mr. Szymczak ✓
- Mr. *W. A. Martin* ✓

If you approve, please
initial and return to
Mr. Carpenter

GBV/sad

ERB
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ENTERED IN MINUTES
OF MEETING ON

JAN 22 1934

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FEDERAL RESERVE BANK
OF BOSTON

ROY A. YOUNG
GOVERNOR

January 11, 1934

Federal Reserve Board
Washington, D. C.

Gentlemen:

Pursuant to our telephone talk today, I advise that this bank has purchased for delivery tomorrow, \$1,000,000 in prime bills, maturities up to 45 days, at a rate of one half of one per cent, from the Rhode Island Hospital Trust Company (a non-member bank) with their endorsement.

In accordance with paragraph 5, section 7 of Regulation M, we are reporting this to the Board and advise that we bought the bills to increase our earnings, and in the usual course of business. The Trust Company sold us the bills to provide funds to cover an actual withdrawal from their War Loan Account and other anticipated withdrawals.

If this bank had not purchased the bills they would have been sold to the New York market and we, therefore, believe the transaction is a usual one and has no material effect upon the general credit situation.

Yours Respectfully,

R. A. Young
R. A. Young
Governor

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FEDERAL RESERVE BANK
OF BOSTON

ROY A. YOUNG
GOVERNOR

December 27, 1933

Mr. Chester Morrill, Secretary
Federal Reserve Board
Washington, D. C.

Dear Mr. Morrill:

This will acknowledge receipt of your letter of December 22, and in reply to your specific inquiry I advise that in my opinion the bills purchased by this bank and reported to the Federal Reserve Board did not require the approval of the Federal Reserve Board under the terms of paragraph 5, Section 7 of Regulation M, for the following reasons:

If a free and active market for bills is to be maintained throughout the United States, obviously a Federal reserve bank or the Federal Reserve System must be prepared to accept all desirable bills at a rate. In other words, the discount window for bills must be open at all times - not partly open and partly closed and certainly not closed entirely - otherwise there can be no free open market. If for any reason we feel that we should not take desirable bills offered to us, our refusal should be through a punitive rate which should prohibit their being offered to us. This is a precedent of long standing in the Federal Reserve System and, in my opinion, a thoroughly sound one.

In regard to the two transactions mentioned in your letter, it appears to me that we operated entirely within the regulations of the Federal Reserve Board and not because of one exception, but because of all, which are as follows:

- (a) The transactions were of a customary character
- (b) They did occur in the ordinary course of business
- (c) They were not engaged in for the purpose of affecting general credit conditions
- (d) They did not have a material effect upon general credit conditions.

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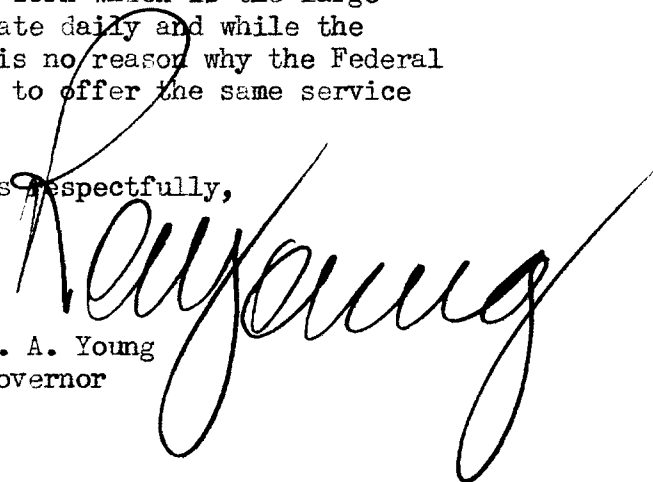
Mr. Chester Morrill

-2-

December 27, 1933

The Federal Reserve Bank of New York which is the large bill market of the United States buys bills at a rate daily and while the Boston market is much smaller and narrower, there is no reason why the Federal Reserve Bank of Boston should not be in a position to offer the same service as New York, particularly to its own member banks.

Yours respectfully,


R. A. Young
Governor

J

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DEC 22 1933

Mr. Roy A. Young, Governor,
Federal Reserve Bank of Boston,
Boston, Massachusetts.

Dear Governor Young:

Reference is made to your two telegrams of December 9,
1933, in regard to purchases of bills by the Federal Reserve Bank
of Boston.

In one of these telegrams you stated that the Federal Re-
serve Bank of Boston has suggested to one of its member banks that,
if it later should find it necessary to offer any bills for sale, such
offer be made to the Federal Reserve Bank of Boston instead of to the
New York market; that this action was taken because of your desire to
increase your earnings; and that, if such a purchase by your bank is
ultimately consummated, it will have no material effect upon the gen-
eral credit situation.

In the other telegram you stated that the Federal Reserve
Bank of Boston has purchased from the National Shawmut Bank of Boston
indorsed bankers' bills in the amount of \$2,000,000, at a rate of one-
half of one per cent, with maturities from eleven to fourteen days;
that you purchased these bills because you desired additional earn-
ings, because with the expanding seasonal demand your action had no
effect upon the money market, and because the member bank had previous-
ly purchased some short-term Government securities that were timed to
meet certain maturities coming due in the future; and that the bank

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Mr. Roy A. Young - (2)

offered the bills to the Federal Reserve Bank to relieve the temporary situation during the interim. In this connection you stated that you made the purchase of these bills in accordance with paragraph 5 of section 7 of Regulation "H".

You will observe that paragraph 5 of section 7 of Regulation "H" provides that, except with the approval of the Federal Reserve Board, no Federal reserve bank shall engage in any open market transactions (a) which are not of the customary character, (b) which do not occur in the ordinary course of business, (c) which are engaged in for the purpose of affecting general credit conditions, or (d) which may have a material effect upon general credit conditions; with a proviso that any Federal reserve bank may purchase obligations for the purpose of affording relief in a situation involving a specific banking institution in its district.

It is not clear, therefore, that the transactions referred to in your two telegrams are of a character which may be engaged in without

the approval of the Federal Reserve Board before they are consummated and it will be appreciated if you will state more specifically the reasons why in your opinion they do not require approval of the Federal Reserve Board under paragraph 5 of section 7 of Regulation "H", so that the matter may be given full consideration before the Board rules upon the matter.

- GOV. BLACK
 - MR. HAMILTON
 - MR. ROY
 - MR. JAMES
 - MR. THOMAS
 - MR. STANBROOK
 - MR. O'CONNOR
 - Mr. Morrill
- If you approve, please initial and return to Mr. Carpenter

Very truly yours,

(Signed) Chester Morrill
Chester Morrill,
Secretary.

AT BOARD MEETING

ms
mf
cu
FILE

COPY

DEC 21 1934

Form 148b

Fisher

~~TELEGRAM~~ 2

FEDERAL RESERVE BOARD
WASHINGTON

3231
~~3231~~

December 14, 1933.

Young - Boston

Federal Reserve Board interposes no objection to your bank taking the allotment of the Federal Reserve Bank of New York, in addition to your own allotment, of bankers' bills purchased daily by the New York bank, until your total holdings of bankers' acceptances amount to approximately \$35,000,000.

(Signed) Chester Morrill

Morrill.

[Signature]
.....
AT BOARD MEETING

cc: Mr. Smead

DEC 18 1933

[Signature]

SRC/acw

[Handwritten signatures and initials: SRC, acw, and others]

FILE COPY

TELEGRAM

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)

333.4

12/14/33

5lbs
1933 DEC 14 AM 11 14
16-704

Boston Dec 14 1058AM

RECEIVED AT WASHINGTON, D. C.

Board

Washington

In addition to taking our regular allotment of Bankers acceptances purchased by the FRB of New York daily we have also agreed to take their share until our total holdings reach approximately thirty five million dollars in accordance with regulation M We are reporting the contemplated transaction to the Board. Our reasons are the same as given yesterday

Young

1114A

Form 148b

#1-2
TELEGRAM

**FEDERAL RESERVE BOARD
WASHINGTON**

58014
~~333~~

December 13, 1933.

Young - Boston

Your telegram. Federal Reserve Board approves purchase by your bank from the Federal Reserve Bank of New York of approximately \$8,500,000 of bankers' bills with maturities up to 90 days at a rate of 1/2 of 1%.

Morrill. *(Signed, with initials)*

cc: Mr. Smead

acw
AK
3BU
ERB
Cm
GPD
MS
[Signature]

(Signature)
.....
AT BOARD MEETING
DEC 18 1933
(Signature)

FILE COPY

Form 148b

3-5-4

TELEGRAM

FEDERAL RESERVE BOARD
WASHINGTON

December 13, 1933.

Harrison - New York

Board has received telegram from Governor Young advising that the Federal Reserve Bank of Boston has today agreed to take from the Federal Reserve Bank of New York approximately \$3,500,000 of bankers' bills with maturities up to 90 days at rate of 1/2 of 1%, and Governor Young has been advised that Board approves proposed purchase.

Morrill. (Signed) Chester Morrill

ack
ERB
CW
G.B.J.
Morrill

FILE COPY

TELEGRAM

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)

333.4

12/13/47

16-794

RECEIVED AT WASHINGTON, D. C.

168B MR

Washington

Re our 127 date please correct to read "at one half per vent"
instead of "two and one-half per cent."

Boston Dec 13

407pm

TELEGRAM

1933 DEC 13 PM 2 24

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)

127bmr

16-794

RECEIVED AT WASHINGTON, D. C.

Boston 210p Dec 13

Board

Washington

We have today agreed to take from the FRB of New York approximately eight and one half million of bankers bills maturities one to ninety days at two and one half percent. In accordance with regulation M we are reporting the transaction to the Board. Our reasons for buying the bills are - one the New York banks reserve is still low ours is high: Two-We need the additional earnings: Three-The transaction has no effect on the money market

Young

221p

333.4

12/13/33

TELEGRAM

1933 DEC 9 AM 11 12

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)

333.4

16-794

RECEIVED AT WASHINGTON, D. C.

12/9/33

7 Zbfa

Boston ~~Dec 9~~ 11am

23

12:15

Board

Washn

We advise that this bank has suggested to one of its member banks that if the member bank found it necessary to offer any bills they offer them to us instead of to the New York Market. This action was taken because of our desire to increase our earnings and if ultimately consummated will have no material effect upon the general credit situation.

Young

1111a

TELEGRAM

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)

1933 DEC 9 AM 11 15

16-794

RECEIVED AT WASHINGTON, D. C.

333.4

12/9/33

73bfa

Boston Dec 9 11am

Board

Wash

22

12:15

Under date of Dec seventh this bank purchased from the National Shawmut Bank of Boston two million endorsed bankers bills at one half of one percent maturities eleven to fourteen days. We purchased these in accordance with paragraph five Section seven of regulation M and for the following reasons - One, We wanted additional earnings ; two , with the expanding seasonal demand this action had no effect upon the money market; three, the member bank had previously purchased some short time Government securities that were timed to meet certain maturities coming due in the future and the bank offered us the bills to relieve temporary situation during the interim.

Young 1114am

Form 148b

#182
TELEGRAM

**FEDERAL RESERVE BOARD
WASHINGTON**

33212
~~3331~~
3334

File

December 8, 1933.

Young - Boston

Referring your telegram date and confirming our telephone conversation, Federal Reserve Board approves purchase by your bank from the Federal Reserve Bank of New York of \$10,000,000 of bankers' acceptances with maturities up to 90 days at a rate of 1/2 of 1%.

(Signed) Chester Morrill
Morrill.

SBC-jcb

[Handwritten initials]
SBC
cm

cc: Mr. Smead

FILE COPY

Form 148b

TELEGRAM
FEDERAL RESERVE BOARD
WASHINGTON

33714

DEC 8 1935

Harrison - New York

Board has received telegram from Governor Young advising that arrangements have been made for purchase by Federal Reserve Bank of Boston from Federal Reserve Bank of New York of \$10,000,000 of bankers' acceptances with maturities up to 90 days at rate of 1/2 of 1%, and Governor Young has been advised that Board approves proposed purchase.

(Signed) Chester Morrill
Morrill.

SRC-jcb

FILE COPY

TELEGRAM

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)

1933 DEC 8 PM 12 21

333,4

16-704

RECEIVED AT WASHINGTON, D. C.

80bfa

Boston Dec 8 12k

Board

Washn

This bank contemplates purchasing ten million in bankers acceptances from Federal Reserve Bank of New York maturities up to ninety days at a rate of one half of one percent. This action is taken because New Yorks reserves are low and earnings high and Boston reserves high and earnings low. I have been informed by telephone that a transaction of this kind requires approval of the Board and therefore would appreciate it very much if you would wire reply promptly.

Young

1219p

Approved... minutes
AT BOARD MEETING

DEC 8 1933

Form 148b

H/G
TELEGRAM

**FEDERAL RESERVE BOARD
WASHINGTON**

JUN 27 1933

*3305 /
333.4
Y-7477*

**Cenniff,
Atlanta**

Inasmuch as Board's Regulation B governs open market purchases of bills of exchange, trade acceptances and bankers' acceptances under section 14, Federal reserve banks may continue to purchase bankers' acceptances in accordance with that regulation.

(Signed) Chester Morrill

MORRILL

[Signature]
AT BOARD MEETING

JUN 28 1933
Allen

ETA
[Signature]
WW omc
[Signature]
[Signature]
[Signature]
[Signature]

For Approval
Gov. Black
Mr. Hamlin
Mr. James
Mr. Miller
Mr. Szymczak
Mr.
Mr. O'Connor
Mr.
Please note-initial and
Return to Mr. Carpenter

FILE COPY

333.4

C O P Y.

*X-7477

Carded

June 27, 1933.

Conniff,
Atlanta.

Inasmuch as Board's Regulation B governs open market purchases of bills of exchange, trade acceptances and bankers' acceptances under section 14, Federal reserve banks may continue to purchase bankers' acceptances in accordance with that regulation.

MORRILL.

See wire 6/27/33

TELEGRAM

FEDERAL RESERVE SYSTEM **RECEIVED**
OFFICE OF GENERAL COUNSEL
(LEASED WIRE SERVICE)

JUN 26 1933

RECEIVED AT WASHINGTON, D. C. A. M. 315 P. M.

NUMBER ~~96~~

333.4

16-794

94fot 45

Atlanta 1239p June 26 1933

Morrill

Washington,

Under the banking act of 1933 no Federal Reserve Banks May engage in open market operations except in accordance with regulations of Federal Reserve Board. Please advise if we may purchase bankers acceptances originating in our district if offered by member bank

Conniff

149p

Counsel

July 15, 1933.

333.4

July 15, Friday

The Board continued its meeting with the Governors. The Governors voted as follows, - 9 to 3 for the resolution given below:

Moved that the Executive Committee be authorized to buy Government securities to the extent necessary to maintain excess reserves of member banks at approximately 200 million dollars, total purchases to be limited to the amount previously authorized by the Open Market Policy Conference which is 207 million dollars. For the guidance of the Executive Committee it was the sense of the conference that except in unusual or unforeseen circumstances purchases should not exceed 15 million dollars a week, but for the next four weeks should be not less than 5 million dollars a week.

The three votes were probably Governors McDougal, Young and Seay.

The meeting then took up the question of regulations covering the new Glass amendment. After much discussion, it was determined that a limitation should be put upon the Federal reserve banks as to these loans to individuals to 1% of the capital and surplus of Federal reserve banks, unless a larger sum were allowed on application to the Federal Reserve Board.

It was also determined that the rate of interest to be charged should be practically the customers rate charged in the district. Some thought that the minimum rate should be the rate for loans under Section 10 (b) of the Glass emergency bill. This was not finally determined, but the consensus of opinion seemed to be that these should not be regarded as penalty loans, and therefore the customers rate should generally be followed.

The matter of securities was then taken up. Governor Harrison stated that he thought clearly that the amendment would permit the Federal reserve bank to give a credit on its books to the individual borrower, and also seemed to agree that if this were so, a fixed balance might be required as is the usual case with member banks, and that this fixed balance would constitute the security which the amendment calls for.

Dr. Miller said that it would be very dangerous to permit the Federal reserve banks to give credit on its books to the borrowers. He felt that they should give a check for the full amount of the loan, which the borrower could deposit in some other bank. This matter was not finally determined.

2.

C.S.H. raised the question whether a farmer, for example, could give a direct note to the Federal reserve bank, secured, of course, by an endorsement and satisfactory collateral. Governor Harrison expressed the opinion that this could be done, but Mr. Wyatt said it was a debatable legal question. It was determined, therefore, to leave the regulations as they are, which seem to imply that no such direct loan could be made, subject to determination in the future.

The meeting then adjourned.

July 14, 1932.

32, 4

July 14, Thursday:

The Governors met with the Board in an open market conference this morning. Governor Meyer gave a resumé of the situation, saying that the open market policy had been effective, and expressing the opinion that it would be very ill-advised and dangerous to stop it; that we ought to go on, as the operations from now on would have much more force than they could before, because of gold exports. Governor Harrison then addressed the meeting, showing the good effect of open market operations up to the present date, and expressing the firm belief that we should continue keeping the excess reserves at about 250 million dollars.

Governor McDougal expressed the opinion that we should stop buying, and C.S.R. pointed out to him that he originally voted for the major operation, - 500 millions on April 12th - and asked him whether he did not believe it would be dangerous to stop completely now. He said he could see that there might be some danger from it.

Governor Calkins thought it was not necessary to keep up the amount to 250 millions excess reserves, but that it would be all right to go on keeping the reserves at about their present status - a little over 200 millions.

Governor Young suggested that while he was originally opposed to the operation and might vote to discontinue if that were the sentiment of the conference, yet otherwise he believed it would be wise to proceed and buy a little each week so that the public would not see or feel we had discontinued our open market policy.

Secretary Mills addressed the meeting, expressing the firm belief that to stop purchases now would be disastrous.

Governor Meyer, in his opening address, spoke of the proposed amendment offered by Senator Glass permitting direct loans to individuals, etc. He said that all over the country bank presidents are stating that everyone entitled to credit can get it. He said this was pure "bunk" - that he knew, and everyone knew, that all over the country people who were entitled to credit - with satisfactory collateral for business purposes - were unable to procure it from the banks. Secretary Mills stated that only this morning he had met two gentlemen who stated positively that credit was not available even to many borrowers who had good collateral. He said that one representative of the Southern-Pacific

2.

Railroad told him he had made an examination all along their lines of customers who furnished them freight, and that he was satisfied that many of these customers wanted to go on and manufacture, were good risks with satisfactory collateral, yet were not able to obtain credit.

In the afternoon, discussion as to the open market policy was resumed, and there were some expressions of opinion on the proposed draft of regulations under the new Glass amendment.

C.S.R. heard today, indirectly, that Mr. Morrill who was down at the Senate when the Glass amendment was introduced, called it to the attention of Mr. Ballantine, the Under-Secretary of the Treasury, who bitterly opposed it, and did all in his power to defeat it in the Senate and in the House, but that when Ogden Mills returned from Boston he quickly reversed this procedure and did, and is now doing, all he can to secure its passage.

After the morning meeting, Governor Harrison told me that he thoroughly favored the proposed Glass amendment, but that he would go even farther, - he would not have the condition imposed that the borrower must first try to obtain a loan from a member bank. He seemed to be almost enthusiastic about it.

Governor Young told me that at first he was opposed to it, but that on further examination he was inclined to think that it would be a very wise measure to adopt. In the afternoon session, Governor Meyer announced that the President would be very glad to meet the Governors this evening. Nothing was said about the Federal Reserve Board members. After talking the matter over, the Governors felt that it might be very embarrassing if the public were to know that the Governors all went to the President, and might create a false impression, and therefore Governor Meyer said he would tell the President that he felt they had better not come.

115

REC'D IN FILES SECTION
1928 DEC 17 1938
333 • 4

BILLS BOUGHT IN OPEN MARKET BY FEDERAL RESERVE BANKS IN
CLASSIFIED ACCORDING TO UNDERLYING COMMODITIES

(In thousands of dollars)

Commodity

1928

ACCEPTANCES BASED ON IMPORTS

Total	<u>472,777</u>
Animals and animal products, except wool and hair, - total	<u>75,126</u>
Egg albumen	496
Egg yolk	1,109
Casings	2,129
Bristles	2,322
Hides and skins	45,851
Leather and leather goods	4,531
Furs	12,446
Fish	1,042
Animal and fish oils, fats and greases	950
Casein	893
Feathers	615
All other	<u>2,742</u>
Vegetable food products and beverages - total	<u>156,129</u>
Coffee	80,623
Cocoa	7,415
Cocoa beans	2,199
Fruits: Figs	1,029
All other and not specified	1,707
Grains	890
Nuts: Peanuts	1,453
Walnuts	552
Almonds	377
Coconuts	293
All other and not specified	857
Tea	3,045
Sugar	47,115
Spices: Pepper	1,448
All other and not specified	839
Tapioca	157
Vegetables: Beans	1,844
All other and not specified	1,418
Olive oil	890
All other	<u>1,978</u>
Vegetable products, inedible, except fibers and wood - total	<u>54,941</u>
Rubber	29,649
Tobacco	5,765
Essential oils	262
Varnish gums: Shellac	135
Copal	437
Damar	169
All other and not specified	383

St. 6186

- 2 -

<u>Commodity</u>	<u>1928</u>
Vegetable products, inedible, except fibers and wood, (Cont'd)	
Vegetable oils:	
Coconut	2,042
Wood	6,989
All other	387
Oilseeds:	
Castor	108
Copra	4,040
Cotton	-
Hemp	28
Flax	80
All other and not specified	476
All other	<u>3,991</u>
Textiles - total	<u>129,236</u>
Braid:	
Straw	433
Hemp	131
All other and not specified	246
Cotton	8,751
Cotton manufactures	1,209
Carpets	1,784
Hair	911
Hemp	934
Hats	2,923
Kapok	998
Silk	76,691
Rugs	2,411
Wool	21,303
Burlap	1,360
Linen	759
Rope	209
All other	<u>8,183</u>
Wood and paper - total	<u>18,284</u>
Logs	1,776
Lumber	2,243
Woodpulp	6,897
Paper	3,097
Rags	1,914
Pulpwood	-
All other	<u>2,357</u>
Nonmetallic minerals - total	<u>4,513</u>
Cement	470
Crude oil	634
Diamonds	566
Glass and glassware	963
Refined mineral oils	520
Pyrites	100
All other	<u>1,260</u>

St. 6186

- 3 -

<u>Commodity</u>	<u>1928</u>
Metals and manufactures, except machinery and vehicles - total	<u>6,958</u>
Antimony	379
Copper	566
Iron and steel	2,289
Tin	1,098
All other	<u>2,626</u>
Machinery and vehicles - total	<u>1,297</u>
Chemicals and related products - total	<u>12,367</u>
Creosote oil	929
Potash	8,330
Fertilizer, except potash	209
Menthol	292
Fireworks	434
All other	<u>2,173</u>
Miscellaneous - total	<u>13,926</u>
Brushes	292
Films	-
Matches	404
Toys	178
Optical goods	5
All other	<u>13,047</u>
ACCEPTANCES BASED ON EXPORTS	
Total	<u>550,737</u>
Animals and animal products, except wool and hair - total	<u>13,443</u>
Leather	1,422
Lard and meats	8,817
Hides and skins	1,768
Furs	1,058
All other	<u>378</u>
Vegetable food products and beverages - total	<u>82,559</u>
Coffee	1,022
Cottonseed cake and meal	2,565
Flour	4,062
Fruits:	
Raisins	1,444
All other and not specified	5,211
Grains:	
Wheat	20,641
Rye	1,319
Rice	1,483
Barley	2,635
All other and not specified	40,882
Sugar	567
Linseed oil cake and meal	10
All other	<u>718</u>

