

Form No. 131.

Office Correspondence

FEDERAL RESERVE BOARD

Date June 19, 1924. *W. H. [unclear]*

To Mr. Eddy

Subject: 333

From Mr. Smead

2-8105

333, 4(2)

You may be interested in knowing that the Federal Reserve Bank of New York purchased acceptances on June 17 at the minimum authorized rate of 2-1/2 per cent. The acceptances purchased at this rate were of the Canadian Bank of Commerce, Goldman Sachs and Company, and the French American Banking Corporation, and aggregated \$99,768.67. These acceptances were all bought from the Discount Corporation. You may also like to know that on June 16 the New York Bank purchased \$19,903,819.20 of acceptances of various institutions from J. P. Morgan and Company, on which a uniform rate of 3-1/8 per cent was charged. Of the acceptances purchased from J. P. Morgan and Company, \$6,259,771.19 were allotted to other Federal reserve banks. The maturities of these acceptances ranged from 1 to 140 days.

2

BOARD FILE
~~333~~

January 22, 1921

333, 4(2)

Dear Governor Strong:

I acknowledge receipt of your letter of the 21st instant, and note the suggestion you have to make with regard to the advisability of there being an understanding among the Federal reserve banks that bills from their own portfolios will not be offered in the open market. I shall discuss the matter with the other members of the Board and will let you hear from me further on the subject.

2

Very truly yours,

G O V E R N O R .

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

FEDERAL RESERVE BANK
OF NEW YORK

333.4(2)

PERSONAL:

RECEIVED
JAN 22 1921
OFFICE OF
THE GOVERNOR.

January 21, 1921.

Dear Governor Harding:

I think I recall one of our officers mentioning to you that we had recently learned that one of the Reserve Banks had sold all or some part of its holdings of bankers acceptances through a firm of bill dealers. It came to our attention because some of these bills were those which we had purchased for this Reserve Bank in the New York market and bore the indorsement of our member banks.

We are, possibly, not justified in suggesting as to how any Reserve Bank should manage its own affairs, but we have always felt, as to our own bills, that it was a mistake ever to dispose of any part of our portfolio in the open market, and I think a study of the subject will convince you that it is an unwise practice. But irrespective of that, we do feel interested in any such transaction when it relates to bills which we have ourselves purchased for one of the other banks, because the offering is at once made in this market.

I am writing you personally to inquire whether this situation might not be met by having an understanding among the Reserve Banks at least that no such sale shall be made without the bills being first offered to us at the same rate of discount which such Reserve Bank would realize through the brokers. At least as to bills which we buy, we would not like to have them sold or offered in the market without having opportunity first to buy them ourselves. I throw this out as a suggestion only for your consideration, without the slightest desire to indicate how any particular Reserve Bank

FEDERAL RESERVE BANK OF NEW YORK

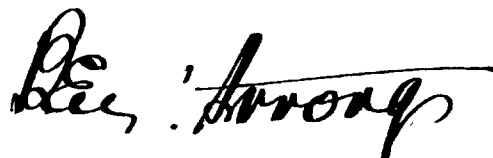
2

Governor Harding

1.21.21

should manage its affairs.

Very truly yours,

A handwritten signature in cursive script, appearing to read "B. M. S. B.", written in dark ink.

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

BS.MSB

MISC. S. 1-90M-1-20

for Mr. Harding's information

FEDERAL RESERVE BANK OF NEW YORK

3

OFFICE CORRESPONDENCE #2

DATE July 29, 1920
FEDERAL RESERVE BOARD FILE
333

TO Mr. Jay
FROM E. R. Kozel

RECEIVED
JUL 30 1920
OFFICE OF
THE GOVERNOR.

SUBJECT: Policy of Federal Reserve Banks Re
Open Market Sales of Bankers' Acceptances.

333 412

I have gone over the recent correspondence with Mr. McDougal which arose from their inquiry with regard to selling for their account in this market \$25,000,000 of indorsed bills.

There is no question as to the legal right of a Federal reserve bank to sell bills from its portfolio back into the market, but the wisdom and propriety of so doing has been considered, both by the governors in conference and the directors of this bank, with the result that both bodies discountenanced the practice, the principal thought being that Federal reserve banks, like all central banks, being places of ultimate rediscount, should not be traders and that paper which has been taken out of the market by Federal reserve banks should not again be found in the market. Also, that regard for the credit of a bank which has indorsed and sold paper from its portfolio to a Federal reserve bank would prevent the reserve bank from injecting that indorsement into the market, where it might be hawked around, to the embarrassment, if not to the detriment, of the indorser. This is irrespective as to whether or not the indorsement is that of a bank which accepts, and, of course, would apply to all bills bought by Federal reserve banks and not merely acceptances of New York banks.

The matter of relative market rates for bankers bills and Treasury Certificates of Indebtedness was not considered, and I cannot see that the question of rates can have any bearing on the principles involved in determining Federal reserve bank policy. It seems to me that the resale of a bank's indorsement that has been given only to a Federal reserve bank as a condition of purchase by the latter is really very little different from a sale by a Federal reserve bank of an item rediscounted for a member bank, which, I assume, would be legal if it were a bill of exchange and not a promissory note.

MISC.3.1-90M-1-20

FEDERAL RESERVE BANK OF NEW YORK

OFFICE CORRESPONDENCE

DATE July 29, 1929.TO Mr. JaySUBJECT: Policy of Federal Reserve Banks ReFROM E. R. KanzelOpen Market Sales of Bankers Acceptances.

-2-

I feel very certain that were Federal reserve banks to reverse their policy and appear as sellers of bills in the market, the effect would be to the detriment of the market and its development and that many banks which are now good buyers of bills would cease to purchase them if they thought that their indorsement on bills sold to a reserve bank might get into the market.

Aside from theory, however, there is the very practical fact of market conditions. The demand referred to by Mr. McDougal is New York savings banks' demand for the character of bills to which they are restricted by law, i. e., acceptances of New York State banks and trust companies and national banks located in New York. For these there has developed a pretty good and constant demand for moderate amounts, when they can be had at approximately the full term of 90 days at the top market rate, but the savings banks are as keen for rates as any other buyers and will not pay for an indorsed bill, but prefer to confine themselves to the bills of a comparatively few large banks with whose credit alone they are satisfied. Also, they are fussy as to maturities and prefer the 90-day period for round amounts rather than to take shorter and mixed maturities.

There has hardly been a time in recent years when \$25,000,000 of paper could have been readily remarketed here and a serious attempt to sell even a small proportion of that amount would be very disturbing in the present market.

With regard to Mr. McDougal's letter of July 16, I do not understand that his bank is under any special obligation to this bank not to dispose of paper which they may take on allotment from us or that it is contemplated that we should impose any such restriction with regard to paper which they may subsequently take either on allotment or by purchase from this bank and this, irrespective of whether or not such paper would be the acceptances of New York banks. It is my understanding, however, that Federal Reserve

MISC.3.1-90M-1-20

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE July 29, 1920.

TO Mr. Jay

SUBJECT: Policy of Federal Reserve Banks Re

FROM E. R. Kenzel

Open Market Sales of Bankers Acceptances.

-5-

System policies, formally adopted by the governors in conference and which have at least the informal approval of the Federal Reserve Board are continuing policies of the System until formally reconsidered.

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*Re.
Memo with
change PK*

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FEDERAL RESERVE BANK
OF NEW YORK

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July 15, 1920.

Dear Governor Harding:

I think you may be interested in the enclosed
copies of telegraphic communication with Mr. McDougal.

Very truly yours,

Pierre Jay
PIERRE JAY,
Chairman.

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

PJ.MSB
Enc.

FEDERAL RESERVE BANK
OF NEW YORK

COPY

Chicago, July 13, 1920

Kenzel, New York.

In view of the active demand which you report and shortage of supply New York bills can you sell for our account any part of \$25,000,000 endorsed bills? If so on what terms? Please reply promptly.

McDougal

FEDERAL RESERVE BANK
OF NEW YORK

COPY

Chicago, July 13, 1920

Kenzel, New York.

In view of the present condition of the Bill Market we have determined if possible to dispose of part of our holdings and consequently shall appreciate earliest possible reply to our telegram of this morning.

McDougal

FEDERAL RESERVE BANK
OF NEW YORK

COPY

July 13, 1920

McDougal, Governor,

Federal Reserve Bank of Chicago.

Your telegrams today received. The active demand reported by us is for prime New York member undorsed 90's. Practically no demand for indorsed bills. Sales of indorsed bills by dealers and banks are practically confined to us. Might be able sell some indorsed bills to dealers at from about 6-1/4 to 6% according to maturities but dealers would probably wish us to carry them and ultimately to purchase large portion at least. I am sure you are familiar with our views as to undesirability of Federal Reserve Bank selling indorsed bills from its portfolio to dealers in view of unwillingness of banks to have their name as indorsers held elsewhere than in Federal Reserve Banks and of restrictions Section 5202 National Bank Act regarding national bank liability. Though our position is not easy we would of course be willing if Board approves to make substantial purchases of bills referred to at our current buying rates for such paper if your need is sufficiently urgent

PIERRE JAY

FEDERAL RESERVE BANK
OF NEW YORK

COPY

Chicago, July 14th.

Pierre Jay

Your telegram contains the first advice we have received indicating that New York accepting banks are not willing to have their names as endorsers held elsewhere than in Federal Reserve Banks. The absence of any demand for endorsed bills is doubtless attributable to the fact that offerings of such bills have not generally been made. It is our opinion that under current conditions the Reserve Banks should not be large buyers of bills and that no restrictions should be imposed which would prevent sale of the open market of endorsed bills if the opportunity offers. While as indicated in our telegram we are desirous of reducing our holdings we, of course, would not be disposed to do so if the same are to be repurchased by you either for your own account or rediscounted. While we appreciate your expressed willingness to take some of our bills we cannot under present conditions consistently expect you to do so. Our intention was to dispose of the bills in the present active market and not sell the same to other reserve banks. If we are correct in understanding that New York endorsing banks do not desire their bills sold in the open market it may be necessary for us to discontinue to purchase the same and to confine our purchases to bills originating in this district where there is no such understanding on the part of the endorsing banks. Please advise as to whether our interpretation of your telegram is correct.

McDougal

FEDERAL RESERVE BANK
OF NEW YORK

COPY

JULY 15, 1920

MC DOUGAL GOVERNOR CHICAGO

• Answering your telegram received late yesterday afternoon regarding market for bills stop We are just as anxious as you that Federal Reserve Banks should not be large buyers of bills under current conditions but fact is that market will not yet nearly absorb aggregate output of bills and Federal Reserve Banks must carry unabsorbed balance stop If you sold \$25,000,000 bills in this market they would merely fill up the market for a like amount of fresh incoming bills which would otherwise be purchased by investors and we should find ourselves under the necessity of purchasing the \$25,000,000 of fresh bills whose market you had displaced stop I mailed you yesterday copy of a weekly ~~weekly~~ memorandum on bill market which I receive which I think will make the situation clearer to you stop

If we were now to sell endorsed bills to the market it is probable that many city banks would stop buying bills entirely which would have a disastrous effect on the market stop Furthermore occasional sales by Federal Reserve Banks would leave the dealers all at sea in their judgment as to the volume of bills to be dealt with and would result in curtailing their purchases from the acceptors and drawers of bills who rightfully look to the dealers for a ready market for their bills stop

As to the indorsing banks in this city not desiring their bills in open market we have no definite understanding with them but we know their views and are in full sympathy with them under present conditions at least stop I feel quite sure that this has been discussed at conferences here at which some of the out of town governors have been present and I know Governor Harding is fully conversant with this feeling on the part of the indorsing banks and am of the impression that he sympathizes with it stop It is my firm belief that

FEDERAL RESERVE BANK
OF NEW YORK

COPY

McDougal Chicago (Sheet #2)

bills selling at six per cent they are an attractive investment for country banks and Federal Reserve Banks should not lose this golden opportunity of educating their member banks to buy bills stop Our experience in this respect is most gratifying stop We now have one hundred and forty country member banks (out of a total of about seven hundred) who are buying bills regularly or occasionally through us, an increase of over one hundred since January first stop They are delighted with bills and with our service and many of them are now buying bills direct through brokers who are also equally delighted with our success in widening their market stop

We renew our willingness to take such portion of your bills as you find it necessary to dispose of subject to the approval of the Board and we hope that the next time you are in New York we may have an opportunity of discussing with you the bill market from all of its many angles

PIERRE JAY

McIntosh

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FEDERAL RESERVE BANK
OF NEW YORK

332-21
FEDERAL RESERVE BOARD FILE
~~333~~

333, 4(2)

IN REPLY PLEASE REFER
TO FRA-JVDS

April 19, 1920.

Dear Governor Harding,

I acknowledge receipt of your letter of April 17th,
addressed to Mr. Jay, returning fourteen letters from member
banks in this district on the subject of the purchase of accept-
ances.

Very truly yours,

Shepard Morgan
Shepard Morgan,
Assistant Federal Reserve Agent.

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

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RECEIVED
FEDERAL RESERVE BOARD
APR 20 1920

Mr. Jay
Member Banks

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April 17, 1920

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Dear Mr. Jay:

I am returning herewith for your files the
fourteen letters from member banks in your district
on the subject of the purchase of acceptances for
member banks, which you so kindly transmitted with
your letter of the 26th ultimo. These letters
have been brought to the attention of the other
members of the Board and have been read with interest.