St. 6186

- 4 -

<u>Commodity</u>	<u>1928</u>
Vegetable products, inedible, except fibers and wood - total	<u>5,491</u>
Tobacco	1,861
Naval stores:	
Rosin	1,214
Turpentine	281
All other and not specified	225
Rubber and rubber products	1,067
All other	843
Textiles - total	<u>310,542</u>
Cotton	307,936
Cotton manufactures	967
Silk	146
Wool	249
All other	1,244
Wood and paper - total	<u>9,754</u>
Lumber	8,155
Cooperage stock	662
Woodpulp	119
All other	818
Nonmetallic minerals - total	<u>6,310</u>
Coal	222
Refined mineral oils	3,668
Crude oil	470
All other	1,950
Metals and manufactures, except machinery and vehicles - total	<u>40,224</u>
Copper	31,785
Gold	751
Iron and steel	888
Zinc	452
All other	6,348
Machinery and vehicles - total	<u>29,623</u>
Automobiles	23,817
Auto parts and accessories	2,010
Farm implements	226
Motors and motor parts	2,249
All other	1,321
Chemicals and related products - total	<u>3,015</u>
Paints and varnishes	1,014
Fertilizers	919
Borax	273
All other	809
Miscellaneous - total	<u>49,776</u>
Oil	5,337
Building supplies	-
Films	12
Matches	-
All other	44,427

St. 6186

- 5 -

<u>Commodity</u>	<u>1928</u>
ACCEPTANCES BASED ON DOMESTIC TRANSACTIONS	
Total	<u>387,690</u>
Animals and animal products, except wool and hair - total	<u>26,247</u>
Lard and meats	7,233
Eggs	834
Hides and skins	10,780
Casings	534
Furs	1,296
Fish:	
Herring	105
Salmon	287
All other and not specified	645
All other	<u>4,533</u>
Vegetable food products and beverages - total	<u>66,884</u>
Coffee	4,214
Fruit:	
Raisins	5,251
Peaches	197
All other and not specified	2,813
Grains:	
Wheat	10,639
All other	18,212
Nuts:	
Peanuts	462
Walnuts	102
All other and not specified	1,196
Sugar	16,226
Flour	1,803
Tea	511
Vegetables:	
Beans	736
All other and not specified	1,809
Cocoa	892
All other	<u>1,821</u>
Vegetable products, inedible, except fibers and wood - total	<u>40,993</u>
Rubber	18,415
Tobacco	18,069
Naval stores	1,818
Vegetable oils:	
Cottonseed oil	221
Chinese wood oil	52
All other and not specified	399
All other	<u>2,019</u>

St. 6186

- 6 -

<u>Commodity</u>	<u>1928</u>
Textiles - total	<u>214,234</u>
Cotton	192,744
Cotton manufactures	377
Mohair	2,484
Silk	2,647
Wool	14,157
Kapok	193
All other	<u>1,632</u>
Wood and paper - total	<u>3,865</u>
Lumber	3,675
Rags	34
All other	<u>156</u>
Nonmetallic minerals - total	<u>10,417</u>
Coal	6,038
Glass	175
Crude oil	772
Refined oil	900
All other	<u>2,532</u>
Metals and manufactures, except machinery and vehicles - total	<u>1,596</u>
Copper	272
Iron and steel	274
All other	<u>1,050</u>
Machinery and vehicles - total	<u>220</u>
Chemicals and related products - total	<u>468</u>
Fertilizers	262
All other	<u>206</u>
Miscellaneous - total	<u>22,766</u>
Canned goods	8,498
Oil	297
Provisions	12,870
All other	<u>1,101</u>
 GOODS STORED IN OR SHIPPED BETWEEN FOREIGN COUNTRIES	
Total	<u>585,694</u>
Lard and meats	3,594
Hides and skins	8,825
Leather and leather goods	5,811
Coffee	21,436
Flour	11,781
Grain	29,245
Sugar	120,080
Vegetable oils	260
Tobacco	7,283

- 7 -

<u>Commodity</u>	<u>1928</u>
Rubber and rubber goods	2,756
Cotton	56,867
Wool	14,280
Lumber	5,503
Pulpwood	-
Timber	6,455
Woodpulp	5,675
Wood and wood products	4,722
Diamonds	1,802
Gasoline	643
Copper	16,951
Iron ore	6,253
Iron and steel products	47,931
Zinc	2,684
Machinery and vehicles	30,615
Fertilizers	5,550
Potash	3,497
Electrical material	6,385
Matches	3,625
Films	32
All other and unclassified	<u>155,153</u>
 TRADE ACCEPTANCES	
Total	<u>3,744</u>
Coffee	932
Sugar	1,385
Hemp	216
Silk	576
Copper	-
All other and unclassified	<u>635</u>
 DOLLAR EXCHANGE BILLS	
Total	29,020
 BILLS PAYABLE IN FOREIGN CURRENCIES	
Total	3,598
 UNCLASSIFIED	
Total	<u>25,374</u>
Total purchased outright	2,058,634
Taken under repurchase agreement (not classified)	2,182,035
Grand total	<u>4,240,669</u>

st. 6186

FEDERAL RESERVE BOARD
 DIVISION OF BANK OPERATIONS
 MAY 10, 1929.

Form No. 131.

Office Correspondence

FEDERAL RESERVE
BOARD

REC'D IN FILES SECTION

Date AUG 25 1949 *md*
February 2, 1927

To Mr. Goldenweiser

Subject: Current acceptance rates in the *3 3/4* *R7*From Miss Brown *Miss Repler*

market and at the reserve bank.

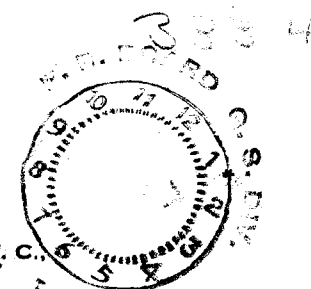
Since January 11 the New York Federal Reserve Bank's buying rate on acceptances has been ~~lower~~ ^{higher} than the rate offered in the market for 60 and 90 day bills. This situation has not existed since last May and accounts largely for the decline of \$50,000,000 in the acceptance holdings of the reserve banks since the first of the year. Purchases of both 60 day and 90 day bills in the New York market fell off sharply after the lowering of the market rate from $3\frac{3}{4}$ to $3\frac{5}{8}$ per cent, while purchases of the shorter maturities--30 days and under--were made in about the usual volume. Last April the market rate on bills of the longer maturities declined below the reserve bank's buying rate on these bills on the 7th of the month and on the 27th the Reserve bank reduced its buying rates from $3\frac{5}{8}$ per cent to $3\frac{1}{4}$ per cent for 60 day and $3\frac{1}{2}$ per cent for 90 day bills. It had, however, lowered its discount rate from 4 to $3\frac{1}{2}$ per cent the week before. At that time the market rates continued downward into May and the bank's rates followed them. At present there seems to be a tendency for market rates to stiffen slightly and some dealers are reported to be offering $3\frac{3}{4}$ while most of them still offer $3\frac{5}{8}$ per cent for 90 day bills. I think that it will be interesting to watch the situation, particularly if the Reserve bank does not lower its buying rates. My charts indicate that the market rates have not been below the Reserve bank's buying rates for more than a week without this situation being followed by a decline both in the buying rates and the discount rate of the New York Reserve Bank since 1924 when all rates were at the bottom.

M. Horbett

TELEGRAM

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)



149fb 1c

Dallas Nov 1 1212p

Eddy

Washington.

RECEIVED AT WASHINGTON, D. C.

Received _____
 Transmitted _____
 CR _____

Twill 399, thirtieth. Following is statement of acceptances sold member banks from our portfolio January 1 to Oct 31. Assume it is proper to include these as open market transactions. April 11 \$9,750.00 April 25 \$24,815.10 May 16 \$10,200.28 Sept 19 \$120,133.26 September 26 \$165,919.53 October 3 \$64,190.18 October 10 \$96,089.54 October 17 \$197,349.03 Oct 24 \$235,137.86 October 31 \$116,176.99 Total \$1,039,761.77 In addition to amounts indicated we sold between July 11 and July 20 acceptances amounting to \$6,740,118.85 to other Federal Reserve Banks. Unable definitely determine whether these transactions were purchased by Federal Reserve Banks for their own account or others.

Talley

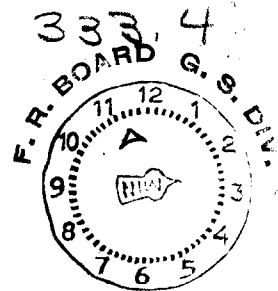
159p

W

Mr. Seward

TELEGRAM

FEDERAL RESERVE SYSTEM
(LEASED WIRE SERVICE)



RECEIVED AT WASHINGTON, D. C.

23an fa

Atlanta Ga Nov 1 958am

Received	a. m.
Transcribed	p. m.
OK to	<i>[Signature]</i>

NOV 1 1928
RECEIVED

Eddy

Washm

Twill 399. Inform-ation requested relative acceptances sold in open market each week ending wednesday since January 1 1923 to date as follows:

Week ending february 21 25,000. March 7 20,000. October 24 5,000.

McCord

1103am

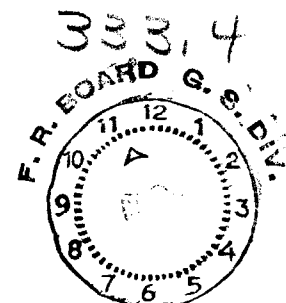
TELEGRAM

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)

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RECEIVED AT WASHINGTON, D. C.,



NOV 1 1923

Phila Nov 1, 1045a

Eddy,

Washn

Acceptances sold from own portfolio each week ending wednesday, since January 1, 1923:

January 3rd none; January 10 \$562,163.84; 17th 599,612.63; 24th 459,122.61; 31st 259,462.50; February 7th \$586,735.08; 14th 591,285.99; 21st 185,837.40; 28th 461,329.86. March 7th \$290,048.58; 14th 470,383.30; 21st 196,521.02; 28th 174,833.10; April 4th 54,930.24; 11th 819,758.26; 18th 199,787.50; 25th 340,522.95. May 2nd 77,997.42; 9th 254,823.58; 16th 218,744.93; 23rd 39,801.55; 30th 345,081.73. June 6th 480,229.50; 13th 184,865.61; 20th 109,988.29; 27th 278,664.20. July 4th none; 11th 208,504.62; 18th 230,567.13; 25th 90,128.54. August 1st 264,993.74; 8th 239,472.05; 15th 201,130.73; 22nd 365,629.20; 29th 546,606.18. September 5th 142,832.86; 12th 117,696.18; 19th 100,000.00; 26th 293,145.33. October 3rd 300,971.13; 10th 391,515.09; 17th 425,130.91; 24th 353,444.35. Total 12,514,299.71. ✓

Post

11a

Mr. Sumner

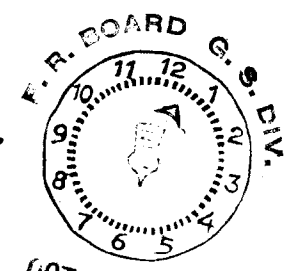
TELEGRAM

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)

RECEIVED AT WASHINGTON, D. C.,

333.4



OCT 31 1923
RECEIVED

23hrs

Boston 1145A Oct 31 1923

Eddy

Washn

Answering wire trans 399. We have never sold any acceptances so far as our records show in the open market from our portfolio

Curtiss

1216P

Received	a. m.
Transcribed by	p. m.
OK to file	<i>A</i>

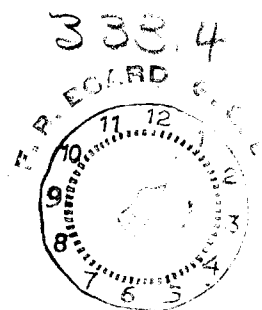
Mr. Seward

TELEGRAM

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)

RECEIVED AT WASHINGTON, D. C.,



62arct

Newyork 255p Oct 31

Received.....	p. m.
Transcribed by.....	
OK to file.....	

Beard

Washn

Replying to the Beard's wire 30th to Mr Jay we have sold no acceptances in the open market from our portfolio since January 1, 1923.

Kenzel

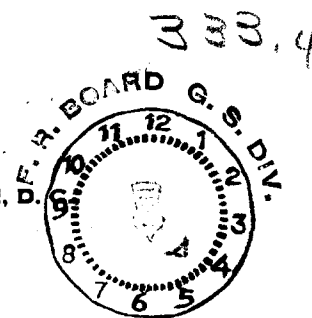
259p

Wm. S. ...

TELEGRAM

FEDERAL RESERVE SYSTEM
(LEASED WIRE SERVICE)

RECEIVED AT WASHINGTON, D.C.



333.4

OCT 31 1923
RECEIVED

126cd a

Cleveland 348p oct 31

Board

WDC

Received _____ a. m.
Transcribed by _____ p. m.
OK to file _____

We have sold no acceptances from our portfolio in open market since

January 1, 1923

Will s

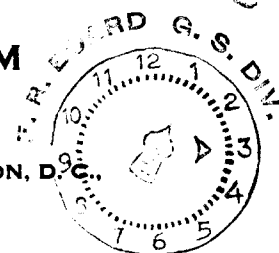
410p

Misheard

TELEGRAM

FEDERAL RESERVE SYSTEM
(LEASED WIRE SERVICE)

333.4



RECEIVED AT WASHINGTON, D. C.

96rhta

Richmond Va 235pm Oct 31

Received.....
Transcribed by.....
OK to file.....

OCT 31 1928

Eddy

Washington

Twill 399, October 31st ~~at~~ No acceptances have been sold in open market
from our portfolio

Hoxton

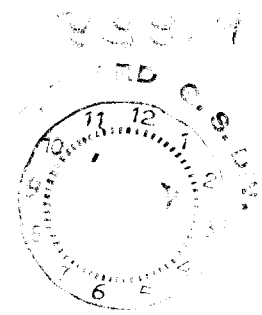
243pm

Mr. Seward

TELEGRAM

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)



137fcq

RECEIVED AT WASHINGTON, D. C.,

Chicago Oct 31, 1238pm,

Received a. m.
 Transcribed p. m.
 OK to file *JFH*

Eddy

Washn

Twill 399.

Replying your wire. We have not sold any acceptances from Our portfolio in the open market this year. We have sold to a few member banks from our portfolio to fill special orders for weeks ending as follows: January 10, 1923, \$20,000; January 17, \$9,936.35; January 31, 104,851.52; February 7, 24,666.52. February 21 \$5,000; March 28 \$29,947.61; April 25 \$25,079.85; June 13, \$50,000 July 11, \$160,000 July 18 \$140,000. July 25 \$150,000. September 19 \$15,211.27. Total \$734,693.

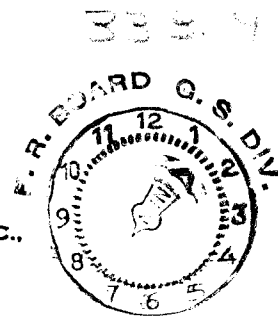
Heath

148pm,

Mr. Seward

TELEGRAM

FEDERAL RESERVE SYSTEM
(LEASED WIRE SERVICE)



RECEIVED AT WASHINGTON, D. C.,

OCT 31 1923
RECEIVED

127fot 25

Stlouis Mo 1205p Oct 31

Received _____ a. m.
Transcribed _____ p. m.
OK to file *JGN*

Eddy

Washn

Twill 399 October 30, 1923 since First this year have sold no acceptances in open market from our Portfolio.

Martin

126p

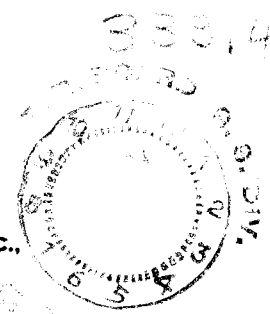
TELEGRAM

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)

Mr. General

RECEIVED AT WASHINGTON, D. C.,



49fr

Minneapolis Oct 31 1015a

Board

Washn

Received	a
Transcribed by	p. m.
OK to file	<i>SGH</i>

Twill 399 No sales of acceptances made since January 1, 1923.

Rich.

1120a

Wm. S. ...

TELEGRAM

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)

3-2-4

56fr 1c

RECEIVED AT WASHINGTON, D. C.,

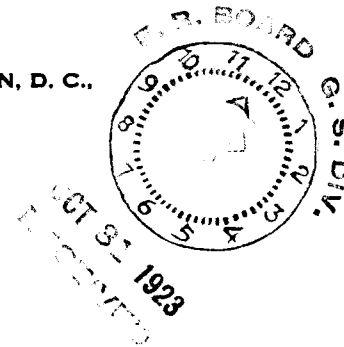
KansasCity Oct 31 1020a

Eddy

Washington.

Twill 399 No acceptances sold

McClure 1130a



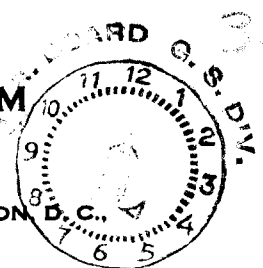
Received p. m.
Transcribed by
OK to Sta.	<i>JEA</i>

Mr Smead

TELEGRAM

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)



223fcq

RECEIVED AT WASHINGTON

Sanfrancisco oct 31, 1145am,

OCT 31 1923

Eddy

Washn

Referring your telegram no 399, We have not sold any acceptances
in open market our port folio since January 1, 1923.

Perrin

448pm,

Received _____ a. m.
Transcribed _____ p. m.
CK _____
[Signature]

*Account of
Salem Office*

333421
FEDERAL RESERVE BOARD
Board
333
333.4

TELEGRAM
FEDERAL RESERVE BOARD
LEASED WIRE SERVICE
WASHINGTON

October 30, 1923.

- ✓ Curtiss - Boston
- ✓ Jay - New York
- ✓ Austin - Philadelphia
- ✓ Wills - Cleveland
- ✓ Houston - Richmond
- ✓ McCord - Atlanta
- ✓ Heath - Chicago
- ✓ Martin - St. Louis
- ✓ Rich - Minneapolis
- ✓ McClure - Kansas City
- ✓ Talley - Dallas
- ✓ Ferrin - San Francisco

TRANS 399 Please wire Board amounts if any of acceptances sold in open market from your portfolio during cash week ending Wednesday since January 1, 1923. This statement should not include acceptances sold under repurchase agreements or acceptances sold to other Federal reserve banks.

NOT



all bills received

*Acceptances
Allotted*

2

FEDERAL RESERVE BANK
OF NEW YORK

3334
300
NOV 21 1922

IN REPLY PLEASE REFER
TO Disc - MJM

November 20, 1922.

Dear Sir:

We acknowledge receipt of your letter of November 18 regarding the telegraphic report of acceptances allotted to other Federal Reserve Banks.

We note that the Board will not require this information hereafter and will accordingly discontinue the dispatch of the telegram.

Very truly yours,

S. S. Vansant

S. S. Vansant,
Manager, Discount Department.

Mr. Walter L. Eddy,
Asst. Secretary, Federal Reserve Board,
Washington, D. C.

AEF *h*

333

November 18, 1922.

Dear Sir:

For some time past the Board has received telegraphic reports from your bank showing in thousands of dollars the amounts of acceptances allotted each day to other Federal reserve banks. Inasmuch as this information is shown in full on the daily statement of investments, which is received from your bank, the Board will not require the information to be telegraphed hereafter.

Very truly yours,

~~Walter L. Eddy~~
(Signed) W. L. Eddy
Walter L. Eddy,
Assistant Secretary.

Mr. S. S. Vansant,
Manager, Discount Department,
Federal Reserve Bank,
New York, N. Y.



V 2431
FEDERAL RESERVE BOARD
333 4

FEDERAL RESERVE BOARD
WASHINGTON

October 16, 1922.
St. 3105.

SUBJECT: Revised Form A, Monthly
Report of Discount and
Open Market Operations.

Dear Sir:

In accordance with the Board's letter
St. 3057, dated September 26, there is enclosed
herewith a supply of Form A, to be used in sub-
mitting the monthly report of discount and open
market operations beginning with October 1922.

Very truly yours,

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

Enclosure

(Letter to all F. R. Agents)

Form No. 131.

Office Correspondence

FEDERAL RESERVE
BOARD

Date December 5, 1921.

To Governor Harding.

Subject:

From Mr. Smead.

33221
5304
2-8496

Attached hereto is a statement showing the amount of bankers' acceptances, purchased by each Federal reserve bank during October 1921, classified according to import, export, and domestic trade transactions, and according to general classes of commodities which the acceptances were used to finance. It will be noted that of the total amount of acceptances purchased during the month \$36,000,000, or 26 per cent represented import transactions, \$47,000,000, or 34 per cent - export transactions, and \$44,000,000, or 32 per cent domestic transactions, while about \$7,000,000 represented dollar exchange bills, and \$5,000,000 - acceptances in the foreign trade which were not classified as to import and export transactions on the banks' investment schedules.

In regard to the commodity classification, it will be noted that a very large percentage of the acceptances purchased by the New York Bank are classified as miscellaneous. This is due to the fact that no information regarding the underlying commodities is shown on New York schedules covering acceptances taken under so-called repurchase agreements. The Federal Reserve Banks of Kansas City and San Francisco also fail to show commodities for acceptances purchased locally, i.e., not through another Federal reserve bank.

There are certain difficulties in connection with the classification of acceptances taken under repurchase agreements, as for example, brokers who have sold acceptances to the Reserve bank under a repurchase agreement frequently ask permission to take up certain of the acceptances within two or three days from the day they were acquired by the Reserve bank, and later on either sell the same acceptances to the Reserve bank under another repurchase

Form No. 131.

Office CorrespondenceFEDERAL RESERVE
BOARD

Date _____

To _____

Subject: _____

From _____

2-8496

- 2 -

agreement or sell them outright. If these acceptances were included in a commodity classification, the figures would be misleading to a certain extent because of the duplications which they would contain. It is possible of course for the New York Bank to "bar-mark" all acceptances purchased and to indicate by a special symbol on schedules furnished the Board those acceptances which are purchased for the second time. This, however, would require a considerable amount of work.

In case, however, you desire a commodity classification of all acceptances bought in the open market the matter will be taken up with New York with the view of making some practical arrangement regarding acceptances taken under repurchase agreements. There should be no difficulty in having the Kansas City and San Francisco Federal Reserve Banks indicate commodities on schedules covering acceptances purchased locally.

COMMODITY CLASSIFICATION OF
BANKERS' AND TRADE ACCEPTANCES PURCHASED BY EACH FEDERAL RESERVE BANK DURING OCTOBER, 1921.

(In thousands of dollars)

Classification	Boston	New York	Phila- delphia	Cleve- land	Rich- mond	Atlanta	Chicago	St. Louis	Minnea- polis	Kansas City	Dallas	San Francisco	TOTAL
<u>SUMMARY</u>													
Imports	4,293	25,981	2,398	880	--	--	368	131	--	--	--	1,740	35,791
Exports	2,840	28,001	3,472	1,449	932	2,516	5,690	163	--	--	--	2,052	47,115
Domestic	5,770	22,813	2,558	1,702	2,007	1,367	4,352	460	--	882	155	2,145	44,211
Unclassified foreign	150	3,366	--	152	--	225	216	--	--	691	--	207	5,007
Dollar Exchange	827	5,117	350	300	--	--	--	--	--	--	--	363	6,957
Total - - - - -	13,880	85,278	8,778	4,483	2,939	4,108	10,626	754	--	1,573	155	6,507	139,081

Acceptances based on imports.

COMMODITIES

Wheat and wheat flour	--	--	--	--	--	--	--	--	--	--	--	--	--
Other foods and kind- red products - - -	3,158	4,064	1,069	359	--	--	64	81	--	--	--	231	9,026
Cotton (unmanufactured)	--	--	125	--	--	--	--	--	--	--	--	30	155
Other textiles and their products - -	251	1,551	319	96	--	--	--	--	--	--	--	16	2,233
Metals and metal pro- ducts - - - - -	--	50	135	--	--	--	--	--	--	--	--	--	185
Chemicals and allied products - - - - -	14	57	--	30	--	--	--	9	--	--	--	19	129
Coal and coke - - - -	--	--	--	--	--	--	--	--	--	--	--	--	--
Tobacco and manufactures	75	467	227	155	--	--	50	--	--	--	--	96	1,070
Leather and its finished products - - - - -	--	--	--	--	--	--	--	--	--	--	--	--	--
Miscellaneous - - - -	795	19,792	523	240	--	--	255	40	--	--	--	1,348	22,993
Total - - - - -	4,293	25,981	2,398	880	--	--	369	130	--	--	--	1,740	35,791

COMMODITY CLASSIFICATION OF
BANKERS' AND TRADE ACCEPTANCES PURCHASED BY EACH FEDERAL RESERVE BANK DURING OCTOBER, 1921.
(In thousands of dollars)

Classification	Boston	New York	Phila- delphia	Cleve- land	Rich- mond	Atlanta	Chicago	St. Louis	Minnea- polis	Kansas City	Dallas	San Francisco	TOTAL
<u>Acceptances based on exports.</u>													
<u>COMMODITIES</u>													
Wheat and wheat flour	577	679	500	264	--	--	54	11	--	--	--	122	2,207
Other foods and kin- dred products - - -	365	3,507	868	206	--	--	4,189	13	--	--	--	441	9,589
Cotton - (unmanufactured) - -	829	1,995	869	426	932	2,445	130	67	--	--	--	118	7,811
Other textiles and their products - -	17	99	10	51	--	--	--	--	--	--	--	--	177
Metals and metal products - - - - -	45	888	96	164	--	--	830	--	--	--	--	25	2,048
Chemicals and allied products - - - - -	42	262	28	50	--	71	30	--	--	--	--	13	496
Coal and coke - - - -	155	16	--	--	--	--	--	--	--	--	--	--	171
Tobacco and manufac- tures - - - - -	--	490	436	200	--	--	275	--	--	--	--	225	1,626
Leather and its fin- ished products - -	3	63	--	--	--	--	--	--	--	--	--	--	66
Miscellaneous - - - -	807	20,002	665	88	--	--	182	72	--	--	--	1,108	22,924
Total - - - -	2,840	28,001	3,472	1,449	932	2,516	5,690	163	--	--	--	2,052	47,115

COMMODITY CLASSIFICATION OF

BANKERS' AND TRADE ACCEPTANCES PURCHASED BY EACH FEDERAL RESERVE BANK DURING OCTOBER, 1921.

(In thousands of dollars)

	Boston	New York	Phila- delphia	Cleve- land	Rich- mond	Atlanta	Chicago	St. Louis	Minnea- polis	Kansas City	Dallas	San Francisco	TOTAL
<u>Acceptances based on domestic transactions</u>													
<u>COMMODITIES</u>													
Wheat and wheat flour	25	336	375	83	--	--	--	--	--	--	40	51	910
Other foods and kin- dred products - - -	395	950	957	312	1,291	52	3,940	120	--	--	--	336	8,353
Cotton - (unmanu- factured) - - - -	3,989	751	809	190	551	1,270	200	27	--	732	100	50	8,669
Other textiles and their products - -	484	423	364	138	--	--	--	--	--	--	15	49	1,473
Metals and metal products - - - - -	29	600	--	252	--	--	65	262	--	--	--	--	1,208
Chemicals and allied products - - - - -	423	308	4	350	--	45	--	37	--	--	--	--	1,167
al and coke - - - -	--	32	--	241	--	--	--	--	--	--	--	--	273
obacco and manu- factures - - - - -	--	9	--	27	--	--	50	--	--	--	--	--	86
Leather and its fin- ished products - -	37	--	--	--	--	--	--	--	--	--	--	--	37
Miscellaneous - - - -	388	19,404	49	109	165	--	97	14	--	150	--	1,659	22,035
Total - - - - -	5,770	22,813	2,558	1,702	2,007	1,367	4,352	460	--	882	155	2,145	44,211

Form No. 181.

Office Correspondence

FEDERAL RESERVE BOARD

Date July 22, 1921.

33221

To Governor Harding.

Subject:

From Mr. Smead.

333.4

*Get this with Harrison
Smead*

With reference to Mr. Harrison's letter regarding the manner of reporting sales of bankers' acceptances between Federal reserve banks, I desire to make the following comments:

The caption to which the Federal Reserve Bank of New York takes exception appears in the brief edition of the Federal Reserve Bulletin (page 245 of July Bulletin). The suggestion is that the first caption "Paper rediscounted with or sold to other Federal reserve banks ----" be changed to read "Paper rediscounted with or purchased by other Federal reserve banks ----". It is evident that whatever objection there may be to this caption would also apply to that used in the Board's weekly press statement whenever one Federal reserve bank sells acceptances to another. The caption "Paper rediscounted with or purchased by other Federal reserve banks" certainly could not be used on the liability side of the Board's press statement, and to use it in the statement published in the Bulletin would result in confusion, in that the figures in the first 4 columns represent paper rediscounted or sold by the banks listed, and not paper purchased by such banks.

When the Federal Reserve Bank of New York receives a request from another Federal reserve bank to purchase acceptances for its account, the New York Bank may either purchase such acceptances in the open market or sell them out of its own portfolio. In either case the gold reserves of the New York Bank are increased by the total amount of the acceptances sold to the Federal reserve bank making the request, and strictly speaking, no portion of such acceptances should be included in our tables showing inter-Federal reserve bank accommodation. It is very difficult, however, if not impossible, to distinguish between acceptances sold by the New York Bank from its portfolio at the request of other Federal reserve banks and acceptances sold for the purpose of improving its reserve position, since the New York Bank does not endorse acceptances sold to other Federal reserve banks whether sold for its accommodation or at the request of other reserve banks. We have experienced in the past considerable difficulty in making totals of acceptances sold to other Federal reserve banks agree with totals of acceptances purchased from other Federal reserve banks and if an attempt is made to classify acceptances sold to other Federal reserve banks according to whether or not they were purchased as an accommodation to the selling bank, it is doubtful whether the Division will be able under present methods to obtain a balanced statement.

The difficulty could be overcome if the New York Bank would adopt one of the two following courses:

First, Endorse all acceptances sold for the purpose of improving its own reserve position and not endorse acceptances sold at the request of other Reserve banks. Or,

Second, Rediscount paper discounted for member banks whenever it desired to obtain accommodation for the purpose of improving its reserve position, instead of resorting to the sale of acceptances.

In the latter case acceptances sold from portfolio would be entirely eliminated from our table showing inter-Federal reserve bank accommodation,

Form No. 131.

Office CorrespondenceFEDERAL RESERVE
BOARD

Date July 22, 1921.

To Governor Harding.

Subject:

From Mr. Smead.

2-0425

- 2 -

and no account would be taken of such sales in calculating adjusted reserve percentages.

In view of the fact that the Federal reserve banks now hold less than \$25,000,000 of bankers' acceptances and that the reserve ratio of the Federal Reserve Bank of New York (the only one which has ever sold acceptances to any extent for the purpose of improving its reserve position) ranges around 70 per cent, it would seem that the necessity for future sales of acceptances between Federal reserve banks for the purpose of obtaining accommodation is a remote possibility, and that, therefore, no material objection would be raised by the Federal Reserve Bank of New York to the plan outlined above.

As no acceptances are at present under sale between Federal reserve banks, the captions in our Bulletin will be changed to read "Bills rediscounted with other Federal Reserve Banks - - -", all reference to acceptances being omitted.

Form No. 131.

Office Correspondence

FEDERAL RESERVE
BOARD

333,4

Date July 19, 1921.To Mr. Smead
From Mr. Hoxton. *W.H.K.*Subject: Attached letter July 12th from
Mr. George L. Harrison.

2-5406

I recall that the subject matter of the attached letter was taken up with you at the time of the last Governors' Conference and that you made a memorandum relating to it. It seems to me that the two captions suggested by Mr. Harrison mean entirely different things, but however that may be, if you are in favor of the change, please get out a notice covering it. If you are not in favor of the change, Governor Harding desires that you speak to him about the matter.

333.4

FEDERAL RESERVE BANK
OF NEW YORK

Podder

RECEIVED
JUL 13 1921
OFFICE OF
THE DEPUTY GOVERNOR
JUL 12, 1921.

Dear Governor Harding:

You will no doubt remember that at the last Governors' Conference there was some discussion with respect to the manner of reporting sales of bankers' acceptances between the reserve banks. It was thought that it would be very desirable to have the report prepared in such manner as would not indicate that these acceptances purchased by another reserve bank at its own initiative would be considered the same as a rediscount for the purpose of improving the reserve position of the selling bank.

After some little discussion it was recommended that the caption of the Board's statement, which now reads "Paper rediscounted with or sold to other Federal Reserve Banks", be changed to read "Paper rediscounted with or purchased by other Federal Reserve Banks". While it was, I think, appreciated that the distinction between these two titles was extremely technical, it was felt nevertheless that the change in caption would perhaps prevent a misunderstanding, or at least forestall comment to the effect that the statement as prepared by the Board clearly indicated that these figures represent the sales made on the initiative of the selling bank rather than the buying bank.

No mention was made of this matter in the Board's letter of June 10, 1921, X-3140 and I am, therefore, writing to ask what, if any, action the Board contemplates with respect to this matter.

Very truly yours,

G. L. Harrison
Deputy Governor

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

*If Smalley has
not yet put out notice
not in favor of Governor*

FEDERAL RESERVE BOARD
WASHINGTON

June 10, 1921.

X-3140.

P. [unclear] #263

33221
3-3.4
333

SUBJECT: Comments by the Federal Reserve Board of recommendations made by Governors of the Federal Reserve Banks at their Conference with the Federal Reserve Board, April 12th to 15th, 1921.

Sir:

The Federal Reserve Board has examined the record of votes taken by the Governors of the Federal Reserve Banks on the topics considered at the Conference held in Washington, April 12th to 15th, 1921.

Those matters relating to fiscal operations and contemplating co-operation between the Treasury Department and the Federal Reserve System will be taken up by the Board with the Treasury Department, and you will be advised of the results in due course.

With a few exceptions, the Board concurs in the recommendations made by the Conference. The following matters are those which call for Board action or which require special comment. The paragraphs listed refer by number to corresponding paragraphs appearing in the minutes prepared by the Secretary of the Conference.

Paragraph 11: What arrangements should be made in cases where Federal Reserve Banks have presented to them Federal Reserve notes unsealed and unnumbered, but otherwise duly executed, which were apparently stolen within the Treasury Department and circulated, in view of the advice of the Treasurer that there is no provision for their redemption?

In view of the expression of the Governors at the Conference that they would be willing to redeem, under certain conditions, incomplete Federal Reserve notes as mentioned above in an amount not to exceed \$20,000 which may be presented to the Treasury for redemption, the Board has approved this action in order to prevent a possible discrediting of the Federal Reserve note circulation. The Board has advised the Treasury Department that the Federal Reserve Banks will redeem up to \$20,000 incomplete Federal Reserve notes with the understanding, however, that the Federal Reserve Banks do not admit of any liability in connection with the circulation of these incomplete notes and expect to be reimbursed ultimately by the Government for these advances.

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- 2 -

X-3140

The Board has further directed the Treasurer of the United States to forward any incomplete Federal Reserve notes which he has redeemed to the Federal Reserve Board's Division of Issue and Redemption, and has advised him that after the necessary verification and proof, the Board will reimburse him for the face amount of such notes up to \$20,000. The Board will then assess the Federal Reserve Banks the amount of such payments in the usual way, i. e., pro-rated on the basis of capital and surplus. The notes will be held by the Board for delivery to the Treasury when final disposition is made of the matter either through reimbursement by the employees of the Department or by an appropriation by Congress.

Paragraph 39: It was voted, (1), that a uniform practice be established in each Federal Reserve Bank with reference to the shipments of fit notes to other Federal Reserve Banks, the receiving bank to insure and pay shipping charges; and it was voted, (2), that each Federal Reserve Bank absorb the postage and shipping charges upon all unfit Federal Reserve notes sent by it to Washington for redemption, whether or not those unfit notes were issued by another Federal Reserve Bank.

The Board is of the opinion that the above action should be more far reaching and that the sending Federal Reserve Banks should absorb the cost of all shipments of Federal Reserve notes, whether fit or unfit, except the cost of insurance, which should be borne by the receiving Federal Reserve Bank, as heretofore. It is felt that this practice would eliminate many petty entries at the Federal Reserve Banks and that the expense would, in the long run, be practically equalized. In view of the fact that the Governors' Conference considered this matter and took the limited action above set forth, the Board is not inclined at this time to insist that the practice as approved by the Governors should be extended, but suggests that the matter be taken up for consideration at the next Governors' Conference.

The Board, therefore, approves the action of the Governors as set forth in paragraph 39 and rules that the said action shall be effective at all Federal Reserve Banks beginning July 1, 1921.

Paragraph 47: It was voted that the Federal Reserve Board be requested to advise the Federal Reserve Banks of its conclusions upon the question of uniform indorsements upon inter-district cash and collection items sent direct by member banks in one District to Federal Reserve Banks in other Districts.

The Board has placed this matter in the hands of its General Counsel and it is now receiving attention in connection with other matters of a like nature which were referred by the last Governors' Conference to a committee consisting of Mr. Harrison, Federal Reserve Bank of New York, Mr. Logan, Counsel of the Federal Reserve Board, and Mr. Walden, Federal Reserve Bank of Richmond.

- 3 -

X-3140

Paragraph 52: It was voted, (1), that it was the sense of the Conference that Federal Reserve Banks should adopt a plan whereby each Federal Reserve Bank shall wire each night the amounts of notes of each other Federal Reserve Bank counted and shipped by it, whether shipped to Washington or back to the bank of issue, credit for the amount of these notes to be given by the respective banks of issue as of that date; and (2), that the Federal Reserve Board be requested, with the recommendation of the Conference, to consider the advisability and, if legally possible, the adoption of a plan whereby each Federal Reserve Bank may deduct from the amount of its own notes outstanding the total amount of all Federal Reserve notes held by it, those issued by other Federal Reserve Banks, as well as its own.

The Board approves the first vote, as set forth above, and will deal with the matter in a separate circular, in which circular an effective date will be fixed. With reference to vote No. 2 above, the Counsel of the Board is of the opinion that the adoption of the suggested plan to permit each Federal Reserve Bank to deduct from the amount of its Federal Reserve notes outstanding the total amount of Federal Reserve notes of other banks held by it would contravene the provisions of Section 11(a) of the Federal Reserve Act which requires that the weekly statement published by the Federal Reserve Board shall "show in detail the assets and liabilities of the Federal Reserve Banks, singly and combined."

Paragraph 53: It was voted, (1), that free wire transfers over the leased wire system be limited to a minimum amount of \$1,000, and that anything below that minimum be transferred over commercial wires at the expense of the member bank; and (2), that telegraphic advices relating to collections be limited to a minimum of \$100.00, and that advices relating to collections below that minimum be transmitted over commercial wires at the expense of the member bank.

The Board disapproves the above vote. It rules that free wire transfers and telegraphic advices shall not be arbitrarily limited and is of the opinion that the Federal Reserve Bank should handle personally and individually those member banks which are inclined to abuse or make a nuisance of the privilege.

Paragraph 54: It was voted that the proposed pension plan be approved and that it be referred to the Federal Reserve Board for action, subject to such satisfactory adjustment of the suggestions made by Senator Smoot as might be effected by the special committee appointed by the Conference.

Mr. Curtis of New York has prepared a bill for introduction to Congress covering this matter. This bill has been approved in general, except with regard to the insurance feature, by the Federal Reserve Board.

Paragraph 60: It was voted that the recommendation of the last Conference regarding the appointment of eligibility committees in the several Federal Reserve Banks be affirmed and carried out by each of the Federal Reserve Banks, -that is, that each Federal Reserve Bank appoint an eligibility committee which shall report to all other Federal Reserve Banks any paper of general circulation which it holds to be ineligible.

The Board concurs in the above and fixes July 1st as the effective date for the above action.

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Paragraph 63: It was voted that acceptances made by banks which have defaulted or refused to honor their confirmed or irrevocable commercial letters of credit be referred to the eligibility committee of the Federal Reserve Bank to which they are presented for discount or purchase, for the ascertainment of the facts relating to the alleged default or dishonor; and if the accepting bank is found to be guilty of such default or dishonor with respect to other credits, all Federal Reserve Banks be advised of that fact, with the understanding that such Federal Reserve Banks will not purchase any acceptances of such a bank.

The Board disapproves the last sentence of the above quotation, since it is felt to be improper for the Federal Reserve Banks to enter into any agreement in advance as to the paper of any particular bank which they will or will not purchase; all such cases, however, should be immediately reported to the Board.

Paragraph 67: It was voted that the Federal Reserve Board be requested to recommend an amendment to the terms of Section 5202 of the Revised Statutes by eliminating the words "payable abroad" from the terms of the 7th exception of that Section.

The above action has been approved by the Board, upon the recommendation of its law committee, and the following proposed amendment has been prepared by General Counsel and submitted to Congress:

A BILL

To amend Section 5202 of the Revised Statutes of the United States.

BE IT ENACTED BY THE SENATE AND HOUSE OF REPRESENTATIVES OF THE UNITED STATES OF AMERICA IN CONGRESS ASSEMBLED, That Section 5202 of the Revised Statutes of the United States, as amended, be further amended by striking out the words "payable abroad" in the seventh exception enumerated in said section so that said exception will read as follows:

"Seventh. Liabilities created by the indorsement of accepted bills of exchange actually owned by the indorsing bank and discounted at home or abroad."

Very truly yours,

Vice Governor.

To Governors of all Federal Reserve Banks.

5/6/21

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REGULATION B.
Series of 1921.
(Superseding Regulation B of 1920.)

OPEN MARKET PURCHASES OF BILLS OF EXCHANGE, TRADE ACCEPTANCES, AND BANKERS' ACCEPTANCES, UNDER SECTION 14.

5/6/21

I. GENERAL STATUTORY PROVISIONS.

Section 14 of the Federal Reserve Act provides that Federal Reserve Banks under rules and regulations to be prescribed by the Federal Reserve Board may purchase and sell in the open market, at home or abroad, from or to domestic or foreign banks, firms, corporations, or individuals, bankers' acceptances, and bills of exchange of the kinds and maturities made eligible by the act for rediscount, with or without the indorsement of a member bank.

II. GENERAL CHARACTER OF BILLS AND ACCEPTANCES ELIGIBLE.

The Federal Reserve Board, exercising its statutory right to regulate the purchase of bills of exchange and acceptances, has determined that a bill of exchange or acceptance, to be eligible for purchase by Federal Reserve Banks under this provision of section 14, must have been accepted by the drawee prior to such purchase unless it is either accompanied or secured by shipping documents or by warehouse, terminal, or other similar receipt conveying security title or bears a satisfactory banking indorsement, and must conform to the relative requirements of Regulation A, except that—

(a) A bankers' acceptance growing out of a transaction involving the importation or exportation of goods may be purchased if it has a maturity not in excess of six months, exclusive of days of grace, provided that it conforms in other respects to the relative requirements of Regulation A, and

(b) A bankers' acceptance growing out of a transaction involving the storage within the United States of goods actually under contract for sale and not yet delivered or paid for may be purchased, provided that the acceptor is secured by the pledge of such goods; and provided further that the acceptance conforms in other respects to the relative requirements of Regulation A.

III. STATEMENTS.

A bill of exchange, unless indorsed by a member bank, is not eligible for purchase until a satisfactory statement has been furnished of the financial condition of one or more of the parties thereto.

A bankers' acceptance, unless accepted or indorsed by a member bank, is not eligible for purchase until the acceptor has furnished a satisfactory statement of its financial condition in form to be approved by the Federal Reserve Bank and has agreed in writing with a Federal Reserve Bank to inform it upon request concerning the transaction underlying the acceptance.

FEDERAL RESERVE BOARD.WASHINGTON, *May 6, 1921.*

The Federal Reserve Board transmits herewith its Regulation B, Series of 1921, superseding Regulation B, Series of 1920, relating to open-market purchases by Federal Reserve Banks of bills of exchange, trade acceptances, and bankers' acceptances under section 14 of the Federal Reserve Act. The new regulation is issued primarily for the purpose of permitting Federal Reserve Banks until further notice to purchase in the open market bankers' acceptances with maturities not in excess of six months, which grow out of transactions involving the importation or exportation of goods. Heretofore three months has been the maximum maturity of acceptances eligible for purchase by the Federal Reserve Banks. This amendment to the Board's regulation was recommended by the Federal Advisory Council at its conference in February, 1921, and by the Governors of the Federal Reserve Banks at their conference in April, 1921.

Two considerations have led the Board to take this action: (1) The desire to widen the acceptance market by meeting the wants of savings banks and similar purchasers of bankers' acceptances who are now deterred from investing in acceptances of longer than three months' maturity, because of the lack of authority of Federal Reserve Banks to purchase longer maturities up to six months; (2) to provide more ample facilities for financing import and export trade with countries where either normal conditions or present abnormal conditions indicate the desirability of rendering assistance by making acceptances of maturities not exceeding six months eligible for purchase by Federal Reserve Banks. While the Federal Reserve Banks would, under ordinary conditions, prefer to confine their investments to paper of short maturity, that is, not exceeding three months, it is believed that the present emergency in the foreign trade situation would be relieved by a more liberal practice. Vigilant care, however, should be exercised by Federal Reserve Banks in purchasing acceptances of long maturities, in order that the liquidity of the aggregate investment in acceptances held by them should not be affected. In amending its regulation in the manner described, the Board looks to the good banking judgment and discretion of the accepting banks and of the Federal Reserve Banks to avoid any untoward results. To avoid misunderstanding, the Board desires to add that the results of this widening of the investment powers of the Federal Reserve Banks will be followed closely, with a view to such modification of its rules or amendment of its regulations as future developments may indicate to be necessary.

The Board has also taken this occasion to make another slight amendment to Regulation B so that its terms will more clearly indicate the Board's purpose in permitting Federal Reserve Banks to purchase in the open market bankers' acceptances growing out of the domestic storage of goods other than readily marketable staples.

W. W. HOXTON,
Secretary.

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W. P. G. HARDING,
Governor.

[OVER.]

REGULATION B.

Series of 1921.

(Superseding Regulation B of 1920.)