Very truly yours,

G O V E R N O R

Mr. Pierre Jay, Chairman,
Federal Reserve Bank,
New York, N. Y.

Handwritten notes:
Paddock
4-18-20
1891

Handwritten: # 2

Handwritten: 332221
FEDERAL RESERVE BOARD FILE
333 -
333.4(2)

FEDERAL RESERVE BANK
OF NEW YORK

April 15, 1920.

R. G. Emerson, Esq.,
Assistant Secretary, Federal Reserve Board,
Washington, D. C.

My dear Mr. Emerson:

4/18/20
I wish to acknowledge receipt of the ten copies of the memorandum compiled by Mr. Paddock on the acceptances held by the Federal Reserve Bank of New York, prepared from data which he took during the recent examination of this bank by the Federal examiners.

Thanking you for your courtesy in this matter, I am,

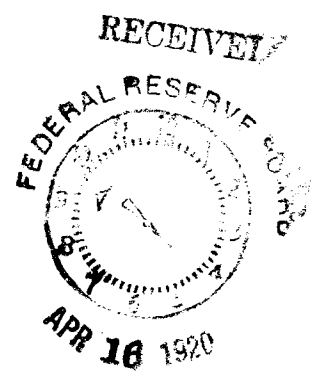
Very truly yours,

Handwritten signature: E. R. Kenzel

E. R. Kenzel,
Controller of Investments.

Handwritten: SE:VR

Handwritten signature



Handwritten notes: 332, 333, 333.4(2), 1-1891

April 12, 1920.

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

Dear Sir:

In accordance with your request made to Mr. Harrison over the telephone this afternoon, I am enclosing herewith, for distribution among the Directors of your Bank, ten copies of the memorandum prepared by Mr. Paddock on acceptances of the Federal Reserve Bank of New York.

Very truly yours,

(Enclosures)

Assistant Secretary.

*Proffert
Bancroft
Docket
4/15/20*

**FEDERAL RESERVE BANK
OF NEW YORK**

FEDERAL RESERVE BANK
733.1

**RECEIVED
APR 18 1920
OFFICE OF
THE GOVERNOR**

333,4(2)

April 12, 1920.

Dear Governor Harding:

X 1891 4/8/20-1891

Thank you for sending to me at Washington the copies of a report made by Mr. Paddock regarding bankers acceptances purchased in the open market by the Federal Reserve Bank of New York.

Following the distribution of this memorandum among the governors, we discussed the idea of our open market purchases' being made for the account of all the Federal reserve banks on a pro rata basis.

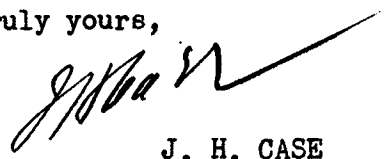
This principle was fully agreed to by the majority of the governors and the following resolution was adopted:

"That it is the sense of this meeting that the stabilization of the open bill market is incumbent upon the System as a whole, and that a committee be appointed by the Chair to develop an equitable basis for making such support effective."

This motion was carried with Richmond and Philadelphia not voting. The Chairman thereupon appointed the committee as follows:

- Governor Fancher
- Governor Morse
- Mr. Kenzel.

Very truly yours,



J. H. CASE
Acting Governor.

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

File

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~~333~~

MEMORANDUM

April 8, 1920.

333 413

To Governor Harding

From Mr. Paddock.

Subject: Bankers' Acceptances Purchased in the open market held by the Federal Reserve Bank of New York, March 27, 1920.

On February 28, 1920, the total of acceptances purchased in the open market by the Federal Reserve Bank of New York reached \$231,257,300.00, the largest amount ever held by the Bank. At the close of business March 27, 1920, when the present examination was commenced, the acceptance holdings amounted to \$196,480,000.00.

A general classification of the 7,500 acceptances held on March 27, 1920, is as follows:

<u>Character</u>	<u>Amount</u>
Import and Export Bills	\$154,450,000.00
Domestic Bills	25,750,000.00
Foreign Trade Bills	2,860,000.00
Domestic Trade Bills	270,000.00
Dollar Exchange Bills	2,150,000.00
Bills held under repurchase agreement	<u>11,000,000.00</u>
	\$196,480,000.00

From information taken off during the examination, it appears that the acceptances cover shipments of nearly one hundred different commodities, and that about one half of these acceptances, representing approximately 15% of the dollar total, set out specifically in the instrument the commodity covered. In many other instances an idea as to the character of the transaction financed may be obtained from firm names, place where drawn, or other information appearing on the bill. In a few cases the shipments are described as "General Merchandise". However, it is estimated that about one fourth of the acceptances held bear no evidence of the nature of the goods shipped, beyond the certificate as to

The general character of the transaction necessary under the Board's regulations for eligibility for purchase. The import bills, which constitute about two thirds of the total number of acceptances and one half of the total amount, usually contain full details in regard to shipments covered, including a description of the goods, vessel by which shipped, and reference to credit established:

The export bills give very little specific information concerning the shipments represented, beyond a general statement such as "Exports to Japan", "Cotton for Export", "Merchandise for export", "Carpets for Europe", etc. Aside from the certificate as to the nature of the transaction, necessary for eligibility, the domestic bills frequently fail to set out the goods covered. However, the domestic bills are in good form and the drawers are usually well known provision, grain or manufacturing concerns, of which the following may be mentioned as samples: Great Atlantic & Pacific Tea Co., International Grain Co., Wilson & Co., Nestles Food Co., Augusta Knitting Co., Utica Knitting Co., Mexico Hide Co., Newburger Cotton Co., Maxwell Motor Co., Oil Storage Co., Barnet Leather Co., United Sugar Co., Empire Petroleum Co., Castle Kid Co., Union Wool Co., Premier Worsted Mills, Tungsten Products Co.

The following classification as to commodities covered is made of the acceptances bearing definite information as to the character of the transaction represented:

Character of Acceptance	Number of Items	Percent of total no. items	Amount	Percent of total amount acceptances	Remarks
Silk	700	9.3	12,162,000	6.2	Imp. Japan
Cotton	480	6.0	11,130,000	5.7	Exports
Hides & Skins	345	4.6	10,461,000	5.3	Imp. S. Am.
Packers	380	5.0	7,980,000	4.0	Exports
Coconut oil	285	4.0	7,935,000	4.0	Imp. Orient
Sugar	225	3.0	5,515,000	2.8	Imp. W. Ind.
Silver	150	2.0	4,200,000	2.2	Exp. Orient
Coffee	150	2.0	3,500,000	1.8	Imp. S. Am.
Wool	80	1.0	2,600,000	1.3	Exp. Europe
Wheat	75	1.0	1,965,000	1.0	Exp. Europe
Tobacco	75	1.0	1,935,000	1.0	Imp.

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X-1891

Other commodity shipments which are shown by the data on the bills to have been financed by the acceptance method are as follows:

Copper, crude rubber, pulpwood, gasoline, kerosene, olive oil, brass, groceries, gold flour, crude oil, hemp walnuts, extracts, cocoa, camphor, human hair, bamboo matting, muriate of potash, dried albumen, sardines, diamonds, ivory, straw braid, rice, dog skin mats, clover seed, bristles, raisins, tea dust, cured herring, aniseed oil, straw hats, rugs, carpets, peanuts, Japan wax, gum damar, hardware, satin, rattan furniture, olives, cigars, glue, toys, drawing instruments, surgical instruments, crockery.

At the close of business March 27, 1920, the Federal Reserve Bank of New York held Bankers' Acceptances, drawn by the principal packing concerns, as follows:

Drawer	Distribution of acceptors	Number of acceptances	Amount
Armour & Co.	11 Banks in 5 Cities	153	3,975,000
Swift & Co.	16 Banks in 8 Cities	82	3,900,000
Morris & Co.	4 Banks in 2 Cities	43	1,300,000
Wilson & Co.	12 Banks in 6 Cities	25	1,128,100
Cudahy & Co.	1 Bank in 1 City	8	200,000
Total	38 Banks in 12 Cities	311	\$10,503,100

A few of these bills, amounting to less than \$500,000.00 are domestic acceptances bearing a certificate that "At the time of acceptance this bill was secured by shipping documents evidencing the domestic shipment of goods". About one third of the acceptances referred to in the foregoing tabulation of packers' bills are accepted by National banks and there is no notation thereon to show the character of the transaction. (Under the Board's regulations (B-1916) no evidence of eligibility is required with respect to a bill accepted by a National bank.) Forty-four of the bills carried in the tabulation, amounting to \$1,100,000, were out for collection and therefore could not be examined. The remainder of the bills contain a certification that "This acceptance is based on a transaction involving the importation or exportation of goods" or that the acceptance is "an inherent

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X-1891

part of an export transaction and does not require revenue stamps". The "Swift" bills refer to "Exports" and the "Armour" bills state "Drawn under L/C No.- , Date - , Covering exportation of Merchandise". None of the packers' bills contains any definite statement as to the commodity covered; the date, character or destination of the shipment; or the name of the vessel carrying the goods. On February 28, 1920, the date the acceptances reached the high mark, \$231,257,300.00, the packers' bills amounted to \$18,300,000.00 (8%). On March 27, 1920, with total acceptances of \$196,500,000.00, the packers' bills had been reduced to \$10,500,000.00 (5.3%).

A statement showing the distribution among banks and bankers of the acceptances on hand is attached to this memorandum.

GENERAL COMMENT

The acceptances held by the Federal Reserve Bank of New York at the close of business March 27, 1920, were found to be in good condition. Regulations and technical requirements are carefully observed, and detailed information in connection with the work is readily available.

The examination of the 7,500 bankers' acceptances held by the New York Bank strongly suggests the desirability of a standard size for acceptance forms, say 9" x 4", slightly larger than the ordinary note or check form, and uniform arrangement of printed matter on the face of the acceptance. It is also believed that it would be of great advantage in the consideration of acceptances to have included in the bill a definite statement as to the commodity covered, and in addition for import and export bills, the details of shipment.

X-1891 a

BANKERS' ACCEPTANCES PURCHASED

HELD BY FEDERAL RESERVE BANK OF NEW YORK, AT CLOSE OF BUSINESS MARCH
27, 1920.NEW YORK DISTRICTNATIONAL BANKS

American Exchange National Bank	\$1,289,000
Atlantic National Bank	377,000
Bank of New York, N.B.A.	1,554,000
Battery Park National Bank	83,000
Chase National Bank	2,384,000
Chatham & Phoenix National Bank	305,000
Chemical National Bank	1,082,000
Citizens National Bank	127,000
Coal & Iron National Bank	91,000
East River National Bank	2,000
First National Bank	300,000
Harriman National Bank	-
Importers & Traders National Bank	50,000
Irving National Bank	2,784,000
Liberty National Bank	1,659,000
Mech. & Metals National Bank	780,000
Merchants National Bank	617,000
National Bank of Commerce	10,119,000
National City Bank	9,251,000
National Park Bank	518,000
Seaboard National Bank	302,000
Union Exchange National Bank	10,000
Garfield National Bank	295,000

TRUST COMPANIES

Bankers Trust Co.	\$ 2,242,000
Central Union Trust Co	2,888,000
Columbia Trust Co	1,161,000
Equitable Trust Co	5,705,000
Farmers' Loan & Trust Co	3,032,000
Franklin Trust Co	277,000
Guaranty Trust Co.	5,673,000
Irving Trust Co.	376,000
Italian Discount & Trust Co	53,000
Lawyers Title & Trust Co	-
Mercantile Trust Co	-
New York Trust Co	485,000
Scandinavian Trust Co	-
U.S. Mortgage & Trust Co	334,000

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X-1891 a

STATE BANKS

American Foreign Banking Corporation	6,301,000
Asia Banking Corporation	2,408,000
Bank of America	286,000
Bank of Manhattan Co.	2,284,000
Bank of United States	282,000
Corn Exchange Bank	169,000
Columbia Bank	11,000
Foreign Credit Corporation	3,368,000
Foreign Trade Banking Corp.	1,005,000
French American Banking Corp.	1,990,000
Grace & Co., W.R. Bank	46,000
International Banking Corp.	3,419,000
Mercantile Bank of the Americas	6,521,000
New Netherland Bank	90,000
New York Produce Exchange Bank	2,000
Pacific Bank	315,000
Park Union Foreign Banking Corp.	3,034,000
The State Bank	57,000
Textile Banking Co	919,000

PRIVATE BANKERS

American Express Co.	705,000
Brown Brothers & Co.	9,121,000
Goldman, Sachs & Co.	6,195,000
Hallgarten & Co	-
Heidelbach, I & Co.	2,760,000
Huth & Co	155,000
Kuhn, Loeb & Co	950,000
Ladenburg, Thalman & Co	230,000
Lazard Freres	1,089,000
Maitland Coppel & Co	370,000
J.P. Morgan & Co	920,000
Munroe & Co. John	54,000
Naumburg & Co., E.	1,142,000
Schall & Co., Wm	1,358,000
Schulz & Ruckgaber	85,000
Seligman & Co., J & W	50,000
Sutro Bros. & Co	100,000
A. Iselin & Co	100,000

FOREIGN AGENCIES

Anglo South American Bank	1,632,000
Banca Com'le Italiana	1,199,000
Bank of British West Africa	178,000
Bank of Montreal	246,000
Bank of Nova Scotia	12,000
Bank of Taiwan	90,000
Canadian Bank of Commerce	3,938,000

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X-1891 a

FOREIGN AGENCIES(CONTINUED)