OPEN MARKET PURCHASES OF BILLS OF EXCHANGE, TRADE ACCEPTANCES, AND BANKERS' ACCEPTANCES, UNDER SECTION 14.**I. GENERAL STATUTORY PROVISIONS.**

Section 14 of the Federal Reserve Act provides that Federal Reserve Banks under rules and regulations to be prescribed by the Federal Reserve Board may purchase and sell in the open market, at home or abroad, from or to domestic or foreign banks, firms, corporations, or individuals, bankers' acceptances, and bills of exchange of the kinds and maturities made eligible by the act for rediscount, with or without the indorsement of a member bank.

II. GENERAL CHARACTER OF BILLS AND ACCEPTANCES ELIGIBLE.

The Federal Reserve Board, exercising its statutory right to regulate the purchase of bills of exchange and acceptances, has determined that a bill of exchange or acceptance, to be eligible for purchase by Federal Reserve Banks under this provision of section 14, must have been accepted by the drawee prior to such purchase unless it is either accompanied or secured by shipping documents or by warehouse, terminal, or other similar receipt conveying security title or bears a satisfactory banking indorsement, and must conform to the relative requirements of Regulation A, except that—

(a) A bankers' acceptance growing out of a transaction involving the importation or exportation of goods may be purchased if it has a maturity not in excess of six months, exclusive of days of grace, provided that it conforms in other respects to the relative requirements of Regulation A, and

(b) A bankers' acceptance growing out of a transaction involving the storage within the United States of goods actually under contract for sale and not yet delivered or paid for may be purchased, provided that the acceptor is secured by the pledge of such goods; and provided further that the acceptance conforms in other respects to the relative requirements of Regulation A.

III. STATEMENTS.

A bill of exchange, unless indorsed by a member bank, is not eligible for purchase until a satisfactory statement has been furnished of the financial condition of one or more of the parties thereto.

A bankers' acceptance, unless accepted or indorsed by a member bank, is not eligible for purchase until the acceptor has furnished a satisfactory statement of its financial condition in form to be approved by the Federal Reserve Bank and has agreed in writing with a Federal Reserve Bank to inform it upon request concerning the transaction underlying the acceptance.

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FEDERAL RESERVE BOARD.

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Two considerations have led the Board to take this action: (1) The desire to widen the acceptance market by meeting the wants of savings banks and similar purchasers of bankers' acceptances who are now deterred from investing in acceptances of longer than three months' maturity, because of the lack of authority of Federal Reserve Banks to purchase longer maturities up to six months; (2) to provide more ample facilities for financing import and export trade with countries where either normal conditions or present abnormal conditions indicate the desirability of rendering assistance by making acceptances of maturities not exceeding six months eligible for purchase by Federal Reserve Banks. While the Federal Reserve Banks would, under ordinary conditions, prefer to confine their investments to paper of short maturity, that is, not exceeding three months, it is believed that the present emergency in the foreign trade situation would be relieved by a more liberal practice. Vigilant care, however, should be exercised by Federal Reserve Banks in purchasing acceptances of long maturities, in order that the liquidity of the aggregate investment in acceptances held by them should not be affected. In amending its regulation in the manner described, the Board looks to the good banking judgment and discretion of the accepting banks and of the Federal Reserve Banks to avoid any untoward results. To avoid misunderstanding, the Board desires to add that the results of this widening of the investment powers of the Federal Reserve Banks will be followed closely, with a view to such modification of its rules or amendment of its regulations as future developments may indicate to be necessary.

The Board has also taken this occasion to make another slight amendment to Regulation B so that its terms will more clearly indicate the Board's purpose in permitting Federal Reserve Banks to purchase in the open market bankers' acceptances growing out of the domestic storage of goods other than readily marketable staples.

W. W. HOXTON,
Secretary.

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W. P. G. HARDING,
Governor.

[OVER.]

FEDERAL RESERVE BOARD
WASHINGTON

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X-3060
March 3, 1921.

SUBJECT: Monthly Summary of Local Acceptance Market Conditions.

Dear Sir:

The Board is informed that the American Acceptance Council has requested each Federal Reserve Agent to furnish it on the 15th of each month with a two hundred word statement of conditions in the local acceptance market. The Board is of the opinion that a study of conditions in the local acceptance market is highly desirable and that it would be well to include each month in the regular report of business and banking conditions a summary of the situation with respect to acceptances.

The Board believes, however, that the Publicity Departments of the Federal Reserve Banks should not act as agencies of private organizations, even though an organization be one as useful and co-operative as the American Acceptance Council. If this were permitted it might be difficult to draw the line against other requests and an embarrassing situation might arise. The Board understands that the monthly reports will now be sent regularly to the Division of Analysis and Research and would suggest that the information desired be given to the American Acceptance Council by the Division of Analysis and Research as soon as the monthly reports of business and banking conditions are received from the several Federal Reserve Banks.

Very truly yours,

G o v e r n o r

TO ALL FEDERAL RESERVE AGENTS.

released for publication Sunday morning, February 27, 1921; not earlier.

St. 1814c.

RESOURCES AND LIABILITIES OF THE FEDERAL RESERVE BANKS AT CLOSE OF BUSINESS FEBRUARY 25, 1921.

(In thousands of dollars)

LIABILITIES

Federal Reserve Bank	Boston	New York	Phila.	Clevel.	Richm.	Atlanta	Chicago	St. Louis	Minn.	Kans. Cy.	Dallas	San Fran.	Total
Capital paid in	7,859	26,458	8,584	10,897	5,305	4,021	14,067	4,467	3,485	4,490	4,126	7,031	100,790
Surplus	15,711	56,414	17,010	20,305	10,561	8,343	28,980	8,346	6,980	9,159	6,033	14,194	202,036
Government deposits	7,663	23,390	601	5,889	1,552	1,925	6,750	3,719	2,552	3,396	2,448	3,099	62,984
Due to members - reserve account	109,737	655,730	108,186	148,472	56,973	44,434	251,965	64,187	43,296	79,321	49,455	111,163	1,722,919
Deferred availability items	36,655	79,110	44,896	51,359	37,236	18,698	56,316	33,027	12,906	43,483	26,696	29,429	469,811
Government deposits including foreign government credits	721	11,506	799	394	221	314	1,474	530	389	442	261	6,254	23,305
Total gross deposits	154,776	769,736	154,482	206,114	95,982	65,371	316,505	101,463	59,143	126,642	78,860	149,945	2,279,019
F. R. notes in actual circulation	265,717	796,383	260,274	312,502	150,218	165,284	497,763	122,984	71,223	100,195	66,020	243,143	3,051,706
F. R. Bank notes in circulation - net liability	16,943	37,798	19,052	20,853	9,231	12,791	31,383	7,562	6,688	12,194	5,928	8,902	189,325
All other liabilities	1,913	13,995	2,073	2,318	1,274	1,713	6,150	1,396	1,384	2,058	1,386	2,565	38,225
TOTAL LIABILITIES	462,919	1,700,784	461,475	572,989	272,571	257,523	894,848	246,218	148,903	254,738	162,353	425,780	5,861,101

MEMORANDA

Ratio of total reserves to net deposit and F.R. note liabilities combined, per cent	64.3	40.5	53.6	69.9	48.6	42.7	50.3	54.2	43.3	46.5	40.4	51.6	49.9
Contingent liability as endorser on discounted paper rediscounted with other Federal Reserve Banks	-	-	-	-	-	-	-	-	-	-	13,615	-	13,615
Bankers' acceptances sold to other F. R. Banks without endorsement	-	23,962	-	-	-	-	-	-	-	-	-	-	23,962
Contingent liability on bills purchased for foreign correspondents	1,168	8,100	1,280	1,312	784	576	1,904	752	432	768	416	736	18,228

FEDERAL RESERVE NOTES OUTSTANDING AND IN ACTUAL CIRCULATION

F. R. notes outstanding	279,314	919,011	273,287	329,146	156,124	171,286	531,956	143,323	73,106	107,965	70,660	293,295	3,348,473
F. R. notes held by banks	13,597	122,628	13,013	16,644	5,906	6,002	34,193	20,339	1,883	7,770	4,640	50,152	296,767
F. R. notes in actual circulation	265,717	796,383	260,274	312,502	150,218	165,284	497,763	122,984	71,223	100,195	66,020	243,143	3,051,706

DISTRIBUTION OF BILLS AND U. S. CERTIFICATES OF INDEBTEDNESS BY MATURITIES

	Within 15 days	16 to 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total
Bills discounted	1,455,023	222,558	397,788	283,234	37,651	2,396,254
Bills bought in open market	63,335	44,213	43,348	19,607	-	170,503
U. S. Certificates of indebtedness	8,324	4,407	9,036	5,350	234,393	261,510

Topic 4

RECOMMENDATIONS OF THE
FEDERAL ADVISORY COUNCIL
TO THE
FEDERAL RESERVE BOARD
FEBRUARY 22, 1921.

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BOARD FILE
X-3054
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TOPIC NO. 1. Should the Board exercise the authority given it in Section 16 of the Federal Reserve Act and impose an interest charge against Federal Reserve Banks on the amount of their Federal Reserve notes outstanding, less the amount of gold or gold certificates held by the Federal Reserve Agents as collateral security, and if so, what should the rate of interest be?

Recommendation:

The Council voted unanimously in the negative. The Council is of opinion that the argument of excessive earnings should not impel the Board to exercise its authority to impose an interest charge against Federal Reserve Banks on the amount of Federal Reserve notes outstanding. The Council believes that if an educational campaign is carried on stating that the earnings of the Federal Reserve Banks are used for the purpose of reducing the amount of government bonds outstanding particularly the Liberty Loan and Victory notes, it would dissipate any unwarranted criticism concerning excessive earnings made by Federal Reserve Banks, and that it would not be difficult to convince the people that the earnings of the banks could not be used to any better purpose.

In this connection, and with the same point in view, the Council expressed itself unanimously against the proposition to permit the payment of interest on member banks reserve balances with Federal Reserve Banks. The high profits of the Federal Reserve Banks should not, in the opinion of the Council, lead to the payment of interest on balances which in the best interest of the system should be kept uninvested as far as may be practicable. If interest were paid it would act as a stimulant towards keeping the funds of the Federal Reserve Banks invested and it might

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therefore interfere with the proper conception on the part of those in charge of the Federal Reserve Banks, concerning their first duty to keep the Federal Reserve Banks in a condition of maximum strength.

TOPIC NO. 2. Should the Board establish for the year 1921 a tentative limit for each Federal Reserve Bank on the amount which it may rediscount with other Federal Reserve Banks?

Recommendation:

The vote of the Council was unanimously in the negative. The Council's opinion is that no limit should be placed on the amount which one Federal Reserve Bank may rediscount with other Federal Reserve Banks. The Federal Reserve System is one and indivisible and not twelve independent districts. The Council holds the view that the Board should exercise its own discretion and should not limit its own power of action by binding itself to definite rules, which, with conditions varying in the several districts and strongly fluctuating at this time, might fit one condition and one period but might prove embarrassing in others. The Council believes, however, that where Federal Reserve Banks are fairly regular rediscounters with other Federal Reserve Banks their discount rates should not be permitted to be lower than those prevailing with the Federal Reserve Banks granting the rediscounts.

TOPIC NO. 3. Should existing preferential rates on notes secured by Liberty Bonds and Victory notes be continued?

- (a) With respect to customers' paper rediscounted.
- (b) With respect to member banks' 15 day collateral notes?

Recommendation:

The Council is of opinion that for the time being it may be opportune to continue preferential rates on notes secured by Liberty Bonds and Victory notes, both (a) in respect to customers' paper discounted, and

-3-

X-3054

(b) in respect to member banks' 15 day collateral notes, but such preferential rates should be discontinued as soon as it can be done advantageously and without injustice.

TOPIC NO. 4. Section 14 permits any Federal Reserve Bank under rules and regulations to be prescribed by the Federal Reserve Board to purchase and sell in the open market 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. Section 13 provides that "any Federal reserve bank may discount acceptances of the kinds hereinafter described, which have a maturity at the time of discount of not more than three months' sight, exclusive of days of grace, and which are indorsed by at least one member bank".

Counsel is of opinion that the words "of the kinds and maturities by this Act made eligible for rediscount", in Section 14, apply only to bills of exchange which therefore cannot be bought where they have a maturity of more than three months, but that they do not apply to bankers acceptances and that consequently the Federal Reserve Board might legally issue regulations permitting the purchase by Federal Reserve Banks of bankers acceptances of six months' maturity. As a matter of sound banking policy does the Council advise the Board to issue such a regulation?

Recommendation:

The Council voted unanimously to advise the Board that in its opinion it should permit Federal Reserve Banks to purchase bankers acceptances drawn for the purpose of financing the importation and exportation of goods having a maturity up to six months. The Council understands that the Board has expressed its preference by ruling to have accepting banks, in cases where the transactions extend over a period in excess of three months, grant acceptance credits in the form of acceptances running as nearly as may be possible over the whole period involved in the liquidation of such transactions not to exceed six months, rather than favoring the granting of acceptance credits extending over ninety days with the privilege of one renewal. This ruling will force the accepting banks to issue their acceptances for periods in excess of three months, and it is most important that these acceptances when offered in foreign markets

-4-

X-3054

or in the United States should find a ready market and should not be penalized by being offered as ineligible bills. It is claimed that the open market might absorb these bills, but the rate for them in that case would be so unfavorable, and moreover the confidence in their ready salability would be so much weakened by the mere fact that the Federal Reserve Banks would not be regular purchasers of this class of paper, that it would seriously impair the ability of American Banks to establish themselves in foreign markets as acceptance bankers able to compete with England. In our opinion it is no more than logical and right for the Board to follow up its ruling with the granting of the power to Federal Reserve Banks to purchase eligible acceptances financing the importation and exportation of goods and having a maturity of from three to six months.

TOPIC NO. 5. Under authority given in Section 13 of the Federal Reserve Act the Board has authorized member banks to accept drafts or bills of exchange having not more than three months sight to run, drawn by banks or bankers in Central American and South American countries for the purpose of furnishing dollar exchange as required by the "usages of trade" in those countries. Within the past few days the Board has authorized member banks to accept drafts in the same manner for banks or bankers in Australia, New Zealand and other Australasian dependencies, having received assurance that there is now a "usage of trade" in these dependencies which requires dollar exchange. Will the "usages of trade" in European countries likely lead to requests for the extension of these privileges to those countries, and if so, what should the policy of the Board be regarding such applications?

Recommendation:

The Council expressed itself unanimously in favor of endorsing the Board's action in authorizing member banks to accept dollar exchange drafts for banks in Australasia in addition to the authority already granted them to accept in like manner for banks in Central and South American countries. With respect to the question asked by the Board whether such power should be extended to banks in European countries the

-5-

X-3054

Council is of opinion that this should not be done. The Council does not favor the granting of this power to countries where there exists a system of a large number of highly developed banks of great financial strength which could easily issue drafts for the purpose of furnishing exchange to an extent which might become embarrassing to the Federal Reserve System, and moreover it would appear impossible in these countries, where stock exchange and financial transactions are highly developed, to provide for safeguards which would prevent the abuse of facilities so offered by financing stock exchange loans and other financial transactions not directly involved in export or import operations; nor does it appear that in the exportations of Europe to the United States there are regular seasonal movements which would warrant the drawing of finance drafts in anticipation of exportations such as exist in the United States with respect to cotton or similar crops. The Council feels that the power to accept for the furnishing of dollar exchange should be restricted to such Colonial countries and dependencies and countries on this hemisphere as, after proper investigation, may seem entitled to the granting of the privilege.

ADDITIONAL RECOMMENDATIONS

TOPIC No. 6

Recommendation:

Resolved that in view of the grave economic conditions abroad and the influence they will exercise upon the future trend of American commerce and trade it is the sense of this Council that it might be advisable for the Federal Reserve Board to appoint a suitable representative to visit European countries for the purpose of making a thorough first hand

-6-

X-3054

investigation and report of the social, economic and financial situation of those countries.

TOPIC NO. 7.

The Council wishes to go on record again that in their opinion the office of the Comptroller of the Currency should be abolished and the duties pertaining to this office should be taken over by the Federal Reserve Board and that the number of appointive members of the Board be increased from five to six.

The Council favors the creation of the office of an Under-Secretary of the Treasury in charge of financial matters who would take the place of the Secretary of the Treasury as an ex-officio member of the Federal Reserve Board, the Governor of the Federal Reserve Board, who would act as its chairman, to be chosen by the Board itself from its appointive members.

Resolved that the Executive Committee, or a subcommittee, not exceeding four, of which the President and Vice President shall be members, to be appointed by the President, communicate these views of the Council to the incoming Secretary of the Treasury and to the chairmen of the proper committees of Congress and that it point out the importance pending the proposed legislation, of appointing a comptroller of the currency who could qualify as a member of the Board in case amendments on lines as proposed should be enacted.

Resolved Further That the executive committee or said subcommittee be hereby authorized and instructed to take such further steps to aid in the attainment of the aims above outlined as it may deem proper.

-7-

X-3054

TOPIC NO. 8.

With respect to discount rates it was Resolved that the Council does not favor at this time the reduction of any discount rates.

TOPIC NO. 9.

The Council suggested to the Board the cancellation of the rediscount rate for bankers acceptances. Rediscount rates for bankers acceptances now in force appear inoperative and anomalous in their relation to one another and to the open market rates for bankers acceptances. A rediscount rate for bankers acceptances, if established at all, should logically be higher than the open market rate for such paper.

TOPIC NO. 10.

The Council urges upon Congress the necessity of the immediate enactment of legislation authorizing the Treasury to pay over to the railroads the sums due them, obviating the delay in those payments which at present seriously hampers the entire banking situation.

m No. 131.

Office Correspondence

FEDERAL RESERVE BOARD

Date December 28, 1920.

To Mr. Emerson
From Mr. Kocman

11/9/20
Subject: 333-333.4
X-2054
11/9/20

In accordance with your request I submit herewith digest of replies to Board's letter (X-2054) of November 9th, on the subject of "Broadening the Market for Bankers' Acceptances".

BOSTON

There has been a considerable amount of educational work done in this district toward a wider distribution of bankers acceptances, especially with the out-of-town bankers by personal contact through our opportunity to talk with them in this office. We have been consistent advocates of bankers acceptances as a secondary reserve and have never missed an opportunity to foster their use.

At a forum meeting of bank men held recently in Boston, the subject under discussion was bankers acceptances and was directed by a prominent bank official. This undoubtedly reached some bankers who had never been buyers of bills. This work of bill dealers has been extensively and intensively carried on by literature, letters and by personal solicitation.

One of the most successful means of extending the market has been our 15-day repurchase agreement which has enabled the bill dealers to carry more extensive portfolios and thereby attract more buyers.

Savings banks and trust companies are buying in increasing volume and are encouraged by bill dealers through their willingness to take back bills previously sold at any time.

As to figures, it is worthy of note that in 1919 at this season, we were carrying in our own portfolio approximately \$34,000,000 in acceptances and were not exceptionally free buyers owing to our reserve position at that time while now we hold but \$20,000,000 and are taking up the current heaviness in the district, as well as buying some bills that come from other districts.

ACCEPTANCE LIABILITY ON NOVEMBER 15, 1920

NEW ENGLAND

National Banks	51,897,000
Member Trust Companies	22,686,000
Non-Member Trust Companies	2,172,000
Other Corporations	10,193,000

Total 86,948,000

Acceptances held by Banks	
Held by F.R. Bank of Boston	23,965,000
Held by National Banks	23,483,000
	<u>47,448,000</u>

Acceptance liability November 17, 1919 109,735,000

- 2 -

PHILADELPHIA

In the last six months there has been a great increase in the amount of bankers' bills purchased by the banks in this district. Previous to that time, on account of the large borrowing from this bank by member banks, nothing was done to encourage the purchase of acceptances, on the contrary all our efforts were directed to effecting the liquidation of loans by our member banks for the purpose of reducing their borrowings here, but since the change occurred in our condition we have been endeavoring to have banks, that were not borrowing from us, use a portion of their funds for the purchase of bills, in which endeavor we feel we have been quite successful.

In order to enlarge the market and insure a sufficient supply to meet the demands, we believe it will be necessary, in the near future, for us to arrange to carry several millions of dollars of bills which could be bought from us at any time by those dealing in such bills. This would prevent delay in filling orders for the purchase of bills and make investing in them more attractive to our banks.

We hope, in the near future, that there will be a law passed in this state permitting savings funds to invest in bankers bill. This would enlarge our market very much.

When there is a further improvement in the condition of our banks we expect to make a more systematic effort to interest them in the purchase of these bills, and believe we will find a market in the district for many millions of them unless the rates should go too low.

CLEVELAND

Otis & Company, who have established a department for the handling of bankers' acceptances in this district, and who makes the bulk of the sales, reports a turn-over of a \$1,000,000 a week. They estimate that the New York sales are in the same amount throughout this district. The demand for acceptances has doubled in the last six months.

Wherever the opportunity is offered, our officers have suggested the desirability of bankers' acceptances as a secondary reserve. We have also brought to the attention of the country banks the additional desirability of these acceptances to banks that have not established an extensive credit department in that an unexpected increase in funds may be safely put to work without loss of time.

Our representatives from the Bank Relations Department are asked to report on all banks that are visited as to whether bankers' acceptances are purchased. This means that the representative calls to the attention of the visited bank the subject which often results in requests for advice and information. The information is given that we will purchase bankers' acceptances for their account if the name of the accepting bank is given and charge their account with us, and either hold the acceptances purchased in our Custodies Department or forward to them as instructed.

It is not unusual for the representatives of the Bank Relations Department to be given access to the books of the member banks. In cases

- 3 -

where these banks show unusual amounts of uninvested funds, it is suggested that these funds might well be invested in bankers' acceptances.

Our Bank Relations Department has probably done more towards a wide distribution of bankers' acceptances than any other vehicle that has been used, and we are daily receiving requests from small institutions to purchase acceptances for their credit. The aggregate of this amount is not yet large, but is growing, and it is not unusual to have several such requests in one day.

Much of this same information is given to non-member banks through addresses at group meetings, conferences and whatever opportunity offers. It is possible, however, that something more could be done to encourage the sale of acceptances among non-member banks, but I am afraid that an active campaign through the medium of the Federal Reserve Bank of Cleveland might be resented. To further the sale of acceptances, the Federal Reserve Bank of Cleveland has arranged with Otis & Company to carry on a repurchase agreement, purchases to the amount of \$500,000. ~~As indicated in the office copy of this letter, this firm is now able to turn this amount twice each week.~~ This firm is now able to turn this amount twice each week.

It is probable that if a company (not an accepting company) were formed with sufficient capital to carry a larger amount of acceptances than the local dealer is willing to do, and to secure the cooperation of banks through the district by forming acceptance syndicates, it would be possible to materially increase the market, but it is doubtful if the time is yet ripe for such a company.

It was thought that the methods pursued by our Bank Relations Department were the most effective means that could be used, and that the results have justified this opinion.

RICHMOND

We have adopted and until this time followed the practice of purchasing acceptances direct from the accepting banks because, first, there is not enough money seeking investment in this district to properly establish an open market for bankers' acceptances and, second, it is our wish and purpose to keep in the closest possible touch with the accepting banks.

We recognize the fact that as a general rule the acceptances purchased by a Federal Reserve Bank should have the endorsement of some bank other than the accepting bank but until the conditions in this district make it possible to establish an open market we will continue our practice of purchasing from the accepting banks.

Since steps have been taken to eliminate the use of bankers' acceptances for commodity loans, the acceptance business has gravitated from the smaller banks toward the larger institutions.

Our holdings of bankers' acceptances have decreased gradually from \$11,280,000 in January 1920, to \$5,710,000 in November 1920. There is some indication that acceptances instead of being offered to us are sold in the open market or sold directly to other banks; but as these have not been offered to us for rediscount, it is impossible for us to estimate the total amount of acceptances in existence.

Due to the increased exportation of grain through Baltimore, the Baltimore banks have carried a larger amount of bankers' acceptances as investments. We know that this has been done to a considerable ex-

- 4 -

tent but we have no data from which to estimate the total volume.

Recently our Baltimore Branch reported inquiries from some Maryland and West Virginia banks as to whether we could supply them with bankers' acceptances from our portfolio or whether we could invest surplus funds for them in bankers' acceptances to be bought by us in the open market. Both these proposals were rejected. We did, however, advise these banks of several reliable note brokers who deal in bankers' acceptances from whom they could obtain these investments. We will also purchase acceptances for the account of any bank provided they wire us the request and specify the banks whose acceptances they wish us to purchase. The Richmond office also follows this practice.

ATLANTA

There was very little business being done in this district relative to bankers' acceptances, due to the fact that all of our member banks are very largely loaned up in taking care of conditions which have arisen from the non-marketing of the crops, and that none of the banks are in position to buy bankers' acceptances at this time.

We have been endeavoring to educate our member banks to the purchase of bank acceptances, and last spring some business was done in this direction when the banks had idle funds. I believe that we would be enabled to broaden the market when like conditions return; but under present conditions, there is very little opportunity of broadening the market on bankers' acceptances in this district.

CHICAGO

I have been informed by three of the principal bill dealers in Chicago that the market has improved greatly during the last year, and that the volume of sales and distribution is showing a steady increase.

Comparative sales made month by month during 1919 and 1920 show an increase this year of well over 100% in volume, and 150% in the number of purchasers. Many corporations and individuals are now buyers of bills, and this is an encouraging feature in the development of the market.

Our part in the development of the market has been to grant the dealers lines of credit through repurchase agreements whereby we carry the bills for a period of fifteen days or less for the same rate that they pay for them. It is also our practice to encourage country banks which are in funds to purchase acceptances.

Our traveling representatives in the Department of Member Bank Relations have been encouraging all banks which are not borrowing heavily here to purchase bills, and the dealers inform us that a large number of the orders they receive are the result of solicitation on the part of our representatives.

The dealers are well satisfied with the progress that has been made in the development of the market during the year, especially in view of the strong demand for funds which has prevailed every since the early part of the year.

ST. LOUIS

In this district, as the larger banks that are familiar with acceptances transactions have not had surplus funds to invest, the market for bankers' acceptances has been very quiet for the past eight or ten months. In the Northern part of this district there are some smaller banks that have had surplus funds, but as yet we have not succeeded in

- 5 -

getting them to handle bankers' acceptances. They have preferred to purchase commercial paper at eight per cent. Banks in the Southern portion of this District, particularly in Memphis and Little Rock, normally have surplus funds to invest in the spring and summer months but due to the unusual conditions this year these banks have not had surplus funds to invest.

However, in spite of our reserve position we have maintained a market for bills in this district. With a view of encouraging St. Louis banks to accept, we have freely purchased or rediscounted or carried for brokers, bills created by St. Louis Banks.

We could have handled a larger volume of bankers' acceptances had we been willing to permit member banks to exchange indorsements and sell each other bills to this bank. This practice has seemed unwise to us, particularly at this time, especially as it would have a tendency to discourage the inter-district distribution of bills, which we believe desirable.

With a view of maintaining an open market and in an effort to encourage the purchase of bankers' acceptances, we have maintained a preferential rate of discount for indorsed bills which has been used from time to time by banks who were not borrowing in excess of their basic line. We have also maintained a rate for the open market purchase of such bills and bills bought by us under this rate have not been counted in the selling bank's line of credit, nor are they subject to our progressive discount rates.

We have at all times allowed brokers to carry with us under a re-purchase agreement any bills which they could physically deliver to us. We have required them to sell bills in this District or ship them to their correspondent within one fifteen day period. Under this policy it seems difficult for dealers to carry of varied assortment of bills to enable them to maintain the maturity requirements of their customers. It is our understanding that in some of the districts two fifteen day periods are allowed to brokers at times and that this helps the situation. It perhaps might be well for us to consider a change of policy along this line when we get in an easier reserve position. We are encouraging banks to create their acceptances in small amounts, as there are a number of banks in this District which we believe could buy bills if they were in denominations of \$2,500., \$5,000., or \$10,000., instead of in larger units.

MINNEAPOLIS

Our officers have spent considerable time, with purchasers of commercial paper, pointing out the advantages of bankers' acceptances. We believe some progress is being made toward broadening the market in this district in order to introduce this type of paper. We have in one or two cases sold direct to country banks. In most cases we have been encouraging country banks to purchase direct through bill brokers. We have an agreement with one brokerage concern for the purchase and release of bankers' acceptances under which they take back from us acceptances in small denominations as they have opportunity to place them with banks in the country. Most bankers in this section are unfamiliar with bankers' acceptances and it will take some time to educate them.

KANSAS CITY

The bankers of this district have dealt in acceptances only to a

limited extent. The principal part of outside paper purchased by banks of this district is represented by commercial paper, and on account of long practice they are slow to change their investments from this kind to that of acceptances. However, the banks have not had a surplus of funds for outside investment in this district for the past year, and the Federal Reserve Bank of Kansas City has done very little to encourage them to purchase bankers' acceptances on that account, and I feel it useless to bring this matter specifically before them until greater liquidation has been affected.

It is our opinion that these acceptances are purchased by no one in this district except the banks. No doubt, the Federal Reserve Bank can assist in broadening the market for investments of this kind as soon as the investing public and banks are in position to absorb more than the local demand.

DALLAS

We have undertaken, as far as practicable, to encourage the use of bankers' acceptances and their purchase by actual investors in this district, without, however, attaining any very large success. Heretofore, we have, too frequently I think, bought from banks their own acceptances at our current rate. We have given notice, however, of the discontinuance of this policy and of our unwillingness in the future to accept unendorsed bills, which will tend still further to limit the purchase of bankers' acceptances by this bank. In fact, our entire investments in bankers' acceptances at this time amounts to only \$215,000.00.

Quite a few of the banks in the country have issued their acceptances and have been able to place same among the small local banks in moderate amounts. In respect to some of the largest banks in the district, their acceptances have been offered and sold in New York and other cities.

The whole proposition of bankers' acceptances in this district is in its most rudimentary status and very little has been done generally to extend the use of this form of credit. Undoubtedly, a campaign of education is very much needed to broaden the acceptance market in this district. I am inclined to believe that our present policy of refusing to accept unendorsed bills will have the effect of imposing on the accepting banks the necessity of seeing that a broader market is made for the acceptances, which will probably bring about a broader distribution of them.

SAN FRANCISCO

Interest in this district in bankers' acceptances confined primarily to banks in large cities. Although few of these banks have at present surplus to invest, broadening of market is indicated by comparative statement of acceptances of other banks held by national banks in Federal Reserve and Branch cities given below:

	November 15, 1920	November 17, 1919
San Francisco	2,658,955.42	681,460.14
Los Angeles	201,950.00	none made
Portland	2,638,988.05	5,227,695.35
Seattle	2,785,848.82	1,326,928.73
Spokane	none	878,164.17
Salt Lake City	none	none
TOTAL	8,285,740.20	8,114,148.39

- 7 -

Although holdings in Portland show considerable decrease, one Portland national bank reports that it and its affiliated savings bank has purchased 14,840,000 bankers' acceptances in 1920 as compared with 4,557,000 in 1919.

Federal Reserve Bank of San Francisco is carrying most of bankers' acceptances created in this city. Most smaller banks in this district are not purchasing acceptances, either because executed in amounts too large for them to handle or because unacquainted with acceptances and their advantages.

We have followed no definite program of further bankers' acceptances in this district but officers of this bank have discussed, with banks having surplus funds, advisability of investment in acceptances and have discussed this subject at group meeting of bankers association. In 1919 it was proposed to extend investment service to member banks by offering to sell them bankers' acceptances from our portfolio but inauguration of this plan was deferred following receipt of your telegram of February 19, 1919, stating Board is not prepared to endorse such policy. Subsequent to receipt of your letter August 25, 1920, stating that Federal Reserve Bank may sell acceptances which it holds in its portfolio, we have sold \$2,214,000 bankers' acceptances to seven banks in this district.

As soon as liquidation has progressed somewhat further in this district, it is planned to attempt to secure wider distribution of holdings of acceptances and the knowledge concerning them by writing series of letters to banks in this district drawing attention to character of acceptances, advisability of purchasing them and offering to sell acceptances from our portfolio.

2

FEDERAL RESERVE BANK
OF NEW YORK

333

December 20, 1920.

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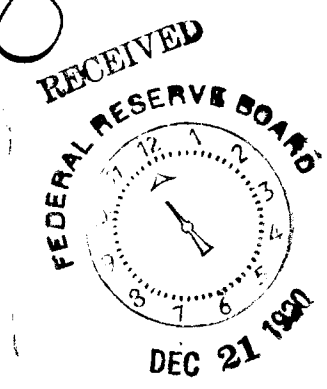
W. N. Hoxton, Esq.,
Secretary, Federal Reserve Board,
Washington, D. C.

Dear Mr. Hoxton:

I learned by telephone Saturday noon that the memorandum on our development of the acceptance market had been prepared for some time and had been held awaiting submission to me, so that I myself was unwittingly responsible for your not having received it earlier.

Yours very truly,

Pierre Jay
Pierre Jay
Chairman



PJ:R

MISC. 3.7-90M-1-20

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE November 30, 1920.

TO Mr. Jay, SUBJECT F. R. Bd. letter X-2054, Nov. 9,
1920 - "Broadening of market for bankers
FROM R. M. O'Hara. acceptances".

Attached hereto is a statement (Exhibit A) of the purchases and sales of bills by the acceptance dealers for the six months period ended November 13, 1920. This statement shows not only the dealers' total sales and purchases, but also the total amounts purchased from the various sources as well as the total amounts sold in their various outlets. It will be noticed that out of sales aggregating \$1,042,541,000. during this period, exclusive of those to us, \$690,963,000. was sold to banks and other investors in New York City. No statistics are available with regard to the amount of sales in the Second District outside New York City, but of the three largest dealers, one estimates roughly that approximately 25% of their out of town sales were made in the Second District, another estimates 6% and still another about 1%. Were we to take a rough average of 10%, it would show aggregate sales in the Second District of about \$726,120,000. out of total sales of \$1,042,541,000.

I also attach a statement (Exhibit B) showing the outstanding acceptance liability of the national and State banks in the Second District, and also the aggregate amounts of acceptances of other banks held in the portfolios of our member banks upon the dates of various calls from March 4, 1919, to September 8, 1920. It will be noticed that in eighteen months the number of banks in this district who held acceptances of other banks increased from 40 to 174. Statistics are not available to show the aggregate amount of bills held by other than member banks. Of such banks, however, savings banks have been probably the largest investors, and we learn that on June 1, 1920, fifty savings banks in New York State held approximately \$30,000,000. in bills. On July 16 the number of savings banks had increased to 69, with aggregate holdings of about \$66,700,000. Their investment in this class of paper is at present probably over \$70,000,000.

MISC. 3.1 90M-1-20

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE November 30, 1920.TO Mr. Jay, SUBJECT _____
FROM R. M. O'Hara. -2-

The marked increase in the number of member banks in this district which have become purchasers of bankers acceptances is due in large measure to the efforts of this bank. Early in 1919 we commenced an active campaign to bring to the attention of our member banks the value to them of bankers acceptances as a safe, liquid and profitable investment for their surplus funds, and to offer our services in making purchases of bills for their account. In September, 1919, our Member Bank Relations Department also made it part of their regular program to bring the matter of investment in bankers acceptances to the attention of our country members during their visits to them. Much credit is due to their work in this connection, which has materially helped in producing very gratifying results. In addition to the work of our Member Bank Relations Department, investment in bankers acceptances has been made for a considerable time past one of the topics at the group conferences held from time to time at this bank with our members. During luncheon at these conferences one of our officers addresses the visiting officers of our member banks on the subject. After the conferences, follow-up letters have been written to the banks represented, in which an outline is given of the character of bills which are offered in this market and the services which we render to our member banks in making purchases for their account. In addition to this, we take advantage of every appropriate occasion to recommend investment in bankers acceptances to the individual officers of our member banks when they are in this office on other matters of business and when the question comes up with regard to the most advantageous manner in which to invest their surplus funds. Furthermore, certain of the officers of this bank have been called upon from time to time to deliver addresses before various gatherings of bankers upon the subject of acceptances and the discount market, and have on such occasions taken the opportunity to call attention to the value of bankers acceptances as an investment. This bank has also through its officers cooperated closely with

MISC.3.1 90M-1-20

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE November 30, 1920.TO Mr. Jay, SUBJECT: _____
FROM R. M. O'Hara, -3-

the American Acceptance Council in its extensive program to educate bankers and other investors in general on this subject.

As an indication of the success which we have attained in educating our member banks to invest in bankers acceptances, at the beginning of the year 1919, practically none of our members was purchasing this form of paper. During the year 1919, we purchased acceptances for account of thirty-eight of our member banks in an aggregate amount of approximately \$4,000,000. Up to the present time, this year we have made purchases of acceptances aggregating approximately \$36,681,000. for 209 of our members. Our service in this connection comprises the initial purchases of the bills, which in practically all cases bear good banking endorsement and in all other respects are of the same character as those which we purchase for our own account. Purchases are made at the risk of our member banks at the current open market rates, and the cost of the bills is charged to their reserve accounts. Schedules showing the complete details are sent to them. The acceptances are usually held by us for collection and the proceeds credited to the accounts of our member banks at maturity. In cases where our members require funds before the maturity of the acceptances which they hold, while we make no definite commitment to purchase, we usually do take the bills ourselves ^{at our regular rates for bills of like character and maturity} and credit the proceeds. In addition to our efforts among our country members, we have taken advantage of every occasion which has arisen to encourage our member banks in this city to purchase bankers acceptances as liberally as possible, calling the attention of particularly those banks which have not been purchasers of bills, but which have had outstanding acceptance liability, that their duty as acceptors was very clearly that they should also be buyers.

In addition to having encouraged our member banks to purchase acceptances, we have also endeavored to have particularly our New York members adopt the practice

MISC. 3. 190M-1-20

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE November 30, 1920.

TO Mr. Jay,

SUBJECT:

FROM R. M. O'Hara.

-4-

of lending funds to the acceptance dealers at rates sufficiently favorable to enable them to carry their portfolios without loss. In August, 1918, a very acute situation developed here with regard to the acceptance dealers. Heavy offerings of bills in the face of little or no demand extended their portfolios to comparatively large amounts. At that time the dealers' ^{yield} ~~carrying~~ rate was ^{from 4 1/4 to} ~~approximately~~ 4 3/8% ~~discount~~ in the face of call money against securities at 6%. While some of the dealers were able to obtain moderate loans against their bills from one or two of the banks in the city at a favorable rate, they were obliged to borrow a large portion of their requirements at the regular call money rate. As a result they were sustaining a substantial loss in carrying their portfolios and arrived almost at the point of withdrawing from the business. This bank called a conference of a number of the larger banks in the city to see what might be done towards the extension of loans by the banks to the dealers against their bills. As this led to little or no action on the part of the banks, we ourselves relieved the dealers' position by making substantial purchases of bills from them at a favorable rate, under their agreements to repurchase them from us within 15 days at the same rate. Shortly after our action, Messrs. J. P. Morgan and Company made substantial loans also to the dealers at a preferential rate, and shortly thereafter several other banks and bankers adopted the same policy. The supply of outside money, however, has frequently not been in sufficient volume to meet the dealers' requirements, and they consequently have had to lean quite heavily upon us at times. While our efforts in this respect have proved very helpful to the market, much has still to be done towards increasing the supply of outside funds available to the dealers with which to carry their portfolios. Of this more will be said later.

This bank practically since its establishment has directed its efforts at all times toward the development of a broad, open discount market, and our policy and

MISC. 3. 90M-1-20

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE November 30, 1920.TO Mr. Jay,

SUBJECT: _____

FROM R. M. O'Hara.

-5-

practices cannot be better described than in the able replies to the Board's recent questionnaire by Mr. Paul M. Warburg on the "Practical Problems in the Development of Bankers Acceptances", which was published in booklet form by the American Acceptance Council. We have at all times extended an active support to the bill market both in our purchases of bills from the dealers as well as from our member banks and other banks and bankers who have qualified their endorsement with us. In making purchases from the dealers, we have had in view at all times the development of a larger and wider distribution of bills, and we have constantly encouraged them towards greater selling effort. We have endeavored to take from them no bills which we believed could be sold in the outside market and have purchased from them as far as possible only bills of comparatively short maturities and in such volume as appeared to be absolutely necessary to relieve their position when the outside market was not absorbing bills in volume equal to the supply. Bills, however, which have come through the market and which have been offered to us by our member banks and by other banks and bankers who have qualified their endorsement with us, we have taken freely with their endorsement in the endeavor to establish firmly the confidence that the bankers acceptance is an instrument of the most liquid character.

While a good deal has already been done to develop the discount market, there is much which may be yet accomplished to assist the further development of sales of bankers acceptances within this district and throughout the country. In this regard the following lines of action are suggested:

- (1) More liberal and more uniform laws governing the investment by insurance companies and savings banks of their surplus funds in bankers acceptances. As a specific instance, permission to New York State savings banks to buy bills of institutions other than those of banks, national banking associations or trust companies incorporated under the laws of the State of

MISC. 3. FORM-1-20

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE November 30, 1920.

TO Mr. Jay,

SUBJECT

FROM R. M. O'Hara. -6-

New York or under the laws of the United States and having their principal places of business in the State of New York. Under the present laws of New York State, while savings banks may purchase acceptances of the smallest banks in New York State, they are not permitted to purchase the acceptances of any of the great banking institutions located out of this State. It is self-evident that this might very properly be corrected. Furthermore, with regard to life insurance companies, under the laws, for instance, of New York State, such companies are not permitted to purchase bankers acceptances. As is well known, the purchasing power of insurance companies, particularly that of life insurance companies, is very large, and the aggregate amount of funds which they usually maintain in liquid condition and which, therefore, could be and we believe to a large extent would be invested in bankers acceptances would be of great assistance to the market. The aggregate resources at close of year 1919 of the life insurance companies of New York State alone were \$3,233,570,755. and their cash on hand was \$42,837,129.

- (2) The establishment of a system of term settlements for security transactions on the various stock exchanges throughout the country. This has already been made the subject of a favorable report by a committee appointed by the New York Stock Exchange to study the question. While no definite action has yet been taken, it is hoped that some such plan may be worked out within a reasonable time. This suggestion, however, is made with some reservation, in view of the fact that we have recently been informed that the London Stock Exchange will probably not

MISC. 3.1-90M-1-20

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE November 30, 1920.TO Mr. Jay, SUBJECT: _____
FROM R. M. O'Hara. -7-

return to their former system of term settlements, but will continue its practice of daily settlements which was adopted after the outbreak of the war; that the feeling has become somewhat pronounced in London financial circles that to return to a system of term settlements would be a retrograde measure.

- (3) The establishment of a more general call money market against bankers acceptances. Looking to the development of the discount market and the widest possible distribution of bills, it is of fundamental importance that the dealers should be able to carry large and diversified portfolios, to the end that they may supply investors with the particular amounts, names and maturities which may be desired. In order that the dealers may carry such portfolios, it is absolutely necessary that they should be able to obtain at all times a plentiful supply of funds at favorable rates. This is of the utmost importance and every effort should be made toward this end.

As indicated in the foregoing, the dealers have experienced in the past and are still experiencing considerable difficulty in obtaining from the banks in New York a sufficient volume of call money at preferential rates. I believe, however, that there is at practically all times here a more or less large volume of out of town money held by New York banks under instructions to lend it on call against stock exchange securities. We have been informed that there has recently been a considerable volume of funds offered on the exchange which could not be placed, owing to its being restricted to securities as collateral. At the same time, the bill dealers here were able to obtain their requirements only after considerable difficulty. It is thought that all that would be necessary to release such funds to the dealers would be to inform

MISC. S. F. FORM-1-20

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE November 30, 1920.TO Mr. Jay, SUBJECT:
FROM R. M. O'Hara. -8-

out of town lending banks of this condition, to the end that in placing money with their New York correspondents to loan at call, they stipulate that the funds are to be loaned against either securities or bankers acceptances. We believe that out of town banks would usually be quite willing and in some cases prefer to have their funds loaned against acceptances, particularly at times when money against securities is practically unlendable, as it was for several days recently and frequently is in normal times. It is suggested, therefore, that the banks throughout the country be informed through their respective Federal reserve banks or through the American Bankers Association or both that there is in New York a call money market against bankers acceptances as well as against securities.

This situation might further be assisted by the Federal reserve banks using their influence with their member banks to accomplish the desired result. It has also been suggested that the Federal reserve banks should extend their services in loaning of funds against acceptances for account of their member banks, and that a plan be worked out under which we, for instance, would place such funds with the acceptance dealers here against their bills, under instructions from any Federal reserve bank for account of one of its members. This might be a desirable service for Federal reserve banks to render until such time, at least, as there may be a sufficient volume of funds available to the dealers at favorable rates in the outside market.

- (4) Encourage the issuance of acceptances in well assorted denominations, say \$5,000., \$10,000. and \$25,000. The ultimate breadth and stability in the demand for bankers acceptances, we believe, will depend in large measure upon the combined buying power of a large number of banks and other investors throughout the country. It is, therefore, necessary that there be a sufficient volume of bills of moderately small denominations to meet the require-

MISC. 3-1-90M-1-20

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE November 30, 1920.TO Mr. Jay,

SUBJECT _____

FROM R. M. O'Hara.

-9-

- ments of the smaller investors.
- (5) Conduct a campaign of education designed to inform national and State bank examiners with regard to the value of bankers acceptances as a safe and liquid investment for banks' surplus funds as a second line of reserve. Much good work could be accomplished by the examiners who come into constant and close contact with the banks in their respective districts.
 - (6) The discouragement of the practice of some banks who act as dealers in their own bills. We understand that a number of our foremost institutions at the present time are acting as retailers of their own acceptances. This practice is particularly unfortunate where such banks sell their bills at the same rates offered for them by the dealers, who in the ordinary course would sell the bills at usually 1/8% profit. This not only deprives the dealers of their legitimate business but also delays investment and prevents a wider distribution.
 - (7) Amend Section 5202 of the National Bank Act in respect of the 7th provision thereof, which reads: "Liabilities created by the endorsement of accepted bills of exchange payable abroad, actually owned by the endorsing bank and discounted at home or abroad". This operates in favor of bills which are payable abroad, to the disadvantage of the development of the discount market in this country. At the present time, when our member banks sell bills to us with their endorsement, the liability thereby incurred is, we believe, exempt from the limitations of the Section; but when our member banks endorse bills and sell them elsewhere than to us, their endorsement does come within the limitations of the Section, although the contingent liability which

MISC.3:190M-1-20

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE November 30, 1920.