Dominion Bank	\$ 58,000
London & Brazilian Bank	86,000
National Bank of South Africa	1,555,000
Royal Bank of Canada	4,561,000
Standard Bank of South Africa	331,000
Union Bank of Canada	1,578,000
Merchants Bank of Canada	10,000

BROOKLYN

Brooklyn Trust Co	42,000
Peoples Trust Co	25,000

NEW JERSEY

First National Bank, Hoboken	74,000
Hamilton Trust Co. Paterson	141,000
Paterson National Bank, Paterson	4,000
First National Bank, Jersey City	33,000
Nat. Newark & Essex Bkg Co. Newark	200,000

NEW YORK STATE

Buffalo, Bank of Buffalo	25,000
" Citizens Com'l. Tr. Co.	350,000
" Fidelity Trust Co	100,000
" Liberty Bank	78,000
# Manufs, & Traders Natl. Bk.	600,000
" Marine Trust Co	618,000
Geneseo, Livingston City Trust Co.	9,000
Kingston, Rondout National Bank	103,000
Syracuse, First Trust & Deposit Co.	75,000
" Salt Springs National Bank	25,000

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X-1891 a

FOREIGN TRADE ACCEPTORS

Ind., Chartered Bank of I., A & C	
B. Altman & Co	\$ 39,000
Balfour, Williamson & Co	129,000
Cheney Brothers	51,000
H.W. Peabody & Co	295,000
Ind., Hong, & Shang. Banking Corp.	
Cheney Brothers	97,000
W.R. Grace & Co	70,000
H.W. Peabody & Co	103,000
Ind., Nonmember Banks	
G. Amsinck & Co	156,000
Balfour, Williamson & Co	142,000
W.R. Grace & Co	443,000
V. Guerin & Fils	10,000
Hadden & Co.	37,000
H.W. Peabody & Co	274,000
F. Vietor & Achelis	90,000
Ind., Member Banks	
G. Amsinck & Co	109,000
Armour & Co	79,000
Balfour, Williamson & Co	71,000
Cheney Brothers	518,000
W.R. Grace & Co	153,000
New York State	
Albany, N.Y. State National Bank	25,000
Utica, Citizens Trust Co.	100,000
" First National Bank	472,000
" Oneida City Trust Co.	50,000
" Utica Trust & Safe Deposit Co	87,000
Total Foreign Trade Acceptances	\$2,866,000

DOMESTIC TRADE ACCEPTANCES

United Cigar Stores Co.	268,000
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A-1891-a

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ATLANTA DISTRICT.

New Orleans,	Canal-Com'l, Nat. Bank	\$20,000
"	" Canal-Com'l. Tr. & Sav. Bank	126,000
"	" Hibernia Bank & Trust Co.	965,000
"	" Marine Bank & Trust Co.	25,000
"	" Whitney Cen. Nat. Bank	335,000
Atlanta,	Atlanta National Bank	202,000
"	Central Bank & Trust Co.	100,000
"	Lowry National Bank	90,000
Augusta,	Merchants National Bank	9,000

BOSTON DISTRICT.

American Trust Co.	250,000
Federal Trust Co.	113,000
First National Bank	4,525,000
First National Corp.	1,624,000
Fourth Atlantic National Bank	121,000
International Trust Co.	97,000
Lee, Higginson & Co.	1,601,000
Merchants National Bank	170,000
Moors & Co., J. B.	47,000
National Shawmut Bank	4,384,000
Old Colony Trust Co.	3,961,000
Second National Bank	9,000
Shawmut Corporation	1,868,000
State Street Trust Co.	369,000
Webster & Atlas National Bank	330,000
Blackstone Canal Nat. Bank, Providence, R.I.	72,000
Hospital Trust Co., "	350,000
Thames National Bank, Norwich, Conn.	233,000
First National Bank, New Haven, Conn.	23,000
Springfield Nat. Bank, Springfield, Mass.	100,000
Massoit Pocasset Nat. Bank, Fall River, Mass.	53,000

CHICAGO DISTRICT

Central Trust Co. of Illinois	4,000
C. & C. National Bank	1,008,000
Corn Exchange National Bank	316,000
First National Bank	197,000
Harris Trust & Savings Bank	100,000
Illinois Trust & Savings Bank	125,000
Merchants Loan & Trust Co.	14,000
National Bank of the Republic	90,000
Union Trust Co.	500,000
First Trust & Savings Bank	325,000
National City Bank	119,000
Detroit, First & Old Detroit Nat. Bank	250,000
" National Bank of Commerce	100,000
" Peoples State Bank	381,000

CHICAGO DISTRICT (CONTINUED)

Indianapolis, Fletcher Am. Nat. Bank	253,000
Milwaukee, First Wisconsin National Bank	75,000
" Second Ward Savings Bank	175,000

CLEVELAND DISTRICT.

Central National Bank	95,000
Citizens Savings & Trust Co.	49,000
Cleveland Trust Co.	873,000
First National Bank	125,000
First Trust & Savings Bank	30,000
Guardian Savings & Trust Co.	1,096,000
Superior Savings & Trust Co.	325,000
Union Commerce National Bank	1,158,000
Cincinnati, Citizens National Bank	221,000
" Fifth-Third National Bank	322,000
Pittsburgh, Bank of Pittsburgh, N. A.	359,000
" First National Bank	176,000
" Pittsburgh Trust Co.	50,000
" Farmers Deposits Nat. Bank	144,000
" Peoples National Bank	137,000
" Union Trust Co.	250,000
Akron, Ohio, Ohio Savings & Trust Co.	50,000
" " First Second National Bank	104,000
Toledo, " National Bank of Commerce	135,000

DALLAS DISTRICT

City National Bank	-----
El Paso, Tex. First National Bank	183,000
Texarkana, State National Bank	100,000
Houston, First National Bank	575,000

MINNEAPOLIS DISTRICT

First National Bank	600,000
Midland National Bank	407,000
Northwestern National Bank	845,000
St. Paul First National Bank	56,000
" " Merchants National Bank	248,000
Minneapolis, Metropolitan National Bank	70,000

PHILADELPHIA DISTRICT

Corn Exchange National Bank	703,000
Commercial Trust Co.	200,000
First National Bank	480,000
Fourth Street National Bank	137,000
Girard National Bank	1,470,000
Girard Trust Co.	150,000
Market Street National Bank	392,000

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PHILADELPHIA DISTRICT (CONT.)

Philadelphia National Bank	2,629,000
Tradesmen's National Bank	494,000
Union National Bank	99,000
Franklin National Bank	100,000
Anthracite Trust Company, Scranton, Pa.	25,000
Bosak State Bank, " "	25,000
Peoples Savings & Dime Bank, " "	25,000

RICHMOND DISTRICT

American National Bank	333,000
Merchants National Bank	54,000
National State & City Bank	292,000
Baltimore, Merch. & Mech. First Nat. Bank	1,000,000
" National Exchange Bank	267,000
" Second National Bank	167,000
" National Bank of Commerce	50,000
" Continental Trust Co.	550,000
" Citizens National Bank	250,000
" Union Trust Co.	47,000
" Farmers & Merchants Nat. Bank	25,000
" National Union Bank	25,000
Washington, D.C. Commercial National Bank	421,000
" Continental Trust Co.	100,000
" District National Bank	50,000
" National Metropolitan Bank	75,000

KANSAS CITY DISTRICT

Fidelity National Bank & Trust Co.	25,000
National Bank of Commerce	25,000

ST. LOUIS DISTRICT

Mercantile Trust Co.	309,000
Mississippi Valley Trust Co.	174,000
National Bank of Commerce	258,000
Louisville, Ky. National Bank of Kentucky	50,000
Memphis, Union & Planters Bank & Trust Co.	385,000

SAN FRANCISCO DISTRICT

Anglo & London Paris National Bank	1,595,000
Bank of California, N. A.	351,000
Wells Fargo Nevada National Bank	390,000

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SAN FRANCISCO DISTRICT (CONT.)

First National Bank, Los Angeles, Cal.	8,000
First National Bank, Berkeley, Cal.	25,000
U. S. National Bank, Portland, Ore.	100,000
First National Bank, Seattle, Wash.	75,000

Repurchase agreement	
Bernhard Scholle & Co.	1,718,000
Boal & Goodwin	498,000
Discount Corp. of N.Y.	8,625,000
Solomon Bros. & Hutzler	175,000

MISC 3

2 Times
~~XXXXXXXXXXXX~~
~~XXXXXXXXXXXX~~

33221

OFFICE CORRESPONDENCE

Date April 8, 1920.

To Governor Harding.

Subject: Bankers' Acceptances Purchased in the open market held by the Federal Reserve Bank of New York, March 27, 1920.

From Mr. Paddock.

333

W.P.P.

X-1891

333.4(2)

On February 28, 1920, the total of acceptances purchased in the open market by the Federal Reserve Bank of New York reached \$231,257,300.00, the largest amount ever held by the Bank. At the close of business March 27, 1920, when the present examination was commenced, the acceptance holdings amounted to \$196,480,000.00

A general classification of the 7,500 acceptances held on March 27, 1920, is as follows:

<u>Character</u>	<u>Amount</u>
Import and Export Bills	\$154,450,000.00
Domestic Bills	25,750,000.00
Foreign Trade Bills	2,860,000.00
Domestic Trade Bills	270,000.00
Dollar Exchange Bills	2,150,000.00
Bills held under repurchase agreement	<u>11,000,000.00</u>
	\$196,480,000.00

From information taken off during the examination, it appears that the acceptances cover shipments of nearly one hundred different commodities, and that about one half of these acceptances, representing approximately 15% of the dollar total, set out specifically in the instrument the commodity covered. In many other instances an idea as to the character of the transaction financed may be obtained from firm names, place where drawn, or other information appearing on the bill. In a few cases the shipments are described as "General Merchandise". However, it is estimated that about one fourth of the acceptances held bear no evidence of the nature of the goods shipped, beyond the certificate as to the general character of the transaction necessary under the Board's regulations for eligibility for purchase. The import bills, which constitute about two thirds of the total number of acceptances and one half of the total amount, usually contain full details in regard to shipments covered, including a description of the goods, vessel by which shipped, and reference to credit established.

MISC 3

~~FEDERAL RESERVE BANK~~
~~OF NEW YORK~~

OFFICE CORRESPONDENCE

Date _____

To _____

Subject: _____

From _____

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The export bills give very little specific information concerning the shipments represented, beyond a general statement such as "Exports to Japan", "Cotton for Export", "Merchandise for export", "Carpets for Europe", etc. Aside from the certificate as to the nature of the transaction, necessary for eligibility, the domestic bills frequently fail to set out the goods covered. However, the domestic bills are in good form and the drawers are usually well known provision, grain or manufacturing concerns, of which the following may be mentioned as samples: Great Atlantic & Pacific Tea Co., International Grain Co., Wilson & Co., Nestles Food Co., Augusta Knitting Co., Utica Knitting Co., Mexico Hide Co., Newberger Cotton Co., Maxwell Motor Co., Oil Storage Co., Barnet Leather Co., United Sugar Co., Empire Petroleum Co., Castle Kid Co., Union Wool Co., Premier Worsted Mills, Tungsten Products Co.

The following classification as to commodities covered is made of the acceptances bearing definite information as to the character of the transaction represented:

Character of acceptance	Number of items	Percent of total no. items	Amount	Percent of total amount acceptances	Remarks
Silk	700	9.3	12,162,000	6.2	Imp. Japan
Silver	435	5.8	12,075,000	6.1	Exp. Orient
Cotton	480	6.0	11,130,000	5.7	Exports
Hides & Skins	345	4.6	10,461,000	5.3	Imp. S. Am.
Packers	380	5.0	7,980,000	4.0	Exports
Cocoonut Oil	285	4.0	7,935,000	4.0	Imp. Orient
Sugar	225	3.0	5,515,000	2.8	Imp. W. Indies
Coffee	150	2.0	3,500,000	1.8	Imp. S. Am.
Wool	80	1.0	2,600,000	1.3	Exp. Europe
Wheat	75	1.0	1,965,000	1.0	Exp. Europe
Tobacco	75	1.0	1,935,000	1.0	Imp.

Other commodity shipments which are shown by the data on the bills to have been financed by the acceptance method are as follows:

Copper, crude rubber, pulpwood, gasoline, kerosene, olive oil, brass, groceries, gold, flour, crude oil, hemp, walnuts, extracts, cocoa, camphor,

MISC 3

~~FEDERAL RESERVE BANK OF NEW YORK~~

OFFICE CORRESPONDENCE

Date _____

To _____

Subject: _____

From _____

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human hair, bamboo matting, muriate of potash, dried albumen, sardines, diamonds, ivory, straw braid, rice, dog skin mats, clover seed, bristles, raising, tea dust, cured herring, aniseed oil, straw hats, rugs, carpets, peanuts, Japan wax, gum damar, hardware, satin, rattan furniture, olives, cigars, glue, toys, drawing instruments, surgical instruments, crockery.