TO Mr. Jay,

SUBJECT

FROM R. M. O'Hara,

-10-

is incurred in both cases is similar. It would improve the market for endorsed bills and would result in a wider distribution were the liability incurred by national banks in endorsing accepted bills of exchange payable in this country placed on the same basis as similar bills payable abroad. This might be effected by deleting the words "payable abroad" from the 7th provision of Section 5202.

- (8) Bring to the attention of accepting banks throughout the country the nature of the obligation which they incur when issuing a letter of credit; that under no circumstances whatever except a violation of the terms of the credit should they decline to accept drafts drawn thereunder; that the ethics of a bankers acceptance credit be thoroughly appreciated and understood and be strictly adhered to in practice by all acceptors as well as by the takers of credit is of vital importance to the good name and continued use of the American dollar acceptance. This might properly be made the subject of a communication by the Federal Reserve Board or by the Federal reserve banks under the direction of the Board to all member banks. It might also be desirable to bring the question to the attention of the legal profession through the Bar Association or the Attorney General.
- (9) The issuance of a concise and authoritative statement by the Federal Reserve Board or by the various Federal reserve banks, setting forth the advantages of eligible bank acceptances from an investment point of view. While gratifying progress has been made in the Second District, there is without doubt much educational work which it would be advisable to have done among a large number of outlying banks in practically all sections of the country. An intensive campaign by all Federal reserve banks would probably be very

MISC.3.7-90M-1-20

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE November 30, 1920.TO Mr. Jay, SUBJECT _____
FROM R. M. O'Hara. -11- _____

beneficial. In the last analysis, it is not to the comparatively few very large institutions in the large centers, but to the great number of smaller institutions and individuals in all parts of the country that we had best look for the widest and most stable market.

- (10) A continuation of effort on the part of all Federal reserve banks to the end that all accepting banks in their respective districts may become thoroughly familiar with the Federal Reserve Board's Regulations and with the correct principles and practices in the use of bankers acceptance credits. We believe that a number of bills which are drawn at the present time transgress the existing Regulations at one point or another in a more or less minor degree, due mainly to a lack of accurate knowledge on the part of the acceptors. We have been informed that a great many institutions who buy bills with their surplus funds and are later desirous of selling them with their endorsement to the Federal reserve banks or of rediscounting them, have had a great deal of difficulty in so doing because of technical objections which have been raised, the result being that such institutions in order to avoid this trouble prefer to invest in other ways their funds which should go into bank acceptances. This is not only a question of the education of acceptors but also perhaps of a little more liberal and helpful attitude on the part of the Federal reserve banks in considering offerings of bills, until such time at least that the acceptance business and the Board's Regulations are better understood.

EXHIBIT B

OUTSTANDING ACCEPTANCE LIABILITY OF AND ACCEPTANCES OF OTHER BANKS
DISCOUNTED BY NATIONAL AND STATE BANKS IN THE SECOND DISTRICT
AS AT THE CLOSE OF BUSINESS SEPTEMBER 8, 1920.

	<u>OUTSTANDING LIABILITY</u>		<u>ACCEPTANCES OF OTHER BANKS</u> <u>DISCOUNTED</u>	
	<u>Number of</u> <u>Acceptors</u>	<u>Outstanding</u> <u>Acceptances</u>	<u>Number of</u> <u>Investors</u>	<u>Amount</u>
March 4, 1919	65	\$242,332,445.	40	\$119,606,404.
June 30, 1919	80	238,337,390.	44	65,105,204.
November 17, 1919	88	289,018,922.	58	157,536,079.
June 30, 1920	99	355,420,228.	158	119,396,921.
September 8, 1920	*103	353,727,822.	174	99,544,321.

* Based on:

Controller's call September 8

Superintendent's call June 30

PURCHASES AND SALES OF ACCEPTANCES BY PRINCIPAL DEALERS IN NEW YORK
 AMOUNTS BY WEEKS FOR 6 MONTHS PERIOD ENDING NOVEMBER 13, 1920

WEEK ENDING	ACCEPTANCES PURCHASED FROM				SALES TO									TOTALS		
	Acceptors	Indorsers	Others	Total	SAVINGS BANKS			OTHER BANKS & BANKERS			OTHER INVESTORS			Sold in Open Market	Sold to F. R. Bank	Total Sales
					Local	Out of Town	Total	Local	Out of Town	Total	Local	Out of Town	Total			
May 22	27,593	9,568	13,383	50,544	1,888	487	2,375	21,254	6,296	27,550	2,168	794	2,962	32,887	26,519	59,406
May 29	32,887	7,603	14,787	55,277	2,289	722	3,011	26,171	6,887	33,058	2,671	899	3,570	39,639	18,610	58,249
June 5	27,476	8,450	9,151	45,077	2,869	632	3,501	24,241	7,193	31,434	1,469	1,249	2,718	37,653	12,347	50,000
June 12	25,318	8,204	15,534	49,056	2,500	3,320	5,820	17,710	7,655	28,365	2,358	1,429	3,787	37,972	14,311	52,283
June 19	24,849	6,481	17,198	48,528	3,642	1,560	5,202	27,042	9,125	36,167	3,434	331	3,765	45,134	17,859	62,993
June 26	24,358	11,739	24,021	60,118	2,420	1,553	3,973	19,690	10,267	29,957	1,842	865	2,707	36,637	12,918	49,555
July 3	28,181	7,222	11,050	46,453	5,173	2,540	7,713	17,767	7,534	25,301	1,633	945	2,578	35,592	14,599	50,191
July 10	22,273	7,374	9,250	38,897	3,362	1,794	5,156	19,485	7,096	26,581	1,507	599	2,106	33,843	8,193	42,036
July 17	25,734	9,413	12,304	47,451	5,730	3,638	9,368	19,622	5,935	25,557	2,449	1,471	3,920	38,845	8,981	47,826
July 24	25,553	15,453	17,381	58,387	2,448	1,938	4,386	18,209	10,733	28,942	2,692	879	3,571	36,899	16,156	53,055
July 31	21,525	11,499	9,525	42,549	1,389	1,131	2,520	24,999	6,752	31,751	3,750	1,162	4,912	39,183	13,854	53,037
Aug. 7	28,445	9,424	12,686	50,555	1,974	894	2,868	19,863	8,492	28,355	2,799	1,084	3,883	35,106	10,981	46,087
Aug. 14	33,015	16,373	10,102	59,490	3,316	870	4,186	21,527	12,846	34,373	3,353	986	4,339	42,898	10,351	53,249
Aug. 21	34,610	15,490	17,893	67,993	1,673	1,160	2,833	19,662	10,844	30,506	3,977	513	4,490	37,829	18,652	56,481
Aug. 28	28,481	7,872	10,536	46,889	2,082	1,102	3,184	18,560	9,718	28,278	2,708	535	3,243	34,705	15,463	50,168
Sept. 4	37,713	9,324	13,347	60,384	2,457	1,736	4,193	16,087	9,178	25,265	3,963	398	4,361	33,819	16,142	49,961
Sept. 11	23,169	14,564	10,890	48,623	1,928	1,458	3,386	11,585	11,310	22,895	4,597	2,211	6,808	33,089	14,077	47,166
Sept. 18	27,979	8,702	12,847	49,528	2,415	3,308	5,723	22,883	13,220	36,103	2,232	663	2,895	44,721	11,661	56,382
Sept. 25	31,568	8,672	17,569	57,809	5,035	2,777	7,812	23,036	14,238	37,274	2,448	1,030	3,478	48,564	11,082	59,646
Oct. 2	39,904	7,957	14,209	62,070	3,918	1,227	5,145	26,245	10,766	37,011	4,115	1,792	5,907	48,063	6,549	54,612
Oct. 9	29,930	12,541	17,138	59,609	5,676	2,262	7,938	20,187	14,808	34,995	1,924	1,331	3,255	46,188	13,911	60,099
Oct. 16	37,281	10,903	16,747	64,931	4,126	3,403	7,529	17,779	17,713	35,492	1,706	1,374	3,080	46,101	11,225	57,326
Oct. 23	36,610	9,879	21,769	68,258	2,255	1,580	3,835	23,848	14,655	38,503	2,497	3,213	5,710	48,048	14,649	62,697
Oct. 30	31,592	4,626	23,149	59,367	2,644	1,534	4,178	14,557	12,098	26,655	1,699	2,659	4,358	35,191	13,210	48,401
Nov. 6	19,950	5,529	17,144	42,623	2,560	1,766	4,326	21,121	9,649	30,770	1,681	1,208	2,889	37,985	9,357	47,342
Nov. 13	33,589	12,812	20,912	67,313	4,696	3,093	7,789	29,422	15,411	44,833	2,274	1,054	3,328	55,950	11,098	67,048
T O t a l s :	759,583	257,674	390,522	1,407,779	80,465	47,485	127,950	542,552	273,419	815,971	67,946	30,674	98,620	1,042,541	352,755	1,395,296

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 Authority E.O. 10501

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December 20, 1920.

Pierre Jay, Esq.
Federal Reserve Agent
Federal Reserve Bank
New York City

Dear Mr. Jay:-

I acknowledge receipt of your letter of December 18th, enclosing a memorandum and exhibits covering information asked for in the Board's letter X-2054.

I have transmitted to Governor Harding Mr. O'Hara's memorandum, to be used as material for the Annual Report of the Board, together with memoranda previously submitted. The memorandum from your bank is most interesting, and I have especially called the Governor's attention to it.

With high regards, I am,

Very truly yours,

Secretary.

H

FEDERAL RESERVE BANK
OF NEW YORK

3334

December 18, 1920.

Dear Mr. Hoxton:

Referring to the Board's letter, X-2054, as to what efforts are being made in the several districts to increase sale of acceptances, etc., I transmit herewith report covering this district, which is in the form of a memorandum to me by Mr. O'Hara, our manager of investments, with exhibits attached as noted.

Very truly yours,

Pierre Jay

Pierre Jay,
Federal Reserve Agent.

FRK

W. W. Hoxton, Esq.,
Secretary,
Federal Reserve Board, Washington, D. C.

Encs.

RECEIVED



Form 148

72

TELEGRAM
FEDERAL RESERVE BOARD
LEASED WIRE SERVICE
WASHINGTON

FEDERAL RESERVE BOARD FILE
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December 18, 1920. 22054

Kenzel - New York

Mr. Hoxton has just permitted me to examine replies of Federal Reserve Banks to Board's letter 2-2054 on efforts being made in the different Districts to increase sale of acceptances. He reports no answer yet received from New York stop I am very much chagrined to learn that we have been dilatory, and should appreciate it if you could send off a reply today, reaching here Monday morning.

JAY.

December 13, 1920

Dear Mr. Curtiss:

I acknowledge receipt of your letter of the 18th
instant, replying to Board's letter (X-2054) of November
9th, on the subject of "Broadening the Market for
Bankers' Acceptances".

Very truly yours,

G o v e r n o r .

Mr. Frederic H. Curtiss, Federal Reserve Agent,
Federal Reserve Bank,
Boston, Mass.

333,4

December 13, 1920

Dear Mr. Martin:

I acknowledge receipt of your letter of the
10th instant, replying to Board's letter of
November 9th (X-2054), on the subject of "Broadening
the Market for Bankers' Acceptances".

Very truly yours,

G o v e r n o r .

Mr. Wm. McC. Martin, Chairman,
Federal Reserve Bank,
St. Louis, Mo.

#11

333
X 2054

December 13, 1920.

Judge W. F. Ramsey, Chairman
Federal Reserve Bank
Dallas, Texas

Dear Judge Ramsey:-

I beg leave to acknowledge receipt of your letter of December 9th, making reply to the Board's letter X-2054 on the subject of "Broadening of Market for Bankers' Acceptances".

With kind regards to my friends in the Federal Reserve Bank of Dallas, with especial reference to your good self, I am,

Very truly yours,

(Signed) W. W. Hoxton
Secretary.

333,4

FEDERAL RESERVE BANK
OF
ST. LOUIS

December 10, 1920

SUBJECT: Broadening of Market for
Bankers' Acceptances.

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

Dear Governor Harding:

Your letter of November 9th (X-2054), in regard to the above subject, has been received.

In this district, as the larger banks that are familiar with acceptances transactions have not had surplus funds to invest, the market for bankers' acceptances has been very quiet for the past eight or ten months. In the Northern part of this district there are some smaller banks that have had surplus funds, but as yet we have not succeeded in getting them to handle bankers' acceptances. They have preferred to purchase commercial paper at eight per cent. Banks in the Southern portion of this District, particularly in Memphis and Little Rock, normally have surplus funds to invest in the spring and summer months but due to the unusual conditions this year these banks have not had surplus funds to invest.

However, in spite of our reserve position we have maintained a market for bills in this district. With a view of encouraging St. Louis banks to accept, we have freely purchased or rediscounted or carried for brokers, bills created by St. Louis banks.

As was said in the early part of this letter, the conditions in this District have not been such this year as to encourage an open market for bankers' acceptances, but we have maintained such a market right along in spite of our reserve position. Our larger banks have had all they could do to take care of local customers and have not had funds to invest in the open market. We could have handled a larger volume of bankers' acceptances had we been willing to permit member banks to exchange indorsements and sell each others bills to this bank. This practice has seemed unwise to us, particularly at this time, especially as it would have a tendency to discourage the inter-district distribution of bills, which we believe desirable.

With a view of maintaining an open market and in an effort to encourage the purchase of bankers' acceptances, we have maintained a preferential rate of discount for indorsed bills which has been used from time to

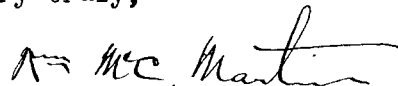
Page No. 2.

time by banks who were not borrowing in excess of their basic line. We have also maintained a rate for the open market purchase of such bills and bills bought by us under this rate have not been counted in the selling bank's line of credit, nor are they subject to our progressive discount rates.

We are now slowly getting to a point where we can perhaps be more effective in our efforts to establish and maintain an open market for bankers' acceptances. Some years ago it was our practice to permit brokers in St. Louis to purchase unindorsed bank bills from their correspondents in New York and other Eastern cities and we would carry these bills in transit for the St. Louis brokers and purchase them on arrival in St. Louis under a fifteen day repurchase agreement. As I understand it there was some objection on the part of other Federal Reserve Banks to our purchasing bills originating in their districts under a repurchase agreement and carrying them in transit and we, therefore, discontinued this practice. We have at all times allowed brokers to carry with us under a repurchase agreement any bills which they could physically deliver to us. We have required them to sell bills in this District or ship them to their correspondent within one fifteen day period. Under this policy it seems difficult for dealers to carry a varied assortment of bills to enable them to maintain the maturity requirements of their customers. It is our understanding that in some of the districts two fifteen day periods are allowed to brokers at times and that this helps the situation. It perhaps might be well for us to consider a change of policy along this line when we get in an easier reserve position. We are encouraging banks to create their acceptances in small amounts, as there are a number of banks in this District which we believe could buy bills if they were in denominations of \$2,500., \$5,000., or \$10,000., instead of in larger units.

We will greatly appreciate any suggestions to aid us in the broadening of the market for bankers' acceptances. Some progress is being made in this District and there are several of our larger business houses that are beginning to invest available funds in this character of security.

Yours very truly,



Chairman of the Board.

333.4

FEDERAL RESERVE BANK OF BOSTON

53 STATE STREET

IN REPLY
PLEASE QUOTE

December 10, 1920.

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

Letter X-2054

Dear Governor Harding:

My reply to your letter of November 9 on broadening of market for bankers' acceptances has been delayed partly in order to enable me to secure information from bill dealers to supplement that which I could give you myself.

There has been a considerable amount of educational work done in this district towards a wider distribution of bankers acceptances, especially with the out-of-town bankers by personal contact through our opportunity to talk with them in this office.

Of course, the Board is familiar with the difficulties to be met in broadening the market through the competition which acceptances have to meet with Certificates of Indebtedness and call loans which have proven so attractive to the banks as secondary reserve. We have been consistent advocates of bankers acceptances as a secondary reserve and have never missed an opportunity to foster their use.

At a forum meeting of bank men held recently in Boston, the subject under discussion was bankers acceptances and was directed by a prominent bank official. This undoubtedly reached some bankers who had never been buyers of bills.

The work of bill dealers has been extensively and intensively carried on by literature, letters and by personal solicitation. One acceptance dealer who is also active in the bond business has his salesmen - some 29 - instructed that they are never to leave a prospect without mentioning the subject of bankers acceptances. The result of their efforts has been apparent in an increase of over 100 per cent in the number of bill buyers among their clientele over those of a year ago. Another dealer who also handles commercial paper is pushing the acceptances through their salesmen. At present there are two houses preparing extensive literature for wide distribution. The representative of another house has written quite a good booklet which is about ready for publication.

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

-2-

December 10, 1920

One of the most successful means of extending the market has been our 15-day repurchase agreement which has enabled the bill dealers to carry more extensive portfolios and thereby attract more buyers.

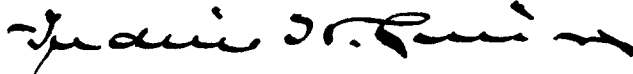
Purchase
Savings banks and trust companies are buying in increasing volume and are encouraged by bill dealers through their willingness to take back bills previously sold at any time.

As to figures, it is worthy of note that in 1919 at this season, we were carrying in our own portfolio approximately \$34,000,000 in acceptances and were not exceptionally free buyers owing to our reserve position at that time while now we hold but \$20,000,000 and are taking up the current heaviness in the district, as well as buying some bills that come from other districts.

List figures as per attached sheet.

On the whole, we feel well satisfied that the educational work which we are doing supplemented by that of the bill dealers is meeting with excellent results.

Very truly yours,



Federal Reserve Agent.

WNK:R

Enclosure

ACCEPTANCE LIABILITY ON NOVEMBER 15, 1920NEW ENGLAND

National Banks	51 897 000
Member Trust Companies	22 686 000
Non-Member Trust Companies	2 172 000
Other Corporations	<u>10 193 000</u>
<u>Total</u>	<u><u>86 948 000</u></u>

Acceptances held by Banks

Held by F R Bank of Boston	23 965 000
Held by national banks	<u>23 483 000</u>
	47 448 000

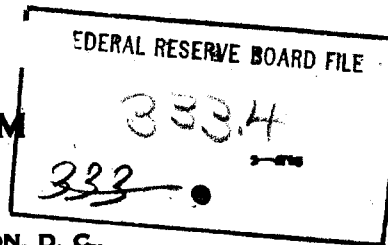
Acceptance liability November 17 1919	109 735 000
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TELEGRAM

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)



RECEIVED AT WASHINGTON, D. C.,

24rdr

Richmond 1p Dec 10 1920

Hoxton

Washn.

Answering your wire of yesterday in regard circular X-2054 I have governor Hardings' acknowledgment of Novr 26 of my letter of the 24th enclosing memorandum on the subject "Broadening Market for Bankers Acceptances".

Hardy.

107P

8

TELEGRAM

FEDERAL RESERVE SYSTEM
(LEASED WIRE SERVICE)

FEDERAL RESERVE BOARD FILE
333.4
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RECEIVED AT WASHINGTON, D. C.,

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St Louis 1255p Dec 10 1920

Hoxton

Washington

Our reply to circular X 2054 mailed today.

Martin

216p

TELEGRAM**FEDERAL RESERVE SYSTEM**
(LEADED WIRE SERVICE)

RECEIVED AT WASHINGTON, D. C.

194 F Ott

Minneapolis Minn 1110A Dec 10 1920

Hoxton

Washington D.C.

Your wire yesterday regarding circular X-2054 our officers have spent considerable time with purchasers of commercial paper pointing out the advantages of bankers acceptances. We believe some progress is being made toward broadening the market in this district in order to introduce this type of paper. We have in one or two cases sold direct to country banks. In most cases we have been encouraging country banks to purchase direct through-bill brokers. We have an agreement with one brokerage concern for the purchase and release of bankers acceptances under which they take bank from us acceptances in small denominations as they have opportunity to place them with banks in the country. Most bankers in this section are unfamiliar with bankers acceptances and it will take some time to educate them.

Rich Agent

131p

#12

333.4

December 10, 1920

Dear Mr. Ferrin:

I acknowledge receipt of your telegram of today's date, replying to Board's letter of November 9th, (X-2054) on the subject of "Broadening the Market for Bankers' Acceptances".

Very truly yours,

G o v e r n o r .

Mr. John Ferrin, Chairman,
Federal Reserve Bank,
San Francisco, Calif.

TELEGRAM**FEDERAL RESERVE SYSTEM**

(LEASED WIRE SERVICE)

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RECEIVED AT WASHINGTON, D. C.,

Sanfrancisco New Dec 10. 111pm.

Harding

Washn DC

James
 Referring your letter X-2054 interest in this district in bankers' acceptances confined primarily to banks in large cities. Although few of these banks have at present surplus to invest broadening of market is indicated by comparative statement of acceptances of other banks held by National Banks in Federal Reserve and Branch cities given below:

	November 15, 1920	Nov 17, 1919
Sanfrancisco	2,658,955.42	681,360.14
Losangeles	201,950.00	none made
Portland	2,638,968.05	5,227,695.35
Seattle	2,785,846.82	1,326,928.73
Spokane	NONE	878,164.17
Saltlake	NONE	NONE
Total	8,285,740.20	8,114,148.39

Although holdings in Portland show considerable decrease, one portland national Bank reports that it and its affiliated savings bank has purchased 14,840,000 bankers acceptances in 1920 as compared with \$4,557,000 in 1919.

P Federal Reserve bank of Sanfrancisco is carrying most of bankers' acceptances creating in this city. Most smaller banks in this district are not purchasing acceptances, either because executed in amounts too large for them to handle or because unacquainted with acceptances their advantages. We have followed no definite program of furthering bankers acceptance in this district but

TELEGRAM

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)

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sheet two b86-f-Sanfran-Harding-Perrin RECEIVED AT WASHINGTON, D. C.,

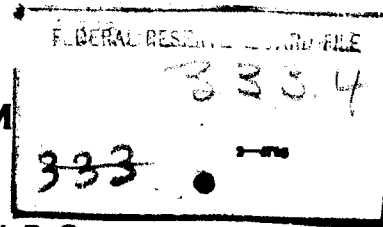
officers of this bank have discussed with banks having surplus funds advisability of investment in acceptances and have discussed this subject at group meeting of bankers association. In 1919 it was proposed to extend investment service to member banks by offering to sell them bankers acceptances from our port folio but inauguration of this plan was deferred following receipt of your telegram of February 19, 1919, stating board is not prepared to endorse such policy. Subsequent to receipt of your letter August 25, 1920 stating that Federal reserve bank may sell acceptances which it holds in its portfolio, we have sold \$2,214,000 bankers acceptance to seven banks in this district. As soon as liquidation has progressed somewhat further in this district, it is planned to attempt to secure wider distribution of holdings of acceptances and the knowledge concerning them by writing series of letters to banks in this district drawing attention to character of acceptances, advisability of purchasing them and offering to sell acceptances from our portfolio.

Perrin

411pm

4 12 TELEGRAM

FEDERAL RESERVE SYSTEM
(LEASED WIRE SERVICE)



RECEIVED AT WASHINGTON, D. C.,

32fly

San Francisco Dec 9 420p Dec 10

Reserve Board

Washington.