At the close of business March 27, 1920, the Federal Reserve Bank of New York held Bankers' Acceptances, drawn by the principal packing concerns, as follows:

Drawer	Distribution of acceptors	Number of acceptances	Amount
Armour & Co.	11 Banks in 5 Cities	153	\$3,975,000
Swift & Co.	16 Banks in 8 Cities	82	3,900,000
Morris & Co.	4 Banks in 2 Cities	43	1,300,000
Wilson & Co.	12 Banks in 6 Cities	25	1,128,100
Cudahy & Co.	1 Bank in 1 City	8	200,000
Total	38 Banks in 12 Cities	311	\$10,503,100

A few of these bills, amounting to less than \$500,000.00 are domestic acceptances bearing a certificate that "At the time of acceptance this bill was secured by shipping documents evidencing the domestic shipment of goods". About one third of the acceptances referred to in the foregoing tabulation of packers' bills are accepted by National banks and there is no notation thereon to show the character of the transaction. (Under the Board's regulations (B-1916) no evidence of eligibility is required with respect to a bill accepted by a National bank.) Forty-four of the bills carried in the tabulation, amounting to \$1,100,000, were out for collection and therefore could not be examined. The remainder of the bills contain a certification that "This acceptance is based on a transaction involving the importation or exportation of goods" or that the acceptance is "an inherent part of an export transaction and does not require revenue stamps". The "Swift" bills refer to "Exports" and the "Armour" bills state

"Drawn under L/C No. - , Date - , Covering exportation of Merchandise". None of the

MISC 3

~~RECEIVED~~
~~FEDERAL RESERVE BANK OF NEW YORK~~**OFFICE CORRESPONDENCE**

Date _____

To _____

Subject: _____

From _____

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packers' bills contains any definite statement as to the commodity covered; the date, character or destination of the shipment; or the name of the vessel carrying the goods. On February 28, 1920, the date the acceptances reached the high mark, \$231,257,300.00, the packers' bills amounted to \$18,300,000.00 (8%). On March 27, 1920, with total acceptances of \$196,500,000.00, the packers' bills had been reduced to \$10,500,000.00 (5.3%).

A statement showing the distribution among banks and bankers of the acceptances on hand is attached to this memorandum.

GENERAL COMMENT

The acceptances held by the Federal Reserve Bank of New York at the close of business March 27, 1920, were found to be in good condition. Regulations and technical requirements are carefully observed, and detailed information in connection with the work is readily available.

The examination of the 7,500 bankers' acceptances held by the New York Bank strongly suggests the desirability of a standard size for acceptance forms, say 9" x 4", slightly larger than the ordinary note or check form, and uniform arrangement of printed matter on the face of the acceptance. It is also believed that it would be of great advantage in the consideration of acceptances to have included in the bill a definite statement as to the commodity covered, and in addition for import and export bills, the details of shipment.

BANKERS' ACCEPTANCES PURCHASED
HELD BY FEDERAL RESERVE BANK OF NEW YORK, AT CLOSE OF BUSINESS MARCH 27, 1920.

NEW YORK DISTRICT

NATIONAL BANKS

American Exchange National Bank	\$1,289,000
Atlantic National Bank	377,000
Bank of New York, N.B.A.	1,554,000
Battery Park National Bank	83,000
Chase National Bank	2,384,000
Chatham & Phoenix National Bank	305,000
Chemical National Bank	1,082,000
Citizens National Bank	127,000
Coal & Iron National Bank	91,000
East River National Bank	2,000
First National Bank	300,000
Harriman National Bank	-
Importers & Traders National Bank	50,000
Irving National Bank	2,784,000
Liberty National Bank	1,659,000
Mech. & Metals National Bank	780,000
Merchants National Bank	617,000
National Bank of Commerce	10,119,000
National City Bank	9,251,000
National Park Bank	518,000
Seaboard National Bank	302,000
Union Exchange National Bank	10,000
Garfield National Bank	295,000

TRUST COMPANIES

Bankers Trust Co.	\$2,242,000
Central Union Trust Co.	2,888,000
Columbia Trust Co.	1,161,000
Equitable Trust Co.	5,705,000
Farmers' Loan & Trust Co.	3,032,000
Franklin Trust Co.	277,000
Guaranty Trust Co.	5,673,000
Irving Trust Co.	376,000
Italian Discount & Trust Co.	53,000
Lawyers Title & Trust Co.	-
Mercantile Trust Co.	-
New York Trust Co.	485,000
Scandinavian Trust Co.	-
U. S. Mortgage & Trust Co.	334,000

STATE BANKS

American Foreign Banking Corp.	\$3,368,000
Asia Banking Corp.	6,301,000
Bank of America	286,000
Bank of Manhattan Co.	2,284,000
Bank of United States	282,000
Corn Exchange Bank	169,000
Columbia Bank	11,000
Foreign Credit Corp.	3,368,000
Foreign Trade Banking Corp.	1,005,000
French American Banking Corp.	1,990,000
Grace & Co., W. R., Bank	46,000
International Banking Corp.	3,419,000
Mercantile Bank of the Americas	6,521,000
New Netherland Bank	90,000
New York Produce Exchange Bank	2,000
Pacific Bank	315,000
Park Union Foreign Banking Corp.	3,034,000
The State Bank	57,000
Textile Banking Co.	919,000

PRIVATE BANKERS

American Express Co.	705,000
Brown Brothers & Co.	9,121,000
Goldman, Sachs & Co.	6,195,000
Hallgarten & Co.	-
Heidelbach, I & Co.	2,760,000
Huth & Co.	155,000
Kuhn Loeb & Co.	950,000
Ladenburg, Thalmann & Co.	230,000
Lazard Freres	1,089,000
Maitland Coppel & Co.	370,000
J. P. Morgan & Co.	920,000
Munroe & Co., John	54,000
Naumburg & Co., E.	1,142,000
Schall & Co., Wm.	1,358,000
Schulz & Ruckgaber	85,000
Seligman & Co., J & W	50,000
Sutro Bros. & Co.	100,000
A. Iselin & Co.	100,000

FOREIGN AGENCIES

Anglo-South American Bank	1,632,000
Banca Com'le Italiana	1,199,000
Bank of British West Africa	178,000
Bank of Montreal	246,000
Bank of Nova Scotia	12,000
Bank of Taiwan	90,000
Canadian Bank of Commerce	3,938,000

FOREIGN AGENCIES (CONTINUED)

Dominion Bank	\$58,000
London & Brazilian Bank	86,000
National Bank of South Africa	1,555,000
Royal Bank of Canada	4,561,000
Standard Bank of South Africa	331,000
Union Bank of Canada	1,578,000
Merchants Bank of Canada	10,000

BROOKLYN

Brooklyn Trust Co.	42,000
Peoples Trust Co.	25,000

NEW JERSEY

First National Bank, Hoboken	74,000
Hamilton Trust Co., Paterson	141,000
Paterson National Bank, Paterson	4,000
First National Bank, Jersey City	33,000
Nat. Newark & Essex Bkg. Co., Newark	200,000

NEW YORK STATE

Buffalo, Bank of Buffalo	25,000
" Citizens Com'l. Tr. Co.	350,000
" Fidelity Trust Co.	100,000
" Liberty Bank	78,000
" Manufs. & Trads. National Bank	600,000
" Marine Trust Co.	618,000
Geneseo, Livingston City Trust Co.	9,000
Kingston, Rondout National Bank	103,000
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4

FOREIGN TRADE ACCEPTORS

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Cheney Bros.	51,000
H. W. Peabody & Co.	295,000
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Utica, Citizens Trust Co.	100,000
" First National Bank	472,000
" Onside City Trust Co.	50,000
" Utica Trust & Safe Deposit Co.	87,000
Total Foreign Trade Acceptances	\$2,866,000

DOMESTIC TRADE ACCEPTANCES

United Cigar Stores Co.	268,000
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5

X-1891-a

ATLANTA DISTRICT

New Orleans,	Canal-Com'l. Nat. Bank	\$20,000
"	" Canal-Com'l. Tr. & Sav. Bank	126,000
"	" Hibernia Bank & Trust Co.	966,000
"	" Marine Bank & Trust Co.	25,000
"	" Whitney Gen. Nat. Bank	335,000
Atlanta,	Atlanta National Bank	202,000
"	Central Bank & Trust Co.	100,000
"	Lowry National Bank	90,000
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First National Bank	4,525,000
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Fourth Atlantic National Bank	121,000
International Trust Co.	97,000
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Merchants National Bank	170,000
Moors & Co., J. B.	47,000
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Old Colony Trust Co.	3,961,000
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State Street Trust Co.	369,000
Webster & Atlas National Bank	330,000
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Merchants Loan & Trust Co.	14,000
National Bank of the Republic	90,000
Union Trust Co.	500,000
First Trust & Savings Bank	325,000
National City Bank	119,000

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CHICAGO DISTRICT (CONTINUED)

Detroit, First & Old Detroit Nat. Bank	250,000
" National Bank of Commerce	100,000
" Peoples State Bank	381,000
Indianapolis, Fletcher Am. Nat. Bank	253,000
Milwaukee, First Wisconsin National Bank	75,000
" Second Ward Savings Bank	175,000

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Akron, Ohio, Ohio Savings & Trust Co.	50,000
" First Second National Bank	104,000
Toledo, " National Bank of Commerce	135,000

DALLAS DISTRICT

City National Bank	-
El Paso, Tex. First National Bank	183,000
Texarkana, State National Bank	100,000
Houston, First National Bank	575,000

MINNEAPOLIS DISTRICT

First National Bank	600,000
Midland National Bank	407,000
Northwestern National Bank	845,000
St. Paul First National Bank	56,000
" Merchants National Bank	248,000
Minneapolis, Metropolitan National Bank	70,000

PHILADELPHIA DISTRICT

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Market Street National Bank	392,000
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Union National Bank	99,000
Franklin National Bank	100,000
Anthracite Trust Company, Scranton, Pa.	25,000
Bosak State Bank, " "	25,000
Peoples Savings & Dime Bank, " "	25,000

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Merchants National Bank	54,000
National State & City Bank	292,000
Baltimore, Merch. & Mech. First National Bank	1,000,000
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" National Union Bank	25,000
Washington, D.C., Commercial National Bank	421,000
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" District National Bank	50,000
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KANSAS CITY DISTRICT

Fidelity National Bank & Trust Co.	25,000
National Bank of Commerce	25,000

ST. LOUIS DISTRICT

Mercantile Trust Co.	309,000
Mississippi Valley Trust Co.	174,000
National Bank of Commerce	258,000
Louisville, Ky. National Bank of Kentucky	50,000
Memphis, Union & Planters Bank & Trust Co.	385,000

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SAN FRANCISCO DISTRICT

Anglo & London Paris National Bank	1,595,000
Bank of California, N. A.	351,000
Wells Fargo Nevada National Bank	390,000
First National Bank, Los Angeles, Cal.	8,000
First National Bank, Berkeley, Cal.	25,000
U. S. National Bank, Portland, Ore.	100,000
First National Bank, Seattle, Wash.	75,000

Repurchase Agreement	
Bernhard Scholle & Co.	1,718,000
Boad & Goodwin	498,000
Discount Corp. of N. Y.	8,625,000
Solomon Bros. & Hutzler	175,000

EP

March 27, 1920

Dear Mr. Jay:

I acknowledge receipt of your letter of the 26th instant, transmitting memorandum to you from Mr. O'Hara, manager of your bill department, to which is attached letters from several member banks requesting that purchases of acceptances be made for their account, all of which I shall bring to the attention of the other members of the Board and return to you some time next week.

Very truly yours,

G o v e r n o r

Mr. Pierre Jay, Chairman,
Federal Reserve Bank,
New York, N. Y.

FEDERAL RESERVE BANK

NEW YORK

March 26, 1920.

Dear Governor Harding:

I am enclosing to you herewith a memorandum sent me a week ago by Mr. O'Hara, manager of our bill department. I took it to Pittsburgh thinking you would be interested in it, and showed it to some of the reserve agents there who seemed interested in it.

I think you know the plan of attempting to interest our country banks in buying acceptances which we have been pursuing for the past six or eight months. We now have some fifty or sixty who buy through us off and on. Many of them have graduated from buying through us and are buying directly through the bill brokers. With acceptances at their present level the distribution has broadened remarkably. Banks and corporations which formerly invested in Treasury certificates are turning to acceptances, and one day last week a large corporation was in the market for two or three million dollars of acceptances and could not scrape together that number.

Personally, I feel that this is the golden opportunity for the Federal Reserve System to educate the country banks as well as the city banks to buy bankers acceptances, (a) as a secondary reserve and (b) as a temporary investment for funds awaiting more permanent investment or likely soon to be drawn out. The services we offer of purchasing indorsed acceptances for our member banks without charge and holding them here and collecting when they fall due; or selling them in the market or buying them ourselves should the bank wish to realize before maturity; is being more and more appreciated. We have called it to the attention of banks on the occasion of their

Honorable W. P. G. Harding

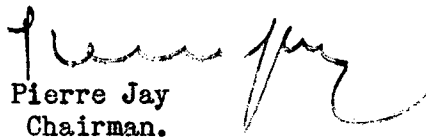
-2-

March 26, 1920.

coming in to visit us or when they are being visited by our travelling men. We are now thinking of getting up a circular on the subject. I wish very much the other Federal reserve banks would offer a similar service to their member banks, for it seems to me that this is the golden opportunity, when rates are so high, to get them started buying acceptances. When the rates fall some of them will quit, but on the other hand many of them will stick and we shall have immensely broadened the discount market. Do you think it would be wise to discuss this subject with the governors when they meet at the coming conference? We, of course, do not feel like pushing it especially, but if the Board should feel that the work we are doing is valuable and should indicate ~~to~~ a desire to have it extended in other districts, the governors I am sure would take it up.

Will you kindly return the letters after you have looked them over.

Very truly yours,


Pierre Jay
Chairman.

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

PJ/RAH
encs.

Form No. 131.

Office Correspondence

FEDERAL RESERVE BOARD

33221
 FEDERAL RESERVE BOARD FILE
 Date Feb. 28, 1920.
 Subject: 333.

To Mr. Miller,

From Mr. Chapman.

2-3495

333 (12)

At the meeting of the Board today it was requested that a copy of the attached memoranda of transactions of the Federal Reserve Bank of New York in the New York acceptance market be furnished each member of the Board.

Misc-37

FEDERAL RESERVE BANK OF NEW YORK

BANKERS ACCEPTANCES REDISCOUNTED AT CLOSE OF BUSINESS

FEBRUARY 20, 1920., TOTALLED \$9,660,000

The largest discounters of bankers acceptances are as follows:

National City Bank	2,692,000
National Park Bank	2,178,000
New York Trust Co.	<u>552,000</u>
Total	<u>5,422,000</u>

FEDERAL RESERVE BANK OF NEW YORK

MINIMUM RATES at which Federal Reserve Bank bought bills in open market
 January 1st to February 20, 1920 - all indorsed by banks
 or bankers - compared with rediscount rates under Section 13.

	<u>30</u>	<u>45</u>	<u>60</u>	<u>61/90 DISCOUNT RATE</u>	
January 6 to January 19	4 3/4	4 3/4-7/8	4 7/8-5	5	4 3/4
January 20 to January 22	4 3/4	4 7/8	4 7/8	5	4 3/4
January 23 to January 26	5 1/4	5 1/4	5 1/4	5 1/4	5
January 27 to January 28	5 1/2	5 3/8	5 3/8	5 1/2	5
January 29 to February 2	5 1/2	5 1/2- 3/8	5 3/8	5 1/2	5
February 3	5 1/2	5 3/8	5 3/8	5 1/2	5

Actual purchases have average above minimum rates

Purchase rates relate to open market conditions rather
 than to rediscount rate.

FEDERAL RESERVE BANK OF NEW YORK

MINIMUM RATES at which Federal Reserve Bank bought bills in open market January 2, 1919 to February 20, 1920 - all indorsed by banks or bankers - compared with rediscount rates under Section 15.

	1-30	31-45	46-60	61-90	15	<u>REDISCOUNT RATE</u>	
						<u>16-60</u>	<u>61-90</u>
Jan 2 to Nov 3	4	4 1/8	4 1/8	4 1/2	4	4 1/2	4 1/2
Nov 5 to Nov 23	4 1/2	4 5/8	4 5/8	4 1/2		<u>ALL MATURITIES</u>	
Nov 26 to Dec 3	4 3/8	4 1/2	4 1/2	4 1/2		4 1/2	
Dec 4 to Dec 22	4 1/2	4 5/8	4 5/8	4 1/2		4 1/2	
Dec 23 to Dec 29	4 5/4	4 3/4	4 3/4	4 7/8		4 1/2	
Dec 30 to Jan 5	4 3/4	4 3/4	4 3/4	5		4 3/4	
Jan 6 to Jan 19	4 3/4	4 3/4-7/8	4 7/8-5	5		4 3/4	
Jan 20 to Jan 22	4 3/4	4 7/8	4 7/8	5		4 3/4	
Jan 23 to Jan 26	5 1/2	5 1/2	5 1/2	5 1/2		5	
Jan 27 to Jan 28	5 1/2	5 3/8	5 3/8	5 1/2		5	
Jan 29 to Feb 2	5 1/2	5 1/2-5/8	5 3/8	5 1/2		5	
Feb 3	5 1/2	5 3/8	5 3/8	5 1/2		5	

Actual purchases have average above minimum rates

Purchase rates relate to open market conditions rather than to rediscount rate.

FEDERAL RESERVE BANK OF NEW YORK

000 OMITTED

TOTAL OPEN MARKET BILL PURCHASES, JANUARY 1 TO FEBRUARY 20, 1920.

Outright Purchases - - - - - \$298,091
 Bought under agreement of dealers to repurchase - - - - - 117,325 415,416
Outright purchases were
 Bought from dealers - - - - - 170,608
 " " member banks and other banks and bankers - 127,483 298,091

Distributed from bills purchased outright or held

	<u>Sold</u>	<u>Allotted</u>	
To Federal Reserve Bank of Boston	3,579	2,490	
Cleveland	18,621	42,269	
Richmond		325	
Atlanta		400	
Chicago		33,207	
St. Louis		250	
Minneapolis		375	
Kansas City		450	
Dallas		500	
San Francisco	3,408	52,020	
To 45 member banks on whose account the bills were bought	25,608	3,375 135,661	<u>161,249</u>

Net amount retained by Federal Reserve Bank of New York from
 outright purchases - - - - - \$156,822

NOTE: No distribution of bills bought under agreement of dealers
 to repurchase.

FEDERAL RESERVE BANK OF NEW YORK

BANKERS ACCEPTANCES ACCEPTED BY BANKS AND BANKERS
 IN THIS AND OTHER DISTRICTS HELD BY US CLOSE FEBRUARY 20, 1920
EXCLUSIVE OF BILLS HELD UNDER AGREEMENT TO REFINANCE

<u>District</u>	<u>Amount</u>
Atlanta	\$1,976,000
Boston	18,858,000
Chicago	10,393,000
Cleveland	7,685,000
Dallas	834,000
Minneapolis	1,772,000
Philadelphia	5,614,000
Richmond	2,716,000
St. Louis	648,000
San Francisco	<u>2,792,000</u>
Total	\$53,295,000
Accepted by New York banks and bankers	<u>153,030,000</u>
	\$ 206,325,000

FEDERAL RESERVE BANK OF NEW YORK

SUMMARY REPORTS

OF

PRINCIPAL DEALERS ON MARKET RATES.

BANKERS ACCEPTANCES & CALL MONEY LOANS THEREON

JANUARY 1 to FEBRUARY 20, 1920.

<u>PURCHASE RATES.</u>	<u>JANUARY</u>			<u>FEBRUARY</u>		<u>AVER- AGE.</u>
	<u>High</u>	<u>Low</u>	<u>AVER- AGE</u>	<u>High</u>	<u>Low</u>	
30 days	5 11/16	4 7/8	5 1/4	5 3/4	5 1/4	5 1/2
60 days	5 7/8	5	5 3/8	5 7/8	5 3/8	5 9/16
90 days	5 3/4	5 1/8	5 1/2	6 1/4	5 3/8	5 7/8
4 months	6 1/8	5 1/2	5 7/8	6 1/4	5 7/8	6
6 "						

SELLING RATES.

30 days	5 1/4	4 3/4	5	5 1/2	5 1/8	5 1/4
60 days	5 3/8	4 7/8	5 1/4	5 5/8	5 1/4	5 3/8
90 days	5 5/8	5	5 3/8	5 3/4	5 1/4	5 5/8
4 months	5 3/4	5 1/8	5 1/2	6 1/4	5 3/8	5 3/4
6 months						

RATES PAID FOR MONEY TO CARRY DEALERS PORTFOLIOS:

	<u>High</u>	<u>Low</u>	<u>Average.</u>
January	6	4 1/2	5 1/4
February	6	4 3/4	5 1/2

FEDERAL RESERVE BANK OF NEW YORK

CLASSIFICATION BY TRANSACTION OF BILLS PURCHASED HELDFEBRUARY 20, 1920.

(000 Omitted)

Bankers Bills held February 20, 1920		<u>\$206,325</u>
Of which Imports and Exports	=	177,707
Domestic	=	23,907
Dollar Exchange	=	<u>4,711</u>
		\$206,325
Foreign Trade -	2,990	
Domestic Trade -	568	
Repurchase Agts -	<u>7,429</u>	<u>10,987</u>
Total		\$217,313

Explanation of makers lines of \$100M or over. Unable
division of the \$177,707 item into

Imports	\$ 73,181
Exports	84,573
Undetermined	<u>19,953</u>
	\$177,707

FEDERAL RESERVE BANK OF NEW YORK

PUBLICITY.

BERNHARD, SCHOLLE & COMPANY:

Offering sheets to 4,000 banks weekly.
Offering sheets to 375 banks daily.

DISCOUNT CORPORATION OF N. Y.

Offering sheets: 411 daily.
110 twice a week.
1,569 weekly.
45 every two weeks.
14 monthly.

Total 2,149

Correspondence with all banks, \$1,000,000 capital and surplus or over, discloses generally loaned up condition. Exceptions very few.

NATIONAL CITY COMPANY.

Through its 27 offices distributes acceptance literature to 140,000 names on their mailing list monthly. Daily letters are in the hands of their salesmen in each office in addition to which printed daily offering lists are mailed to 200 local bank and investors.

FEDERAL RESERVE BANK OF NEW YORK.
PARTIAL DISTRIBUTION BY IMPORTANT CLASSES
OF LARGE DRAWERS OF EXPORT BILLS
HELD BY FEDERAL RESERVE BANK OF NEW YORK
FEBRUARY 20, 1920.
\$500,000 LINE CONSIDERED.

Packers	\$21,500,000.
Belgian Credit	15,410,000.
Silver	7,700,000.
Cotton Shippers	3,936,000.
Manufacturers	2,134,000.
General Exporter	<u>1,156,000.</u>
	<u><u>\$51,836,000.</u></u>

February 25, 1920.

FEDERAL RESERVE BANK OF NEW YORK

SUMMARY

REPORTS OF PRINCIPAL DEALERS

TRANSACTIONS

IN

BANKERS ACCEPTANCES.

Statement covering period from January 1, 1920 to February 20, 1920.

Amounts 000. Omitted

AMOUNT PURCHASED.

from Acceptors	\$208,975.	
" Endorsers	97,581.	
" Others	<u>97,251.</u>	
Total		<u>\$403,807.</u>

AMOUNT SOLD.

To Savings banks - Local	\$ 8,259.	
out-of-town	<u>15,164.</u>	
Total		\$ 23,423.
" Other banks and bankers Local	\$141,715	
out-of-town	<u>60,917</u>	
Total.		\$202,632
" Others - Local	\$ 8,046	
out-of-town	<u>2,679</u>	<u>10,725</u>
Total		\$236,780.
To Federal Reserve Bank		<u>\$161,171</u>
<u>Grand Total Sales</u>		\$397,951

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028
FEDERAL RESERVE BANK FILE
333
333 4(2)

December 24, 1919.

Mr. E. R. Kenzel, Manager,
Investment Department,
Federal Reserve Bank,
New York, N. Y.

Dear Mr. Kenzel:

I was much interested in your letter of December 23rd.

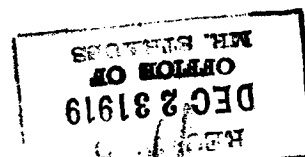
This whole question of a market for bankers' acceptances is one which is giving much concern to the Board. It seems to me, personally, that a broad market for acceptances can, in the long run, be created only if the rates at which acceptances sell are such as to make them a profitable form of investment for banks and institutions desiring to hold investments of a strictly liquid character. I can understand that in the early days of the System and in order to induce a community unaccustomed to the negotiation of acceptances to introduce this form of negotiable instrument, it might have been desirable to make rates unduly favorable to the drawer, but it seems that in the long run a market of this kind can only be maintained if rates are such as to appeal, on the basis of self-interest, to a broad circle of buyers.

With best wishes for the New Year, believe me,

Very sincerely yours,

Strouse

FEDERAL RESERVE BANK
OF NEW YORK



December 22, 1919.

333,412/

Dear Mr. Strauss:

On December 18 following a conversation with Mr. Wehle, I wrote Mr. Meyer regarding the possibility of the War Finance Corporation making some advances in connection with the financing of exports in such a way that relief would also be extended in the immediate future to the discount market, and sent a copy of that letter to Governor Harding. The next day Mr. Meyer spoke to me over the telephone in regard to the suggestion and advised me that he had discussed it with you and also with Mr. Leffingwell. Since then Governor Strong has talked to Mr. Leffingwell regarding it.

In this connection I feel that you wish me to advise you rather fully as to the present state of the discount market which is greatly demoralized. The effect of the continued high rates for money is cumulative, and the amount of bills that can be moved by dealers is negligible. The dealers have advanced their rates in the hope of effecting distribution at higher levels. They are now bidding from $5 \frac{1}{8}$ to $5 \frac{1}{4}$ for prime bills which they are offering at from $4 \frac{7}{8}$ to $5 \frac{1}{8}$ according to names and for the longer maturities. There is absolutely no demand for the paper, and they can only relieve themselves and make room for new bills by purchasing indorsements or swapping and selling their indorsed paper to us. We have advanced our buying rates to a minimum of $4 \frac{3}{4}$ for the primest bills with prime indorsement having over 60 days to run, ranging up to 5% or high^{er} for names not so well known, and we are getting bills at these rates, in volume increasing almost every day. To-day our purchases in-

FEDERAL RESERVE BANK OF NEW YORK

2

Hon. Albert Str

12/22/19

cluding about \$4,000,000 of advances to dealers on 15 day agreement exceeded \$22,000,000, \$10,000,000 of which came from banks, and \$8,000,000 from discount houses and dealers, the Discount Corporation being compelled to sell us upwards of \$5,000,000 to make room for new paper^{on} which they were committed to take delivery to-day. They and the other dealers are carrying current portfolios of about \$50,000,000, and are finding great difficulty in their borrowing notwithstanding that we are carrying for them about \$13,000,000 of their portfolios, their portfolios compared with \$80,000,000 to \$100,000,000 carried without recourse to us a few months ago. Without exception the dealers are apprehensive of what they term the "Belgium crisis" on the 30th of the month, when \$40,000,000 of bills under the Belgium credit will be renewed, and offered in the market under the terms of the credit. In a market such as we have experienced the past month the particular sufferers among acceptors are our foreign trade banks and other corporations operating under section 25. At best the distribution of these bills is not nearly so good as those of the larger member banks and they always take rates somewhat higher than those of prime numbers. The Mercantile Bank of the Americas is a conspicuous instance in point, and I understand that they are having great difficulty in realizing on their paper this month, when their merchandise movement is very heavy, and I doubt very much if they are not paying at least $5 \frac{3}{8}$ and possibly $5 \frac{1}{2}$ on most of their current sales, of about \$25,000,000. Outstanding, the system holds to my knowledge about \$16,000,000, of which we have \$10,500,000, of course all well indorsed and the indorsements widely distributed, but the proportion of their total outstandings held by the system is an indication of the discrimination that exists in the market ^{against} of acceptances of non-members, and their particular disadvantage in times of tight money and lack of demand for paper.