Telegram 9th have deferred reply X-2054 Broadening market for bankers acceptances pending receipt of information from branches shall answer this week.

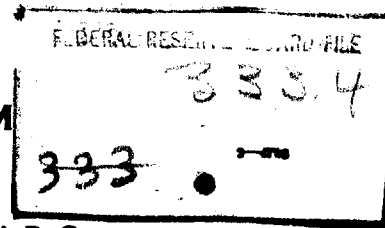
Perrin

950a

FEDERAL RESERVE BOARD FILE

4 12 TELEGRAM

FEDERAL RESERVE SYSTEM
(LEASED WIRE SERVICE)



RECEIVED AT WASHINGTON, D. C.,

32fly

San Francisco Dec 9 420p Dec 10

Reserve Board

Washington.

Telegram 9th have deferred reply X-2054 Broadening market for bankers acceptances pending receipt of information from branches shall answer this week.

Ferrin

950a



TELEGRAM
FEDERAL RESERVE SYSTEM
(LEASED WIRE SERVICE)

FEDERAL RESERVE BOARD FILE
333.4
333

RECEIVED AT WASHINGTON, D. C.,

91cd bn

Cleveland December 9 354pm

1920

X 2054

Hoxton

Washington.

Your telegram, Circular X 2054 dated November 9 subject "Broadening market for Bankers acceptances" Was replied to under date of November 12 to Governor Harding. Mention was made by Mr Wills of it's receipt by the Board. Shall I send you a copy

Nevin

405pm

*Mr. Eady - Please
get this for me
W.W.H.*

#1
TELEGRAM
FEDERAL RESERVE SYSTEM
(LEASED WIRE SERVICE)

FEDERAL RESERVE BOARD FILE
388.4
333

RECEIVED AT WASHINGTON, D. C.

78amr

Atlanta 220p Dec 9

1920

X 2054

Hoxton Washn

Answering telegram in re circular X-2054 wish to advise wrote Governor Harding
Novr 12 have his acknowledgment Novr 15 wrote him again Novr 16 forwarding
copy letter 16th by mail.

McCord

328p

#1

TELEGRAM

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)

FEDERAL RESERVE BOARD FILE
333

RECEIVED AT WASHINGTON, D. C.,

333.4

342fot

Dallas 340p Dec 9 1920

Hoxton

Washm

answering
An ~~message~~ circular X-2054 November 9th today

Amsey

640p



333.4

**FEDERAL RESERVE BANK
OF DALLAS**

December 9, 1920.

Mr. Wm. W. Hoxton, secretary,
Federal Reserve Board,
Washington, D. C.

Dear Mr. Hoxton:

Referring to your telegram of this date with reference to letter X-2054, on the subject of "Broadening of Market for Bankers' Acceptances," I am writing to say that you seem to be correct in the fact that for some reason I had not answered this inquiry.

For your information I may say that we have undertaken, as far as practicable, to encourage the use of bankers' acceptances and their purchase by actual investors in this district, without, however, attaining any very large success. Heretofore, we have, too frequently I think, bought from banks their own acceptances at our current rate. We have given notice, however, of the discontinuance of this policy and of our unwillingness in the future to accept unendorsed bills, which will tend still further to limit the purchase of bankers' acceptances by this bank. In fact, our entire investments in bankers' acceptances at this time amounts to only \$215,000.00.

Quite a few of the banks in the country have issued their acceptances and have been able to place same among the small local banks in moderate amounts. In respect to some of the largest banks in the district, their acceptances have been offered and sold in New York and other cities.

The whole proposition of bankers' acceptances in this district is in its most rudimentary status and very little has been done generally to extend the use of this form of credit. Undoubtedly, a campaign of education is very much needed to broaden the acceptance market in this district. I am inclined to believe that our present policy of refusing to accept unendorsed bills will have the effect of imposing on the accepting banks the necessity of seeing that a broader market is made for the acceptances, which will probably bring about a broader distribution of them.

We hope, during the coming year, to do more along this line than we have done, but the pressure on us about a great many things requiring immediate attention has so absorbed our attention that not much has been done in this matter recently.

Yours very truly,

W. J. ...
Chairman

WFR/c

7

333.4

December 4, 1920

Dear Mr. Heath:

I acknowledge receipt of your letter of December 2nd,
in reply to Board's letter X-2054, on the subject of
"Broadening of Market for Bankers' Acceptances", and have
read with interest your account of what your bank is doing
in the matter and of the statements made to you by certain
bill dealers in Chicago with respect to the volume of their
business during the past year. I shall bring your letter
to the attention of the other members of the Board.

Very truly yours,

G O V E R N O R .

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

333.4

FEDERAL RESERVE BANK OF CHICAGO

79 WEST MONROE STREET

Subject: Broadening of Market
for Bankers' Acceptances.

December 2, 1920

Dear Governor Harding:

I regret that your letter of November ninth (X-2054) has not had an earlier reply. The truth of the matter is that I have been away the most of the time for the last month, either at Washington or attending various conferences, and that is my only apology, for I did not want to send a letter which was not comprehensive.

In connection with this subject I beg leave now to submit a memorandum drawn up as a result of a conference between Mr. McKay and myself, and for its contents I wish to give Mr. McKay full credit.

.....

"I have been informed by three of the principal bill dealers in Chicago that the market has improved greatly during the last year, and that the volume of sales and distribution is showing a steady increase.

"This is due principally to the efforts made in educating the country banks as to what Bankers Acceptances are. When banks have been induced to make their first purchase of bills they are almost certain to continue to purchase if they are in funds.

"Comparative sales made month by month during 1919 and 1920 show an increase this year of well over 100% in volume, and 150% in the number of purchasers. Many corporations and individuals are now buyers of bills, and this is an encouraging feature in the development of the market.

"One of the dealers reports sales of \$40,000,000 this year, \$7,000,000 of which were sold to corporations and individuals and \$33,000,000 to the country banks principally

FEDERAL RESERVE BANK OF CHICAGO

Governor Harding - 2.

located in this district, with nearly 50% of the sales to country banks in the State of Illinois. Another dealer reports \$38,000,000 sales since June 1 this year.

"Our part in the development of the market has been to grant the dealers lines of credit through repurchase agreements whereby we carry the bills for a period of fifteen days or less for the same rate that they pay for them. It is also our practice to encourage country banks which are in funds to purchase acceptances.

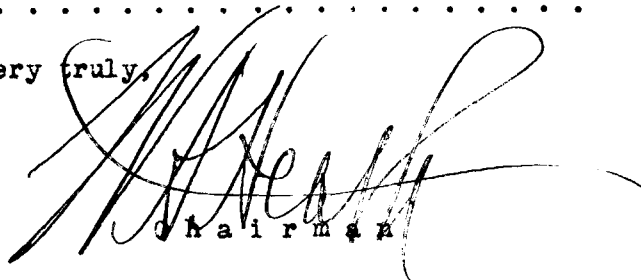
"Our traveling representatives in the Department of Member Bank Relations have been encouraging all banks which are not borrowing heavily here to purchase bills, and the dealers inform us that a large number of the orders they receive are the result of solicitation on the part of our representatives.

"The dealers are well satisfied with the progress that has been made in the development of the market during the year, especially in view of the strong demand for funds which has prevailed ever since the early part of the year.

"The prospects are that after January 1 next there will be some ease in the money market, and this will have a very beneficial effect on the market for acceptances."

.....

Yours very truly,


Chairman

Mr. W. P. G. Harding, Governor
FEDERAL RESERVE BOARD
Washington

H:R

333.4

November 25, 1920

Dear Mr. Hardy:

I acknowledge receipt of your letter of the 24th instant, enclosing memorandum on the subject of "Broadening of Market for Bankers' Acceptances", as requested in Board's letter of November 9th (X-2054). Your letter and enclosure will be brought to the attention of the Federal Reserve Board.

Very truly yours,

G O V E R N O R .

Mr. Caldwell Hardy, Chairman,
Federal Reserve Bank,
Richmond, Virginia.

FEDERAL RESERVE BANK OF RICHMOND

333.4

FIFTH DISTRICT

OFFICERS

GEORGE J. SEAY, GOVERNOR
 CHAS. A. PEPE, DEPUTY GOVERNOR
 R. H. BROADDUS, DEPUTY GOVERNOR
 GEORGE H. KEESEE, CASHIER
 ASSISTANT FEDERAL RESERVE AGENTS
 A. H. DUDLEY
 C. V. BLACKBURN, ASST. CASHIER
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 W. W. DILLARD, ASST. CASHIER
 EDW. WALLER, JR., ASST. CASHIER
 J. G. FRY

CALDWELL HARDY, CHAIRMAN AND FEDERAL RESERVE AGENT
 HOWARD BRUCE, BALTIMORE, M. D.
 JOHN F. BRUTON, WILSON, N. C.
 D. R. COKER, HARTSVILLE, S. C.
 EDWIN MANN, BLUEFIELD, W. VA.
 JAMES H. MONCURE, DEPUTY CHAIRMAN
 JAMES F. OYSTER, WASHINGTON, D. C.
 CHAS. E. RIEMAN, BALTIMORE, M. D.
 THOMAS RUDWICK, RICHMOND

DIRECTOR'S
RECEIVED
 NOV 26 1920
 OFFICE OF
 THE GOVERNOR

November 24, 1920.

SUBJECT: Broadening of Market for Bankers' Acceptances.

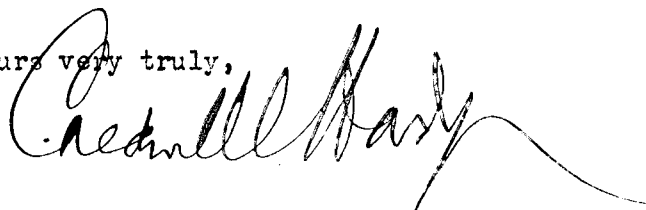
Hon. W. P. G. Harding, Governor,
 Federal Reserve Board,
 Washington, D. C.

My dear Governor:

The Board's letter of November 9th, X-2054, on the above subject, has had the careful consideration of our officers in conference. Enclosed please find memorandum from Deputy Governor Pele covering the subject and our conclusions in regard to it.

We should be glad to have any further advices from the Board on the subject.

Yours very truly,



Chairman of the Board.

CH:F

MISCEL, 14

FEDERAL RESERVE BANK OF RICHMOND

OFFICE CORRESPONDENCE

Date November 23, 1920To Mr. Caldwell Hardy, ChairmanSubject Broadening of Market forFrom Mr. Chas. A. Peple, Deputy GovernorBankers' Acceptances.

Dear Sir:

In regard to the question of "broadening of market for Bankers' Acceptances" referred to in the Federal Reserve Board's letter of November 9 - X-2054, I submit herewith the following memorandum:-

As you know, we have adopted and until this time followed the practice of purchasing acceptances direct from the accepting banks, for two reasons:- First, there is not enough money seeking investment in this District to properly establish an open market for Bankers' Acceptances; and, second, it is our wish and purpose to keep in the closest possible touch with the accepting banks, in order -

- (a) To ascertain which of them are using proper discretion and proper precaution in making acceptances, and
- (b) To have the opportunity to instruct others, where necessary, with reference to the proper procedure.

We recognize the fact that, as a matter of principle, acceptances should not be purchased direct from accepting banks, and that as a general rule the acceptances purchased by a Federal Reserve Bank should have the endorsement of some bank other than the accepting bank. This we look upon, however, as the ultimate goal to be reached, but we do not consider it practicable to introduce that exclusive practice at the present time, or in fact until the conditions in this District make it possible to establish an open market.

In the beginning there was a decided disposition on the part of many of the small banks to use the acceptance privilege, which, as the law expressly states, was given to all National banks of whatever size. There

- 2 -

has been a tendency, however, particularly since steps have been taken their use for to eliminate / commodity loans, for the acceptance business to gravitate towards the larger institutions. An analysis of the list of banks offering acceptances to us since January 1, 1920, discloses the following interesting facts:-

Virginia

Number of accepting banks 20

Smallest capital \$150,000
(Surplus \$62,500)North Carolina

Number of accepting banks 6

Smallest capital \$200,000
(Surplus \$150,000)South Carolina

Number of accepting banks 13

Smallest capital \$100,000
(Surplus \$100,000)

Smallest combined capital and surplus

Capital \$125,000
Surplus 50,000Maryland

Number of accepting banks 11

Smallest capital \$350,000
(Surplus \$1,000,000)

Smallest combined capital and surplus

Capital \$400,000
Surplus 200,000District of Columbia

Number of accepting banks 5

Smallest capital \$200,000
(Surplus \$200,000)

- 3 -

West Virginia

No acceptances offered since January 1, 1920.

Our holdings of Bankers' Acceptances have decreased gradually from \$11,280,000 in January 1920 to \$5,710,000 in November 1920. There is some indication that acceptances, instead of being offered to us, are sold in the open market, or sold directly to other banks; but as these have not been offered to us for rediscount, it is impossible for us to estimate the total amount of such acceptances in existence.

Some months ago, it was realized in Baltimore that the exportation of grain through Baltimore would be considerably larger this year than heretofore, and that banks in Baltimore would be called upon to finance grain exports to a greater extent than heretofore. To meet this situation, arrangements were made by a group of member banks with the local non-member banks and trust companies, to carry the acceptances as investments. We know that this has been done to a considerable extent, but we have no data from which to estimate the total volume.

Quite recently, the Manager of our Baltimore Branch has reported inquiries from a few Maryland banks, and from a number of West Virginia banks (whose rediscount lines with us indicate an easier money situation than exists in any other part of the District) as to whether we could supply them with Bankers' Acceptances from our portfolio, or, failing this, whether we could invest surplus funds for them in Bankers' Acceptances to be bought in the open market.

The first of these proposals to sell member banks' acceptances from our own portfolio, we disposed of promptly in the negative. The second, however, - to purchase acceptances for them upon request in the

- 4 -

open market - we considered very carefully, but finally rejected. Our reasons for not adopting this policy are as follows:-

(1) - If we should go into the open market and buy acceptances for a member bank, using our own judgment in making the selection, we would inevitably incur a certain moral responsibility, even though we might have the most distinct understanding that no actual responsibility existed. In our opinion, we could not afford to allow a member bank to lose money on an acceptance which we had purchased for the member bank, or, in effect, recommended to the member bank as a desirable purchase.

(2) - The following alternative occurred to us, and was thoroughly considered:- That we make a list of banks whose acceptances are, in our opinion, desirable - this list to include some of the principal banks in this District and possibly a number of banks in other Districts, - that we allow the member bank to designate one or more of these banks whose acceptances would be satisfactory, and upon order purchase for the member bank acceptances of specified amounts, and selected from the banks named by the member bank.

It occurred to us, however, upon consideration, that in publishing such a list we could by no means include the names of all of the accepting banks in this District. As a matter of fact, such a list would carry with it a recommendation, if not a moral endorsement from us, and, as an "open door" proposition, we would probably not be willing to list the names of more than 20% or 25% of the accepting banks of this District.

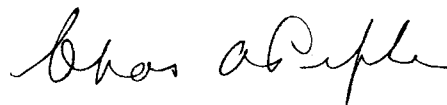
I have no doubt that the immediate effect would be that we would be importuned by other banks in the District to have their names included in our recommended list, and in case of our failure to grant such requests

- 5 -

we might easily be placed in the position of having to give reasons for our refusal. Such a practice could be productive only of misunderstanding, if not a bad feeling.

We finally reached the following conclusion:- the Manager of our Branch was instructed to advise several of the reliable note brokers, who deal in bankers' acceptances, to send their lists to the banks that had displayed an interest in Bankers' Acceptances as investments. He will also communicate directly with any banks indicating a wish to purchase acceptances, and advise them of our willingness to make investments for them at any time, provided they wire us the request, and specify the banks whose acceptances they wish us to purchase. They can, of course, give alternative names, so that in case the exact acceptances requested are not available we will be authorized to purchase those of some other designated bank instead. We will also follow this practice in the Richmond office. Moreover, we intend to let interested banks know that assistance of this kind can be obtained, and for the present we propose to authorize member banks to send us wire orders to purchase acceptances collect.

Respectfully,



Deputy Governor

CAP-M

333,4

November 22, 1920.

Dear Mr. Austin:

I have your letter of the 20th instant, acknowledging receipt of Board's letter (X-2054), on the subject of "Broadening of Market for Bankers' Acceptances", and note what you have to say with respect to the present market in your district and what, in your opinion, may be done to give greater breadth to it. I shall bring your letter to the attention of the other members of the Board.

Very truly yours,

Governor.

Mr. R. L. Austin, Chairman,
Federal Reserve Bank,
Philadelphia, Pa.

333.4

FEDERAL RESERVE BANK OF PHILADELPHIA

925 CHESTNUT STREET

RECEIVED



OFFICE OF THE
CHAIRMAN OF THE BOARD AND
FEDERAL RESERVE AGENT

November 20, 1920

Hon. W. P. G. Harding,
Governor, Federal Reserve Board.
New York City

Dear Governor Harding -

In reply to your letter X-2054, subject "Broadening of Market for Banker's Acceptances", in which you ask us to furnish you with any information we may have as to the extent to which bankers, investors, and others in this district are now purchasing bankers' acceptances, and also as to what extent we have been able to assist in awakening an interest in bills among such purchasers, we would say that in the last six months there has been a great increase in the amount of bankers' bills purchased by the banks in this district. Previous to that time, on account of the large borrowing from this bank by member banks, nothing was done to encourage the purchase of acceptances, on the contrary all our efforts were directed to effecting the liquidation of loans by our member banks for the purpose of reducing their borrowings here, but since the change occurred in our condition we have been endeavoring to have banks, that were not borrowing from us, use a portion of their funds for the purchase of bills, in which endeavor we feel we have been quite successful.

Purchasers

Suggestion

In order to enlarge the market and insure a sufficient supply to meet the demands, we believe it will be necessary, in the near future, for us to arrange to carry several millions of dollars of bills which could be bought from us at any time by those dealing in such bills. This would prevent delay in filling orders for the purchase of bills and make investing in them more attrac-

FEDERAL RESERVE BANK OF PHILADELPHIA

PAGE NO. TO

ive to our banks.

We hope, in the near future, that there will be a law passed in this state permitting savings funds to invest in bankers bill. This would enlarge our market very much.

When there is a further improvement in the condition of our banks we expect to make a more systematic effort to interest them in the purchase of these bills, and believe we will find a market in the district for many millions of them unless the rates should go too low.

Yours truly,



CHAIRMAN.

Mr. Hoffman

10

338.4

November 20, 1920.

Dear Mr. Ramsay:

Receipt is acknowledged of your letter of November 17th replying to the Board's letter, X-2054, "Broadening of Market for Bankers' Acceptances."

I note what you have to say as to the breadth of the present acceptance market in your District, and shall bring your letter to the attention of the other members of the Board.

Very truly yours,

G O V E R N O R .

Mr. Asa E. Ramsay,
Federal Reserve Agent,
Federal Reserve Bank,
Kansas City, Mo.

*Look up unit
Smead Nov. 26
WST*

323.4

FEDERAL RESERVE BANK
OF
KANSAS CITY

ASA E. RAMSAY,
CHAIRMAN BOARD OF DIRECTORS
AND FEDERAL RESERVE AGENT

FRED W. FLEMING,
DEPUTY CHAIRMAN
BOARD OF DIRECTORS

C.K. BOARDMAN,
ASST. FEDERAL RESERVE AGENT
AND SECRETARY

J. Z. MILLER, JR., GOVERNOR
C. A. WORTHINGTON, DEPUTY GOVERNOR
J. W. HELM, CASHIER
JOHN PHILLIPS, JR., ASST. CASHIER
E. P. TYNER, ASST. CASHIER
L. H. EARHART, ASST. CASHIER
G. E. RARLEY, ASST. CASHIER
C. E. DANIEL, ASST. CASHIER
M. W. E. PARK, ASST. CASHIER
A. G. FROST, ASST. CASHIER

November 17th,
1920.

FEDERAL RESERVE BOARD,
Washington,
D. C.

Gentlemen:

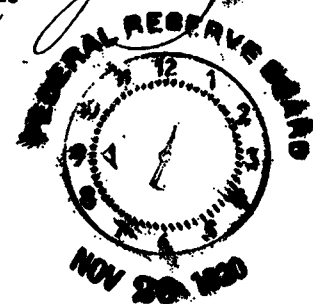
Subject: Broadening of Market for Bankers' Acceptances.

Replying to yours of the 9th (X-2054) you are advised that the bankers of this district have dealt in acceptances only to a limited extent. The principal part of outside paper purchased by banks of this district is represented by commercial paper, and on account of long practice they are slow to change their investments from this kind to that of acceptances. However, the banks have not had a surplus of funds for outside investment in this district for the past year, and the Federal Reserve Bank of Kansas City has done very little to encourage them to purchase bankers' acceptances on that account, and I feel it useless to bring this matter specifically before them until greater liquidation has been effected.

It is our opinion that these acceptances are purchased by no one in this district except the banks. No doubt, the Federal Reserve Bank can assist in broadening the market for investments of this kind as soon as the investing public and banks are in position to absorb more than the local demand, and we shall be glad to take whatever action the Board suggests.

Yours very truly,

Asa E. Ramsay
Chairman.



M. B. WELLBORN, GOVERNOR
 L. L. LSON, DEPUTY GOVERNOR
 M. W. BELL, CASHIER
 W. B. ROPER, ASS'T CASHIER
 W. R. PATTERSON, ASS'T CASHIER
 R. A. SIMS, ASS'T CASHIER
 J. L. CAMPBELL, ASS'T CASHIER
 H. F. CONNIFF, ASS'T CASHIER
 J. M. SLATTERY, SECRETARY

FEDERAL RESERVE BANK OF ATLANTA.

JOS. A. McCORD,
 CHAIRMAN OF THE BOARD AND
 FEDERAL RESERVE AGENT
 EDW. T. BROWN,
 DEPUTY CHAIRMAN
 WARD ALBERTSON,
 ASS'T FEDERAL RESERVE AGT.
 CRED TAYLOR,
 GENERAL AUDITOR

November 16, 1920.

333

333.4

X-2054

SUBJECT: Broadening of market for Bankers Acceptances.
 Board's letter Nov. 9, X-2054.

Dear Governor Harding:

Following up my letter of the 12th instant with reference to the above subject, wish to say that I read your communication before our Directors at our meeting on the 12th, and each of them expressed the view that there was very little business being done in this district relative to bankers' acceptances, due to the fact that all of our member banks are very largely loaned up in taking care of conditions which have arisen from the non-marketing of the crops, and that none of the banks are in position to buy bankers' acceptances at this time.

We have been endeavoring to educate our member banks to the purchase of bank acceptances, and last spring some business was done in this direction when the banks had idle funds. I believe that we would be enabled to broaden the market when like conditions return; but under present conditions, there is very little opportunity of broadening the market on bankers' acceptances in this district.

Very truly yours,

Jos. A. McCord
 Chairman.

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

FEDERAL RESERVE BANK
333.4
333 0

November 16, 1920.

X-2054

Dear Mr. Herson:

There is enclosed herewith for your information copy of Board's letter of November 9th, X-2054, under the subject of "Broadening of Market for Bankers' Acceptances", together with a copy of reply received from Assistant Federal Reserve Agent Hevin of the Federal Reserve Bank of Cleveland.