Under such circumstances I cannot but believe that the lifting from the market for a period of say 90 days of a round amount of export bills which

FEDERAL RESERVE BANK OF NEW Y

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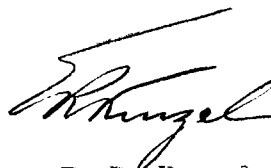
Hon. Albert Straus

12/22/19

the War Finance Corporation might do between now and the end of the year, would be a considerable factor in easing the strain over the end of the year and improve the market position of the balance of bankers bills now in the market and also those which will come in during such period. It also seems to me entirely probable that the affect of such a transaction would reflect in easier money conditions after the ^{turn} ~~turn~~ of the year, which would facilitate the new financing that the Treasury may do at that time. Even if the necessary funds had to be called for from depositaries the burden would be distributed over the entire country rather than concentrated in New York and a few Federal reserve banks.

Mr. Strong expected to talk again to Mr. Leffingwell this afternoon on this matter.

Very truly yours,



E. R. Kenzel,
Manager, Investment Department.

Hon. Albert Strauss,
Vice Governor, Federal Reserve Board,
Washington, D. C.

33212

Poling
Amended return

FEDERAL RESERVE BANK
OF NEW YORK

RECEIVED
DEC 20 1919
OFFICE OF
THE GOVERNOR

333.412

December 24, 1919.

Dear Governor Harding:

Referring to Governor Strong's personal letter to you of December 17, with regard to our policies in purchasing bills in the open market, he desires me to correct a very apparent misstatement, as applied to the present time and also for some time past, that our open market purchases have been maintained at rates below the discount rate. That was the case up to the time when we established special rediscount rates under Section 13 for bankers bills, and for some little time thereafter, or until the outside market passed our rediscount rate.

What we have always strived to do in our open market purchases has been to keep our buying rates closely in line with the rates at which bills were dealt in in the outside market, and ^{buy} only at, or slightly above, those rates, taking into consideration the value of banking indorsement which we require but which the bills ordinarily do not bear when they are sold by the dealers. For example, when prime ninety day bills, unindorsed, were selling at $4\frac{1}{4}\%$, we bought ~~at $4\frac{1}{8}$ to $4\frac{1}{2}$~~ prime bills of like maturity, well indorsed, at $4\frac{1}{8}$ to $4\frac{1}{4}\%$. As the rates outside advanced, we have advanced our buying rates, so that today, with prime sixty to ninety day bills offered by the dealers in the market without indorsement at 5%, we are buying like names and maturities at $4\frac{7}{8}$ to 5%, so that, reckoning the value of a real good indorsement at from $\frac{1}{8}$ to $\frac{1}{4}$ of 1%, we are slightly above the market and have been there for a long time, during part of which our purchases were below our rediscount rate and more recently have been above our rediscount rate.

It was through a slip in the tenses that the paragraph in Mr. Strong's letter might be misleading for your purposes and I trust that the above ^{will} clear it up entirely.

FEDL . RESERVE BANK OF NEW YORK.

12/24.

Permit me please to take this opportunity to extend to you my heartiest
season's greetings.

Very truly yours,



E. R. Kenzel,
Controller of Investments.

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

ERK/VR

2 33221
~~333~~

December 18, 1919. 333,42)

Dear Governor Strong:-

I hasten to acknowledge receipt of your letter of the 17th instant outlining the policy of the Federal Reserve Bank of New York in making purchases of bills in the open market.

I think you have made it very clear that you have pursued the correct policy, and I believe that the other members of the Board will concur. I shall make free use of your letter in an appropriate paragraph of the Board's Annual Report now in preparation.

Thanking you very much, I am

Sincerely yours,

Mr. Benj. Strong, Governor,
Federal Reserve Bank,
New York City.

Amended

FEDERAL RESERVE BANK
OF NEW YORK

333.4(2)

RECEIVED
DEC 18 1919
OFFICE OF
THE GOVERNOR.

December 17, 1919.

My dear Governor Harding:

You asked me for a statement of the policy of the Reserve Bank in making purchases of bills in the open market, the effect of which has been to very largely increase the Reserve Banks' holdings of bills during the last six months - at the same time, however, that the amount of loans made by Reserve Banks, secured by Government obligations, have been somewhat reduced, or, at least, have not increased in amount.

The explanation lies entirely in the relation between our various rates of discount. From the very beginning of the Federal Reserve System, when bankers acceptances began to appear in the market, it was deemed necessary to establish a more favorable rate either for the discount of these bills by member banks or for their purchase in the open market than was established for the discount of commercial paper. The reasons were, partly to stimulate the development of the new business with which our bankers were unfamiliar and which was regarded as essential to the Federal Reserve System and, particularly, to the financing of the foreign commerce of the United States by American banks instead of, as heretofore, by foreign banks. But this preferential rate was also established in recognition of the fact that a bill drawn against an actual shipment of commodities and accepted by the largest and richest banks and bankers of the country was a credit instrument of greater value commanding a lower rate than the average of the commercial paper which would reach us from the banks of the district in the ordinary course of their discount operations. In other words, a preferential discount and buying rate was established in order to stimulate a necessary banking development in the country and in recognition that this particular type of paper was a better asset than any other line of

FEDERAL RESERVE BANK - NEW YORK

Governor Hardin

12.17.19

commercial paper.

So long as our rate of discount for commercial paper and for bankers bills was at or above the rates at which this paper sold in the market, it became necessary for us to purchase bills in the open market at lower rates than our discount rate. You will recall that we did this, not only for our own account but for all of the banks of the System, for the first two or three years. Gradually, however, during the period of the war, as money rates advanced our own rate for the discount of bills (of bankers bills, particularly, and for the various other paper that we discounted) became increasingly below the market rate. The question therefore arose as to this department of our business, "Shall we advance our discount rate and with it our buying rate?"

The answer was, inevitably, that we could only do so if we advanced our other rates. Were we to advance our other rates, including our rate for commercial paper, leaving the rate for Government securities as then established, the Federal Reserve Banks would have been out of the market entirely for bankers acceptances, and the successful marketing by our merchants and bankers of this most important credit instrument, just being developed for the aid of our foreign commerce, would have depended entirely upon the willingness of the bankers of the country to buy them. They undoubtedly would have had a market, but I have no doubt that the rate would have advanced so considerably that it would have deferred for a long period the development of our foreign banking.

The reason why so large a proportion of these bills reached us as open market purchases, rather than as discounts, is because we have consistently, and I believe properly, maintained the rate at which we buy bills below the rate at which we discount them, in order that the dealers in bills may have the benefit of a market in which bills can actually be sold and, at the same time, in order that banks holding portfolios of these bills may convert them at favorable rates when they need to build up their reserves. The policy of the Reserve Banks in this respect has, I believe, been successful in developing this field of banking in the short period

FEDERAL RESERVE BANK OF NEW YORK, 3

Governor Harding

12.17.19

of a few years, whereas had we not stimulated the business, it would have had only a negligible development.

It must be borne in mind that so long as the rate established by the Reserve Banks is below the general level of interest rates our discounts, in one form or another, are bound to increase unless we adopt the policy of absolutely denying credit without regard to rates. The most favorable rate has been that established for loans upon Government securities, therefore, the largest amount of our discounts has been of that character. The next most favorable rates have been the buying and discount rates for bankers bills, therefore, quite naturally, the largest percentage of our discounts and purchases, other than Government-secured paper, has been of this character. The highest rate has been that for commercial paper, and, therefore, the smallest amount of our discounts has been of that character.

You will recall that I advised you when we advanced our rates for Government-secured paper that we were quite likely to be forced to buy large amounts of bankers bills in the open market or else to abandon that market and put our banks at a great disadvantage in competing with foreign banks and developing this important business. The present large holdings of bills by the Reserve Banks are no less than I anticipated and they are liable to increase until our whole level of rates is advanced and until our rates are made uniform.

After the past five years' experience with the rate policy of the Reserve Banks, I am now prepared to recommend without qualification that the time has arrived, or will shortly arrive, when the Reserve Banks should have one rate of discount; -- certainly the Federal Reserve Bank of New York should -- that rate applying to all kinds of paper and for all periods of time, with the sole exception of the rate at which we buy bills in the open market. That rate, if our discount rates are about at the market, can well be somewhat under our discount rate, but, as the purchases are made voluntarily, we would then be in position to go into the market and buy, or, if we preferred, decline to buy, and, in the latter case, bills would come to us for discount at our discount rate.

Form 40

TELEGRAM
FEDERAL RESERVE BOARD
WASHINGTON

FEDERAL RESERVE BOARD FILE
333

August 1, 1919.

Minneapolis - New York.

Board suggests that you inform Minneapolis that in view of fact that it may be necessary for Board to call upon Minneapolis during next few days to make additional rediscounts for other Federal Reserve Banks that the purchase of five million of acceptances from your Bank be deferred for the present.

CHIEF CLERK

OFFICIAL BUSINESS
GOVERNMENT RATES
CHARGE FEDERAL RESERVE BOARD
2-7720

Form 40

~~TELEGRAM~~
FEDERAL RESERVE BOARD
WASHINGTON

FEDERAL RESERVE BOARD FILE
333.412

July 25, 1919.

333.412

Treman,
New York

Board approves purchase by your Bank from Federal Reserve
Bank of Dallas \$2,500,000 tax certificates maturing September 15th.

STRAUSS

Vice-Governor.



OFFICIAL BUSINESS
GOVERNMENT RATES
CHARGE FEDERAL RESERVE BOARD

2-7729

CD FILE

333.4(2)

FEDERAL RESERVE BOARD

June 26, 1919.

Mr. Croxton stated that Governor Strong talked with New York Bank from his office yesterday in regard to this, and that the Farm Loan Board agreed to take over these certificates from Dallas. The Farm Loan Board took \$2,000,000 of the certificates, and paid for same this morning, and would have taken the entire lot except that Dallas would not let them have more than the \$2,000,000.

JFM

June 26, 1919.

MEMORANDUM FOR MR. LEFRINGWELL:

I was out during most of yesterday afternoon and saw Strong for only a moment around six oclock. He did not mention the above matter to me. I do not know what Treman means by the Treasury Department handling these tax certificates. Will you be good enough to let me know how this matter stands?

H.H.

From
SPB 20
271-122-1
1262

Form No. 131.

Office Correspondence

FEDERAL RESERVE BOARD

Date June 26, 1919.

To Mr. Broderick.

Subject: 333 403

From Mr. Eddy.

2-5195

Mr. Treman, Federal Reserve Bank of New York advises by telephone of the receipt of wire from Federal Reserve Bank of Dallas, asking New York Bank to purchase from Dallas Bank \$2,500,000. tax certificates maturing September 15th.

He stated New York Bank was ready to purchase certificates upon receipt of Board's approval of transaction.

cm

Eddy
cm
H

St. Louis
Dallas

2

311.1

FEDERAL RESERVE BOARD FILE
~~333.~~

June 26, 1919.

333.4 (2)

Dear Mr. Treman:

I received your letter of June 25, in relation to \$2,500,000 of tax certificates of September 15th maturity. I understand from the Treasury that the \$2,000,000 of certificates, all that the Dallas Bank had available, were taken over by the Farm Loan Board, and that the matter, therefore, requires no further action.

I am,

Very truly yours,

Mr. R. H. Treman, Deputy Governor,
The Federal Reserve Bank of New York.

FEDERAL RESERVE BANK
OF NEW YORK

RECEIVED
JUN 26 1919
OFFICE OF
MR. STRAUSS

333.4(2)

June 25, 1919.

Dear Mr. Strauss:

We have your telegram advising of the Board's approval of our purchasing \$2,500,000. tax certificates, September 15th maturity, of the Federal Reserve Bank of Dallas.

In talking with Governor Strong by telephone today about some bank matters, I advised him of the request of Governor Van Zandt and he thought that the Treasury Department might be able to handle these for Dallas and so we telegraphed Governor Van Zandt asking him to take the matter up with the Treasury Department.

Should this plan not be carried through, we shall be glad to assist in disposing of these in the New York market, if possible.

Very truly yours,



Deputy Governor.

Honorable Albert Strauss,
Vice Governor, Federal Reserve Board,
Washington, D. C.

RHT.ELS

#2

332.5
FEDERAL RESERVE BOARD FILE
333

April 5, 1919.

333.47

Dear Mr. Kensel:

I acknowledge receipt of your letter of the 4th instant, in which you refer to the suggestion made to the Federal Reserve Bank of Kansas City that it discontinue participation in your general purchases until its own reserve position improves. The Board understands that this will leave you with a distribution of 31% of your daily purchases to be made among the four banks named in your letter.

It is to be hoped that present conditions in the Kansas City district are only temporary, and that the Federal Reserve Bank of Kansas City may soon be able to resume its regular purchases.

Very truly yours,

Governor.

Mr. E. R. Kensel, Manager of Investments,
Federal Reserve Bank,
New York.

FEDERAL RESERVE BANK

OF NEW YORK RECEIVED

APR 5 - 1919

GOVERNOR'S OFFICE

333.4(2)

IN REPLY PLEASE REFER
TO ERK

April 4, 1919.

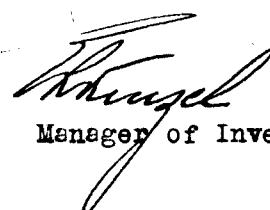
Dear Governor Harding:

As requested in your telegram of the third instant, we rediscounted yesterday for Kansas City \$10,000,000 in member bank collateral notes secured by Government obligations, maturing within fifteen days at 4%. I enclose herewith confirmation of my telegram of yesterday's date requesting you to charge our account and credit Kansas City through the Gold Settlement Fund with the amount of this transaction.

Kansas City has advised us that the notes in question mature within from nine to fourteen days and they have requested us to discount for them for a fixed period of nine days.

I take this opportunity to inform you that we received a telegram from Kansas City this morning advising us that you thought they should discontinue their participation in our general purchases until their own reserve position improves. We shall accordingly commence to-day to discontinue our usual allotment of 4% to Kansas City until such time as they may wish to commence participations again. This now leaves us with a distribution to other Federal reserve banks of 31-1/2% of our daily purchases, made up as follows: Chicago 10%, Cleveland 10%, Minneapolis 5%, San Francisco, 6-1/2%.

Respectfully,


Manager of Investments

Honorable W. P. G. Harding,
Governor, Federal Reserve Board,
Washington, D. C.
Enc. No. 635

415

Misc. 34

FEDERAL RESERVE BANK
OF NEW YORK

(TO BE MAILED)

CONFIRMATION OF TELEGRAM

333,4(2)

We have today telegraphed you as follows:

April 3, 1919

~~Broderick, Secretary~~
~~Federal Reserve Board~~
Washington, D. C.

Referring to your telegram today please charge our account and credit Kansas City today through Gold Settlement Fund ten million dollars for rediscount of like amount member bank collateral notes secured by government obligations maturing within fifteen days rate 4% We are arranging details today with Kansas City by wire

Kenzel

MISC-73

FEDERAL RESERVE BANK
OF NEW YORK

ENCLOSURE NO. 635

#2

332.5
FEDERAL RESERVE BOARD FILE
333. ~~---~~

FEDERAL RESERVE BANK
OF NEW YORK

333.4 (2)

RECEIVED
APR 3 - 1919
GOVERNOR'S OFFICE

April 2, 1919.

Dear Governor Harding:

With reference to my telephone conversation yesterday afternoon with Mr. Broderick and your telegram to-day, I beg to advise you that we have purchased to-day from Boston \$10,000,000 in bankers acceptances maturing within 69 days and less at from 4% to 4 1/8%.

✓ 333

Confirming Mr. Treman's telephone conversation with you this afternoon in connection with your further telegram of to-day's date, we discounted for Philadelphia, \$10,000,000 member bank collateral notes secured by Government obligations maturing within 15 days at 4%.

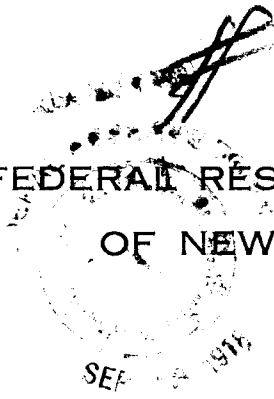
✓
332.5

Respectfully,

Manager of Investments.

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

FEDERAL RESERVE BANK
OF NEW YORK



332.21
FEDERAL RESERVE BANK FILE
330.
333.42
September 12, 1918.

Dear Mr. Chapman:

Replying to your letter of September 5th, our discount department has furnished me with the following statement showing the bankers' acceptances sold to other Federal reserve banks during 1917, to improve our reserve position. There was only one sale made for the specific purpose, namely, that of November 8th, although, of course, we were throughout the year more or less regularly distributing bills purchased here among the other banks, and it is difficult and perhaps impossible to say whether in all cases such allotments were designed to enlarge the bill holdings of the other institutions or to improve our reserve condition. The rates charged were the market rates for bills of like character, and it is hardly practicable to compute the exact amount which went at each rate, as the computations were made on the individual bills.

Federal Reserve

<u>Bank of -</u>	<u>Amount</u>	<u>Rates</u>
San Francisco	\$10,010,850.52	$3\frac{3}{8}$, $3\frac{1}{4}$, $3\frac{1}{2}$, $3\frac{1}{8}$, $3\frac{5}{8}$, $3\frac{3}{4}$, $3\frac{7}{8}$
St. Louis	4,689,817.67	$3\frac{3}{8}$, $3\frac{1}{4}$, $3\frac{1}{2}$, $3\frac{1}{8}$, $3\frac{5}{8}$
Richmond	3,356,984.59	$3\frac{1}{4}$, $3\frac{1}{8}$, $3\frac{3}{8}$, $3\frac{1}{2}$, $3\frac{5}{8}$
Minneapolis	4,912,658.54	$3\frac{3}{8}$, $3\frac{1}{4}$, $3\frac{1}{8}$, $3\frac{5}{8}$, $3\frac{1}{2}$, $3\frac{3}{4}$, 4
Cleveland	10,037,907.60	$3\frac{1}{4}$, $3\frac{1}{8}$, $3\frac{1}{2}$, $3\frac{3}{8}$, $3\frac{5}{16}$, $3\frac{5}{8}$, $3\frac{3}{4}$, $3\frac{7}{8}$
Dallas	5,005,892.52	$3\frac{3}{4}$, $3\frac{1}{4}$, $3\frac{3}{8}$, $3\frac{1}{2}$, $3\frac{5}{8}$, $3\frac{1}{8}$
Philadelphia	9,658,800.79	$3\frac{1}{4}$, $3\frac{1}{2}$, $3\frac{1}{8}$, $3\frac{3}{8}$, $3\frac{5}{8}$, 4, $3\frac{3}{4}$
Boston	5,046,526.73	$3\frac{3}{8}$, $3\frac{1}{2}$, $3\frac{5}{8}$, $3\frac{1}{4}$, $3\frac{1}{8}$
	\otimes \$52,719,438.96	

I trust that this will serve your purpose, but if further information is

\otimes For total acceptances sold in 1917 see p. 121
FRB Board's 1917 Annual Report

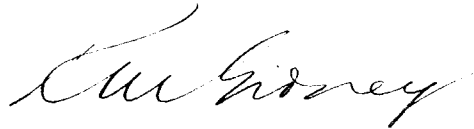
FEDERAL RESERVE BANK OF NEW YORK

W. T. Chapman, Esq.

9/12/18.

desired, I shall be glad to have you advise me.

Very truly yours,



Assistant Federal Reserve Agent.

W. T. Chapman, Esq.,
Assistant Secretary, Federal Reserve Board,
Washington, D. C.

RMG/LES

2 33224
FEDERAL RESERVE BOARD FILE
~~333~~
3334

July 2, 1918.

Dear Mr. Case:

I thank you for your letter of June twenty-ninth, from which I am glad to note that your board has decided to deal with trade acceptances endorsed by member banks in a manner that will encourage the development of the trade acceptance market.

Very truly yours,

(Signed) PAUL M. WARBURG.

J. H. Case, Esq.,
Deputy Governor,
Federal Reserve Bank,
New York.

FEDERAL RESERVE BANK
OF NEW YORK

333.4(7)

June 29, 1918.

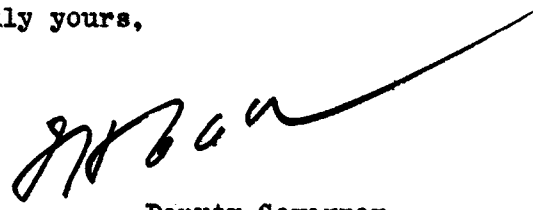
circulate

My dear Mr. Warburg:

Your letter of the 26th instant, addressed to Governor Strong, in connection with the purchase in the market of domestic trade acceptances by Federal reserve banks, has, in his absence, been handed to me for acknowledgment.

After further consideration we have decided to hold ourselves in readiness to purchase paper of this character at rates approximately the same as that for rediscount of similar paper, and when accepted by good names and bearing prime banking indorsement.

Very truly yours,



Deputy Governor.

Honorable Paul M. Warburg,
Vice-Governor, Federal Reserve Board,
Washington, D. C.

761

CIRCULATE PROMPTLY

Handwritten signature
WASSBURG

DELANO *Handwritten initials*

Handwritten signature
MILLER

HAMLIN

After which return to the
Secretary's office

*Acceptances
for Arthur F. B. 1*

2

33 2121
FEDERAL RESERVE BOARD FILE
33 2

FEDERAL RESERVE BANK
OF NEW YORK

333.4(2)

March 25, 1918.

Dear Governor Harding:

I have your favor of March 23d and note the arrangement made with the governors of seven of the other Federal reserve banks to absorb about \$50,000,000. of bills and acceptances from the Federal Reserve Bank of New York.

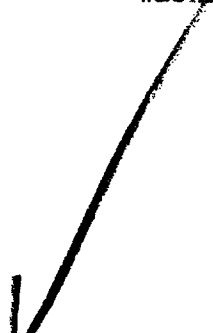
Mr. Hendricks has submitted the list agreed upon in Washington and we are taking the matter up with the individual banks to-day.

Very truly yours,



Deputy Governor.

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



*Acceptances
for Fed. Reserve Banks*

34 2

333
FEDERAL RESERVE BOARD FILE
332.21

March 23, 1918. *333-43*

Dear Mr. Tremen:

Referring to your letter of the 15th instant, I would state that at a meeting with the governors of the Federal Reserve banks this morning, it was ascertained that \$50,000,000 of bills and acceptances could be taken from the Federal Reserve Bank of New York by seven other Federal Reserve banks, without any inconvenience and without reducing the reserve of any bank below 70%. Mr. Hendricks, who was present at the meeting, has a list of the banks and of the amounts which they are prepared to take, and if you desire to dispose of any bills it is suggested that you take the matter up direct with the banks on the list which, I understand, will be handed you by Mr. Hendricks.

Very truly yours,

Governor.

Mr. R. H. Tremen,
Deputy Governor Federal Reserve Bank,
New York.

L

AW

333.4(2)

March 16, 1918.

Dear Mr. Truman:-

I have your letter of the 15th instant calling attention to the fact that the Federal Reserve Bank of New York has been obliged for some time past to absorb practically all acceptances offered, those originating in other districts as well as in the New York district. I note your suggestion that all Federal Reserve banks should participate in these purchases on some equitable basis. I will take pleasure in bringing your letter to the attention of the Board and will also bring the matter up for discussion at the conference of governors on Friday next.

Very truly yours,

Governor.

Mr. R. H. Truman,
Deputy Governor Federal Reserve Bank,
New York.

333.4(2)

No. # 7 Date March 18, 1918. 272.

FEDERAL RESERVE BOARD

MEMORANDUM

For Mr. Warburg.

At a meeting of the Federal Reserve Board on Monday, March 18, 1918, the following matter (as Chairman, Committee ~~on~~ No. 2. was referred to you (as member, " " (as

A letter from Deputy Governor Treman of New York, dated March 15, regarding the absorption of acceptances by Federal Reserve Banks. The matter to be discussed with Governors of banks on Friday, March 22.

H. D. Phillips
Secretary.

Please return this memorandum with copy of documents resulting from action taken, if any,

Date Mar 22
Documents Handwritten
Signature Handwritten

*File
March 22*

#2

FEDERAL RESERVE BANK
OF NEW YORK

*Governor
Harding*

333
FEDERAL RESERVE BOARD FILE
~~332.21~~

324. (5)

RECEIVED
MAR 16 1918
GOVERNOR'S OFFICE
March 15, 1918.

333.4(2)

Dear Governor Harding:

Knowing that there is to be a Conference of Governors at Washington on March 22nd and as Governor Strong may not be in New York before that meeting, I am writing to bring to your attention the fact that for some time past the Federal Reserve Bank has been obliged to absorb practically all of the acceptances offered, not only those originating in the New York district but in some of the other districts and that aside from the San Francisco bank and an occasional order from Dallas and Chicago, the other Federal reserve banks have not taken any of these bills.

In advising you of this fact it is simply with the thought as to whether the other Federal reserve banks should participate in these purchases on some equitable basis.

I leave this in your hands.

Very truly yours,

RT Brown

Deputy Governor.

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

3/16

#2

332.21

FEDERAL RESERVE BANK
OF NEW YORK

FEDERAL RESERVE BOARD FILE
~~333~~

333.4(2)

October 20, 1917.

Dear Mr. Warburg:

I have your letter of October 18th in regard to the increasing proportion in our portfolio of indorsed bankers' bills.