11/12/20

Very truly yours,

(Signed) R. G. Emerson

2 encls.

Assistant to Governor.

Mr. J. F. Herson,
1919 Amity Street,
Brooklyn, N.Y.

333.4

November 15, 1920

Dear Mr. McCord:

I have your letter of the 12th instant, acknowledging receipt of Board's letter (X-2054), on the subject of "Broadening of Market for Bankers' Acceptances". I note that you will bring the subject up for discussion by your Board of Directors.

I presume I shall hear from you again on the subject giving the information requested in the concluding paragraph of the Board's letter, and outlining your own views as to what can be done to assist further development of sales of bankers' acceptances within your district.

Very truly yours,

G o v e r n o r

Mr. Joseph A. McCord, Chairman,
Federal Reserve Bank,
Atlanta, Georgia.

333.4

November 15, 1920

Dear Mr. Evin:

I have your letter of the 12th instant, acknowledging receipt of Board's letter of November 9th, (I-2054) and advising of the extent to which bankers, investors, and others in your district are now purchasing bankers acceptances. I have read with interest what you have to say on the subject and shall bring your letter to the attention of the other members of the Board.

Very truly yours,

G O V E R N O R

Mr. J. O. Evin, Assistant Federal Reserve Agent,
Federal Reserve Bank,
Cleveland, Ohio.

M. B. ELLBORN, GOVERNOR
L. C. ADELSON, DEPUTY GOVERNOR
M. W. BELL, CASHIER
W. B. ROPER, ASS'T CASHIER
W. R. PATTERSON, ASS'T CASHIER
R. A. SIMS, ASS'T CASHIER
J. L. CAMPBELL, ASS'T CASHIER
H. F. CONNIFF, ASS'T CASHIER
J. M. SLATTERY, SECRETARY

FEDERAL RESERVE BANK OF ATLANTA.

JOS. A. McCORD,
CHAIRMAN OF THE BOARD AND
FEDERAL RESERVE AGENT
EDW. T. BROWN,
DEPUTY CHAIRMAN
WARD ALBERTSON,
ASS'T FEDERAL RESERVE AGT.
CREED TAYLOR,
GENERAL AUDITOR

November 12, 1920.

333.9

SUBJECT: Broadening of Market for Bankers Acceptances. (X-2054)

Dear Governor Harding:

I beg leave to acknowledge receipt of your letter of the 9th instant, with reference to the above subject.

I shall take pleasure in reading this letter to our Board of Directors at their meeting today, and urge that they talk with our member banks, looking to the broadening of the market on acceptances, rather than the purchase of other securities, which would materially help the commercial, industrial and agricultural conditions at this time.

Very truly yours,

Jos. A. McCord
Chairman.

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

333.4

FEDERAL RESERVE BANK OF CLEVELAND

November 12, 1920

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

My dear Governor Harding:

Purchase (handwritten in left margin)

In your letter of November 9, X-2054, the Board requests information as to what extent bankers, investors and others in this district are now purchasing bankers' acceptances. Otis & Company, who have established a department for the handling of bankers' acceptances in this district, and who makes the bulk of the sales, reports a turn-over of a \$1,000,000 a week. They estimate that the New York sales are in the same amount throughout this district.

Demand (handwritten in left margin)

The demand for acceptances has doubled in the last six months. It may be of interest to you to know that the July demands arose primarily from the manufacturing and industrial centers in the district, and that the August demand was chiefly from the same sources with a few inquiries from agricultural centers. In September the largest demand was from the agricultural and mining centers, with the demand from the manufacturing and industrial centers remaining about the same. In October the main market for acceptances was in the mining districts, with a slight falling off in the manufacturing and about the same demand from the agricultural centers.

Effects of Bank Officers (handwritten in left margin)

Wherever the opportunity is offered, our officers have suggested the desirability of bankers' acceptances as a secondary reserve. We have also brought to the attention of the country banks the additional desirability of these acceptances to banks that have not established an extensive credit department in that an unexpected increase in funds may be safely put to work without loss of time.

Our representatives from the Bank Relations Department, ~~who regularly call on member banks~~, are asked to report on all banks that are visited as to whether bankers' acceptances are purchased. This means that the representative calls to the attention of the visited bank the subject which often results in requests for advice and information. The information is given that we will purchase bankers' acceptances for their account if the name of the accepting bank is given and charge their account with us, and either hold the acceptances purchased in our Custodies Department or forward to them as instructed.

It is not unusual for the representatives of the Bank Relations Department to be given access to the books of the member banks. In cases where these banks show unusual amounts of uninvested funds, it is suggested that these funds might well be invested in bankers' acceptances, and serve as a secondary reserve.

FEDERAL RESERVE BANK OF CLEVELAND

- 2 -

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

November 12, 1920

Our Bank Relations Department has probably done more towards a wide distribution of bankers' acceptances than any other vehicle that has been used, and we are daily receiving requests from small institutions to purchase acceptances for their account. The aggregate of this amount is not yet large, but is growing, and it is not unusual to have several such requests in one day.

3 Repurchase

Much of this same information is given to non-member banks through addresses at group meetings, conferences and wherever opportunity offers. It is possible, however, that something more could be done to encourage the sale of acceptances among non-member banks, but I am afraid that an active campaign through the medium of the Federal Reserve Bank of Cleveland might be resented. To further the sale of acceptances, the Federal Reserve Bank of Cleveland has arranged with Otis & Company to carry on a repurchase agreement, purchases to the amount of \$500,000. As indicated on the first page of this letter, this firm is now able to turn this amount twice each week.

Suggestions

It is probable that if a company (not an accepting company) were formed with sufficient capital to carry a larger amount of acceptances than the local dealer is willing to do, and to secure the cooperation of banks through the district by forming acceptance syndicates, it would be possible to materially increase the market, but it is doubtful if the time is yet ripe for such a company.

In talking over with some of the other officers of the bank the question of what could be done to assist further development of sales of bankers' acceptances in this district, it was thought that the methods pursued by our Bank Relations Department were the most effective means that could be used, and that the results have justified this opinion.

Very truly yours,

J. Marvin
Assistant Federal Reserve Agent.

JCN-T

EX OFFICIO MEMBERS

DAVID F. HOUSTON
SECRETARY OF THE TREASURY
CHAIRMAN
JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

FEDERAL RESERVE BOARD

WASHINGTON

November 9, 1920.

W. P. G. HARDING, GOVERNOR
EDMUND PLATT, VICE GOVERNOR
ADOLPH C. MILLER
CHARLES S. HAMLIN
HENRY A. MOEHLERPAH

W. T. CHAPMAN, SECRETARY
R. C. GIBSON, ASSISTANT SECRETARY
W. M. INLAY, FISCAL AGENT

3-3 2221

332
X-2054

3-3-4

Subject: Broadening of Market for Bankers' Acceptances.

Dear Sir:

During the past five years the Federal Reserve Banks have been called upon to carry that portion of the increasing volume of bankers' acceptances which has not been absorbed by the discount market. The fact that, with the increase in the volume of bankers' acceptances, the Federal Reserve Banks have not been called upon to carry an even larger amount, is evidence of the better distribution of bills and of the broadening of the discount market. The strength of this market lies in its breadth, that is, in the number of institutions or individuals forming the habit of purchasing bankers' acceptances.

The Board feels that the development of the broadest possible market for bankers' acceptances is of vital interest to the effective functioning of the Federal Reserve Banks, and that this will be increasingly so as international movements of credit approach the freedom of flow which obtained before the war. With rates for bills at the high levels now prevailing, the Board feels that the present opportunity is most favorable for interesting the widest possible circle of buyers and it believes that the influence of the Federal Reserve Banks, in their respective Districts, might appropriately be used to bring about a more general distribution of bills.

The Board requests that you furnish it with any information you may have as to the extent to which bankers, investors and others in your District are now purchasing bankers' acceptances, and advise also to what extent your Bank has been able to assist in awakening an interest in bills among such purchasers. The Board would be pleased to have your views as to what can be done to assist further development of sales of bankers' acceptances within your District.

Very truly yours,

Governor.

Copy filed
33221

To Chairmen of all F.R. Banks.

*Sept 25, Broadening of the Market for
Bankers' Acceptances.*

Dear Sir.

X2054

During the past five years the Federal Reserve Banks have been called upon to carry that portion of the increasing volume of bankers acceptances which has not been absorbed by the discount market. The fact that, with the increase in the volume of bankers acceptances, the Federal Reserve Banks have not been called upon to carry an even larger amount, is evidence of the better distribution of bills and of the broadening of the discount market. The strength of this market lies in its breadth, that is, in the number of institutions or individuals forming the habit of purchasing bankers acceptances.

The Board feels that the development of the broadest possible market for bankers acceptances is of vital interest to the effective functioning of Federal Reserve Banks, and that this will be increasingly so as international movements of credit approach the freedom of flow which obtained before the war. With rates for

bills at the high levels now prevailing, the Board feels

that ^{present} the opportunity is most favorable ^{for} and interesting

the widest possible circle of buyers and it believes

that the influence of the Federal Reserve Banks, in

their respective Districts, might ^{appropriately} be used to bring about

a ^{more general} wider distribution of bills.

The Board ^{requests that you} ~~will be glad to~~ furnish

it with any information you may have as to the extent to

which bankers, investors and others in your District

^{now} are purchasing bankers acceptances, ^{and advise also} to what extent your

Bank has been able to assist in awakening an interest in

bills among such purchasers; ^{The Board would be} ~~and to receive any views~~

^{pleased to have your views as to what can be} done to ~~you may have~~ ^{you could} assist further ^{development}

~~increasing~~ the sale of bankers acceptances within your

District.

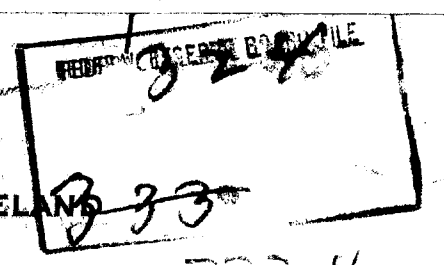
Very truly yours

[Signature]

(Chairman)

*from Hoxton
12/20/20*

✓ April 7-10



FEDERAL RESERVE BANK OF CLEVELAND

333.4

OFFICE OF THE GOVERNOR

May 22, 1920.

Dear Mr. Hoxton:

I am in receipt of your letter of May 20 advising me that at the recent conference of Governors held last month, I was appointed on the committee to consider the stabilization of the open bill market and an equal distribution of the bills among the twelve banks.

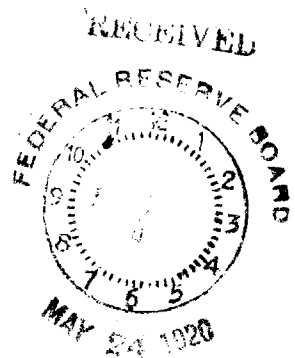
The committee will probably hold a meeting about the middle of June or soon after Mr. Kenzel returns from the Pacific Coast.

Very truly yours,

R. Fancher
Governor.

Mr. W. W. Hoxton, Executive Secretary,
Federal Reserve Board,
Washington, D. C.

F.B



May 20, 1920.

Dear Sir:-

As Acting Secretary of the Governors' conference, held April 7-10, I beg leave to advise you that it was moved and carried as the sense of the meeting that the stabilization of the open bill market is incumbent upon the System as a whole, and that a committee be appointed to develop an equitable basis for making such support effective.

Permit me to advise you that the committee appointed under this action is as follows:

E. R. Fancher, Governor, Federal Reserve Bank of Cleveland,
Charles A. Moras, " " " " Boston,
E. R. Kennel, Controller of Investments, Federal
Reserve Bank of New York.

Very truly yours,

Executive Secretary.

Mr. E. R. Fancher,
Governor, Federal Reserve Bank,
Cleveland, Ohio.

P.S. Copies sent to all members of the Committee.

May 20, 1920.

Dear Sir:-

As Acting Secretary of the Governors' conference, held April 7-10, I beg leave to advise you that it was moved and carried as the sense of the meeting that the stabilization of the open bill market is incumbent upon the System as a whole, and that a committee be appointed to develop an equitable basis for making such support effective.

Permit me to advise you that the committee appointed under this action is as follows:

E. R. Fancher, Governor, Federal Reserve Bank, Cleveland,
Charles A. Morss, " " " " , Boston,
E. R. Kenzel, Controller of Investments, Federal Reserve
Bank, New York.

Very truly yours,

Executive Secretary.

Mr. E. R. Kenzel,
Controller of Investments,
Federal Reserve Bank,
New York City.

P. S. Copies sent to all members of the Committee.

May 20, 1920.

Dear Sir:-

As Acting Secretary of the Governors' conference, held April 7-10, I beg leave to advise you that it was moved and carried in the sense of the meeting that the stabilization of the open bill market is incumbent upon the System as a whole, and that a committee be appointed to develop an equitable basis for making such support effective.

Permit me to advise you that the committee appointed under this action is as follows:

E. R. Fancher, Governor, Federal Reserve Bank, Cleveland,
Charles A. Morse, " " " " , Boston,
E. R. Kensel, Controller of Investments, Federal Reserve
Bank, New York.

Very truly yours,

Executive Secretary.

Mr. Charles A. Morse, Governor,
Federal Reserve Bank,
Boston, Mass.

P. S. Copies sent to all members of the Committee.

333.4

4/10/20

It is the judgment of your committee that the Federal Reserve Banks can best assist in the broadening and development of the open discount market for Bankers' bills by coming to a mutual understanding with respect to:

- (a) Proper principles and practices to be followed by accepting banks;
- (b) The proper method for placing the bills on the market; and
- (c) The proper practice and policy for Federal Reserve Banks in purchasing bills in and from the market; i. e., the character of bills, their source and volume of purchases as well as a policy as to rates, and then conduct such operations in accordance with such understanding.

Each Federal Reserve Bank should, so far as possible, work for the development of a market within its district in which dealers and discount houses may carry a port folio of bills from which to supply the local demand. This will require the development in each district of a local call money market on acceptance collateral, at rates which will permit the dealer to carry a port folio without loss. The Federal Reserve Bank should supplement this by itself extending reasonable accommodation to dealers locally on their port folios through fifteen-day purchase and resale agreements suitably safeguarded.

Each Federal Reserve Bank should encourage the widest possible investment by banks within its district in Bankers' Acceptances as their most desirable secondary reserve, and stand back of its advice by making that reserve liquid on occasion, when it becomes necessary to realize on such bills, by buying freely from its members good bills

-2-

which they have purchased in the open market; and should render every reasonable assistance in affording facilities to its members for the purchase of bills.

Each Federal Reserve Bank should, by its own purchases either for investment because investment is desired, or in support of the general market when support is necessary, aim to emphasize its adherence to proper principles and practices, thereby indicating that they stand behind the Bankers' Acceptance unreservedly and that it is entitled to the most attractive rate that can be consistently offered under any and all circumstances. This could best be accomplished by each Federal Reserve Bank developing in its own district such an open market demand for bills as would effectively mobilize credits so that with due allowance for varying seasonal conditions and requirements in the several districts member banks would normally carry a substantial proportion of their secondary reserves in bankers acceptances; this without regard to the amount of bills created in the relative districts.

This procedure would not leave to other banks the burden of supporting bills made for the financing of business not originating in or benefitting their district.

The support of all Federal Reserve Banks generally of bills in open market is not only a benefit to the market as a whole, but also a proper assumption of a reciprocal part of the strain of financing seasonal movements in staples in their own and other districts which, without distribution through the discount market, would congest as bank loans in particular districts from time to time and increase the volume, if not the frequency, of inter-district rediscounting. Therefore, even if open

-3-

market purchases of Bankers' Acceptances might seem to involve rediscount, that rediscount is not inconsistent with the purpose of purchases made at such times.

To show the inequitable distribution of bills held by the Federal Reserve Banks at the present time, five banks have in their portfolios 90% of the total bills held by the System.

This committee concurs and holds to the views expressed by Mr. Warburg in treating fundamental questions of theory, policy, and practice promulgated by the Federal Reserve Board in its questionnaire of last April. His replies to those questions were discussed and unanimously approved by the full board of the Executive Committee of The American Acceptance Council and have been published by the Council in booklet form under title of: "Practical Problems in the Development of Bankers Acceptances" and generally approved by the banking community.

This committee recommends the distribution of this booklet by the Federal Reserve Banks to all member banks making or who contemplate making acceptances, as well as to all banks purchasing or contemplating purchasing, and the adoption by all Federal Reserve Banks of the principles and practices as to open market operations therein set forth and recommended.

Particular attention is invited to questions and answers 1, 2, 3, 5, 7, 11, 13, 22, 23, 25, 27, 28, 30, 31, 32, 35, 37, and 38, as appearing in the booklet.

This Committee further recommends that a standing committee be appointed to confer at frequent intervals, by phone or wire, as to market conditions and rates, with a view of naming rates in conformity with conditions surrounding the bill market, and that each Federal Reserve Bank be advised promptly as to any and all changes suggested by the committee.

The committee is unable to agree on a plan whereby each Federal Reserve Bank should agree to take its proportion of bills, under any and all circumstances, bought by other Federal Reserve Banks.

E. R. Fancher

Charles A. Morse

E. R. Keagle
(Committee) 7



Handwritten signature and scribbles

RECEIVED
DEC 29 1918
THE OFFICE OF
THE GOVERNOR

THE SECRETARY OF THE TREASURY
WASHINGTON

33 2 1 2
33 3
333.4

December 29, 1918.

Dear Governor Harding:

I received your memorandum of December 24th. The following is a quotation from the New York Times of the same date:

"The Federal Reserve Bank yesterday advanced the rate at which it is willing to buy acceptances. The former rates were 4 1/2 per cent. for thirty-day paper; 4 5/8 per cent. for sixty-day paper, and 4 3/4 per cent. for ninety-day bills. The new rates are 1/8 of 1 per cent. higher throughout the list. This is the second advance in buying rates this Fall, the first rise having been made from the level which obtained for more than a year, and which quoted the longer at 4 1/2 per cent. Yesterday afternoon, after it became known that the Reserve Bank had taken this action, most dealers moved their rates up to figures 1/8 of 1 per cent. above the bank rate."

Apparently what happened when the New York Bank increased its open market buying rate was that the dealers increased theirs to a corresponding extent, with the result, no doubt, that the Reserve Bank will continue to get most of the bills.

I doubt whether member banks should charge 1/4 of 1 per cent. for each acceptance for a period of ninety days, and I do not understand that that is the universal practice. It seems to me that while in the first instance it was no doubt proper to stimulate artificially the issuance of acceptances by making this form of borrowing peculiarly attractive to the borrower and to the banks, the time has come when something must be done to prevent loading the

- 2 -

Reserve System with these bills. Certainly the Reserve Banks are not creating a market for acceptances by buying all the bills. I am wondering how far our enormous export balance is being financed by these purchases, and how far the foreign bills are really liquid.

Very truly yours,

Arthur Hays Sulzberger

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

Glavin

Glavin

FEDERAL RESERVE BOARD FILE
333.4

Glavin

December 24, 1919.

MEMORANDUM FOR THE SECRETARY OF THE TREASURY.

Your letter of the 16th instant regarding the open market purchases by the Federal reserve banks was brought to the attention of the Board and has been given due consideration.

At the time your letter was written the banks were buying acceptances at a four and one-half percent rate, but the rate has now been advanced generally, and in New York particularly, to four and three-quarters percent.

As the usual commission charged by member banks for accepting is one-quarter of one percent for each period of ninety days, you will see that a four and three-quarter percent rate is equivalent to an annual rate of five and three-quarters percent, which is just about on a par (if not a little above) with commercial paper rates.

At the present time there is no appreciable demand on the part of investors for bills and the brunt of taking care of the bill market has naturally fallen upon the Federal reserve banks. The Board hopes that a four and three-quarters percent rate will, after the first of the year, prove attractive to private investors and that there will be a broadening of the market for bankers' acceptances.



THE SECRETARY OF THE TREASURY
WASHINGTON

December 16, 1919.

323.4

RECEIVED
DEC 17 1919
OFFICE OF
THE GOVERNOR.

Dear Governor Harding:

I notice that in the period from June 7th (immediately after the flotation of the Victory Loan) to December 12th the twelve Federal Reserve Banks' loans and discounts secured by Government war obligations decreased

from.....\$1,621,000,000
to..... 1,588,000,000
or..... \$ 33,000,000

while their total earning assets increased

from.....\$2,264,000,000
to..... 2,981,000,000
or..... \$ 717,000,000

I notice also that nearly half of this increase in total earning assets is accounted for by the fact that the Federal Reserve Banks' holdings of bills bought in the open market increased in that period from \$198,000,000 to \$542,000,000, or about 274%.

It occurs to me that the very rapid and continuous increase in the Banks' open market purchases of bills presents a question as to the propriety of the practice of the

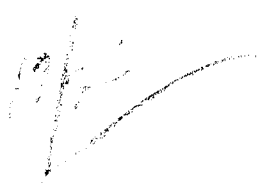
- 2 -

banks in this respect which ought to have the serious consideration of the Reserve Board.

Very truly yours,

Gerty Glass

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



324

EX-OFFICIO MEMBERS
CARTER GLASS
SECRETARY OF THE TREASURY
CHAIRMAN
JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD

WASHINGTON

W. P. G. HARDING, GOVERNOR
ALBERT STRAUSS, VICE GOVERNOR
ADOLPH C. MILLER
CHARLES S. HAMLIN
J. A. BRIDGERICK, SECRETARY
W. T. CHAPMAN, ASSISTANT SECRETARY
W. M. LAY, FISCAL AGENT

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

333.4

SUBJECT: Comments and rulings by the Federal Reserve Board with respect to recommendations made by Governors of Federal Reserve Banks at conference with Federal Reserve Board, March 20 - 22, 1919.

3/22/19

X-1463

Dear Sir:

A stenographic copy of the minutes of the conference held on March 20th-22nd has been sent to the Governor of each Reserve Bank, and upon request a copy of the minutes of the meetings held on March 20th was sent to the Advisory Council member for each Federal Reserve district. There is enclosed herewith for reference, a list of topics discussed, with the recommendations submitted by the Governors to the Board (stencil X-1459).

The Board has carefully considered the recommendations made by the Governors and with respect to certain of the recommendations the Board offers special comments and in a few instances rulings have been made as hereafter indicated.

For convenience, the topics referred to are numbered in same order in which they were discussed at the conference, and are also listed in the same order in the mimeograph (X-1459) enclosed.

TOPIC 2. BANKERS' ACCEPTANCES: (Open Market)

(d) Sales of acceptances to other Reserve Banks with or without Reserve Bank endorsement.

Recommendation:

It is recommended that where voluntary open market purchases are made by one Reserve Bank through another Reserve Bank, no endorsement be expected or required.

Where sales of bills by one Reserve Bank to another Reserve Bank are made by mutual arrangement, endorsement may be required by the purchasing Reserve Bank and such transactions should promptly be reported to the Federal

-2-

X-1463

Reserve Board. That where rediscounts are arranged through the Reserve Board, at rates fixed by the Board, endorsements should always be given by the borrowing bank.

The Board approves the recommendation with the exception that it considers it essential that all interdistrict sales of bank-
ers' acceptances be made through, or under participation/arrangements approved by,
the Board, in order that it may be kept fully informed of the loan
and reserve conditions of all Federal Reserve Banks. This is the
practice at present.