We are working along quietly, so as not to stir up resentment, but persistently to have more and more of the bills we purchase three-name paper. Under present conditions, the private bankers' paper responds to this treatment more readily than the acceptances of member banks and trust companies, as the volume of it is less, and as many of our principal institutions here do not yet take kindly to indorsing. This is particularly so regarding bills which come to the New York market from other cities, such as Boston and Philadelphia. In Boston particularly the higher rates charged at the Federal reserve bank there have the effect of diverting a great quantity of Boston acceptances to the New York market. While we discourage offerings of these bills unless indorsed, we have occasionally taken round amounts of them without indorsement when it seemed advisable to do so, for the purpose of relieving the local money situation and the dealers who were embarrassed by their holdings at such times.

Regarding the unindorsed Seligman paper, \$225,000. of that is drawn by the Mercantile Bank of the Americas against exports of gold to Peru purchased early in September.

FEDERAL RESERVE BANK OF NEW YORK

2.

Honorable Paul M. Warburg.

10/20/17.

Thanking you for your letter, I am,

Sincerely yours,


Governor.

Honorable Paul M. Warburg,
Vice Governor, Federal Reserve Board,
Washington, D. C.

333.4(2)

October 18, 1917.

Dear Governor Strong:

I notice from the statement of the Federal Reserve Bank of New York that of the private bankers' acceptances of about \$14,000,000 held by your bank at the close of business on October 15 \$10,000,000 are endorsed and only about \$4,000,000 unendorsed.

This is most satisfactory headway. If we keep it up at this time and are a little bit more insistent I think we can probably clinch this matter just as many others which have been hard to handle in the past.

Of the \$3,800,000 unendorsed \$1,500,000 are Brown's acceptances, \$600,000 Goldman Sachs, \$600,000 Heidelback, Ickelheimer & Co., \$700,000 Morgan's (which is only a very small proportion out of their \$4,500,000) and about \$300,000 are Seligman's (out of a total, however, of about \$340,000). It means, therefore, talking only to a very few people in order to get this whole situation cleared up.

In dealing with acceptances of banks and trust companies, the proportion of endorsed to not endorsed is not so good. Such banks as the Chase, Irving, Farmers Loan & Trust, Commerce, the First National of Boston and the Old Colony Trust of Boston are all showing up

(2)

stitutions

at this time that I am rather inclined to think that probably we should not push the question with these banks just now.

Very truly yours,

(Signed) Paul M. Warburg.

Benj. Strong, Esq.,
Governor, Federal Reserve Bank,
New York.

FEDERAL RESERVE BANK OF NEW YORK
STATEMENT OF ACCEPTANCES OF PRIVATE BANKERS
HELD AT CLOSE OF BUSINESS OCT. 15, 1917

<u>NAME</u>	<u>ADDRESS</u>	<u>AMOUNT INDORSED BY BANKS AND TRUST COMPANIES</u>	<u>AMOUNT NOT INDORSED</u>	<u>TOTAL HELD</u>
American Express Company	New York	\$ 2,051.89	\$ —	\$ 2,051.89
J. B. Moore & Company	Boston	64,053.24	—	64,053.24
Brown Brothers & Company	New York	2,573,594.90	1,521,093.83	4,094,688.73
Goldman, Sachs & Company	" "	999,854.40	592,562.28	1,592,416.68
Hallgarten & Company	" "	225,000.00	100,000.00	325,000.00
Heidelberg, Ickelheimer & Co.	" "	722,442.09	652,552.27	1,374,994.36
Ladenburg, Thalmann & Co.	" "	683,800.58	—	683,800.58
Lazard Freres	" "	589,205.05	—	589,205.05
J. P. Morgan & Company	" "	3,893,214.79	681,272.20	4,574,486.99
E. Naumburg & Company	" "	250,661.33	52,943.90	303,605.23
J. & W. Seligman & Company	" "	<u>61,000.00</u>	<u>278,000.00</u>	<u>339,000.00</u>
		\$10,064,878.27	\$3,878,424.48	\$13,943,302.75

October 16, 1917.

*Advancing rate
on acceptances.*

2

FEDERAL RESERVE BOARD FILE
333.

333.4(2)

August 17, 1917.

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

Dear Sir:

I acknowledge receipt of your letter of the 16th instant explaining the action of your executive committee in advancing the base rate on acceptances, and stating that it is your purpose to make a further advance if offerings are not checked. Under the circumstances, this action seems to me to be wise and proper, and I will cause your letter to be circulated for the information of the other members of the Board.

Very truly yours,

Governor.

FEDERAL RESERVE BANK
OF NEW YORK

RECEIVED
AUG 17 1917
GOVERNOR'S OFFICE
333.412

August 16, 1917.

Dear Sir:

X331

The Board's letter of August 15th in respect of purchases of acceptances in the open market has just been received. We feel very strongly the importance of the policy outlined by the Board, and as you know it is our intention to observe it.

For some days past money rates have brought the rate at which we purchased acceptances within reach of the market, and very considerable offerings of bills have been made to us every day for some days past. At yesterday's meeting of the executive committee it was determined to advance the base rate, which was the rate applying to best grade member bank bills of 90 days' maturity, from 3 1/8% to 3 3/8%, the committee authorizing the purchase of a sufficient amount of the floating supply of bills carried by brokers to avoid imposing upon them any considerable loss by reason of a sudden advance in our rate without notice. This may involve a purchase of \$5,000,000. to \$7,500,000 of bills.

Outside of these purchases we are taking no bills except those offered by member banks. The necessity for an increase in rate was really emphasized by considerable offerings which were made yesterday by member banks which, of course, we cannot decline.

If the new rate is not effective in checking offerings we will advance it again.

I regret the necessity of this course, but it is forced upon us by the fact that we would otherwise be obliged to arbitrarily decline taking bills as offered, which would create a most unfortunate impression and possibly bring

FEDERAL RESERVE BANK OF NEW YORK #2

Honorable W. P. G. Harding, 8/16/17.

about higher rates than will result from simply advancing our rate 1/4 of one per cent.

Very truly yours,

Benjamin Strong
Governor.

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

BS/RAH

8/17

1
2
FEDERAL RESERVE BOARD FILE
823.

333.42
August 10, 1917.

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

Dear Governor Strong:-

I have your letter of the 9th instant and note your views as to the policy that should be adopted by the Federal reserve banks of liquidating their portfolios as nearly as possible within the next sixty days. The Board is in entire accord with these views and has taken occasion repeatedly during the past few weeks to impress its ideas upon the Federal reserve banks.

I noted the other day in the confidential report made by the Assistant federal reserve agent's office to Mr. Warburg that the Federal Reserve Bank of Dallas was making inquiry about rates on \$2,000,000 of acceptances, and took occasion to write to Governor Van Zandt cautioning him that he should keep the assets of his bank in liquid shape and that, while he was no doubt justified in anticipating prosperous conditions in Texas on account of high prices for crops, he should bear in mind that the money to pay for these crops must come from other districts, some of which might call upon Dallas for rediscounts.

The Board cordially approves the policy which is being pursued by your bank and you may be sure that it will continue to impress upon all the other banks the importance of keeping strong and of making profits a secondary consideration.

Thanking you for your letter, I am,

Sincerely yours,

Governor.

FEDERAL RESERVE BANK
OF NEW YORK

333.4(2)

RECEIVED

AUG 10 1917

August 9th, 1917.

GUBERNOR'S OFFICE

PERSONAL.

Dear Governor Harding:

Enclosed is a little memorandum which I had prepared indicating the status of the various reserve banks as nearly as we can estimate it as to unpaid dividends, from which it appears that with one or two exceptions (notably New York, Cleveland, St. Louis and San Francisco), the amount of deficiency in earnings is no longer an important factor. I understand that roughly the reserve banks are earning as a whole about 10 % on their capital stock.

Another factor bearing on the position of the reserve banks is the fact that some of them have found it necessary in adjusting Liberty Loan subscriptions to take rather large amounts of bonds themselves, thereby tying up a certain amount of their assets. Our total of this character will probably not exceed \$4,000,000 and we hope to dispose of them before the next loan.

In view of these figures, I am taking the liberty of writing you personally and confidentially to urge in the interest of the whole situation that the other reserve banks be brought to adopting the policy of liquidating their portfolios with the next 60 days. Our experiences in New York justify the belief that the money strain when the next Liberty Loan is placed will much exceed that of last June and we want to be prepared for it. I feel very sure that our own policy will be shown by

FEDERAL RESERVE BANK OF NEW

-2-

To Governor H.

8/9/17.

future developments to be a sound one. On the 1st of May our total discounts and bills was only \$18,000,000. On June 19th, they reached a total of \$252,000,000 and this morning they have again been reduced to \$73,000,000 and I hope within the next 30 days to see them down to about \$40,000,000. In other words, during the period of ease in money, we have been able to withdraw nearly \$180,000,000 of cash from the Street into our reserves without any disturbance of money conditions. If this policy can be adopted by all the reserve banks, I feel very sure that money problems this Fall can be adequately dealt with.

You may assume that this suggestion has some selfish motive because it may be that in the late Fall when the government is a heavy borrower, we may want to borrow some money from other reserve banks ourselves. This is one of the matters I had hoped to discuss with you Tuesday morning, but time did not permit.

Very truly yours,

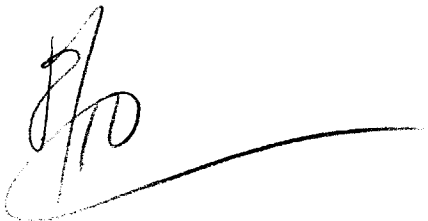


Governor.

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

BS/VCM

Enc.



Office Correspondence

FEDERAL RESERVE
BANK OF NEW YORK

Date *Aug 9, 1917*

To *Governor*

Subject: *ings of
Federal Reserve Bank*

From *RMS*

*Estimated (roughly) Profit and Loss position of
Federal Reserve Bank August 10, 1917.*

	<i>Boston</i>	<i>New York</i>	<i>Philadelphia</i>	<i>Cleveland</i>	
<i>Profit Loss</i>	<i>379,000</i>	<i>750,000</i>	<i>260,000</i>	<i>260,000</i>	
<i>Accrued Dividends</i>	<i>483,000</i>	<i>1,100,000</i>	<i>480,000</i>	<i>580,000</i>	
	<i>Richmond</i>	<i>Atlanta</i>	<i>Chicago</i>	<i>St. Louis</i>	<i>Minneapolis</i>
<i>Profit Loss</i>	<i>79,000</i>	<i>68,000</i>	<i>390,000</i>	<i>80,000</i>	<i>90,000</i>
<i>Accrued Dividends</i>	<i>73,000</i>	<i>88,000</i>	<i>500,000</i>	<i>79,000</i>	<i>165,000</i>
	<i>Kansas City</i>	<i>Dallas</i>	<i>San Francisco</i>		
<i>Profit Loss</i>	<i>185,000</i>	<i>80,000</i>	<i>138,000</i>		
<i>Accrued Dividends</i>	<i>200,000</i>	<i>178,000</i>	<i>440,000</i>		

2

FEDERAL RESERVE BOARD FILE
333.

FEDERAL RESERVE BANK
OF NEW YORK

Circulate

333.42

August 8th, 1917.

PERSONAL.

Dear Warburg:

Thank you for yours of the 3rd enclosing copy of your letter to Mr. Treman in regard to certain transactions in bills which had been recently effected by the Federal Reserve Bank of New York.

I agree with everything you say in your letter with only one exception. I would not only not sell bills in the market (which was done without my knowledge), but would not even sell any of our portfolio to the other reserve banks.

Before leaving New York last month, I wrote Mr. Treman urging him to adopt the policy of maintaining our rates at the levels then prevailing, anticipating that money would then ease off and that our portfolio would automatically liquidate itself. I further urged him in case this development did not take place after a reasonable time to consider raising our rates for bills in order to ensure prompt liquidation of our portfolio. In his anxiety to carry out this policy, I agree with you that he has gone too far, but once the matter is discussed with him I am sure that all phases of the matter will be understood and we will be in agreement as to our policy in that respect.

As to sales to the other reserve banks, the reason why I think that is a mistake is because in my opinion the other reserve banks are

FEDERAL RESERVE BANK OF NEW YORK -2-

To Mr. Warburg.

8/8/17.

not liquidating fast enough. There still seems to be some lingering disposition on the part of the management of some of the reserve banks to "make money". To the extent that we are contributing to that development by supplying them with bills, I think we are making a mistake and shall hope to see all twelve of the banks reduce their bills and investments to a minimum within the next 30 days or 60 days.

Of course, we must not overlook the fact that the policy of the Treasury in placing certificates of indebtedness will have a greater effect at first upon the New York money market than upon any other section of the country. We have the cheapest money and that money will flow into treasury certificates before the rest of the country will begin to contribute and then only as the Treasury raises its rate. Therefore, there might, to that extent be justification for hastening our liquidation by sales of bills a little in advance of similar liquidation by the other reserve banks.

We had just a word about this matter Monday night and I expressed this view to Mr. Treman and find that Mr. Jay agrees with it.

Sincerely yours,

Ree: Arvong

Honorable Paul M. Warburg,
Federal Reserve Board,
Washington, D. C.

BS/VCM

781

CIRCULATE PROMPTLY

Harding

WARBURG	DELANO
MILLER	HAMLIN

After which return to the Secretary's office

Mr. Warburg's

*Selling bills
in open market*

2

FEDERAL RESERVE BOARD FILE
333.

FEDERAL RESERVE BANK
OF NEW YORK

333.4 (2)

August 6, 1917.

Dear Mr. Warburg:

I have your letter of August 4th and appreciate your writing me so fully your views as to the wisdom of our adopting, in the Federal Reserve Bank of New York, the policy of selling our bills in the open market or to banks for the purpose of liquidation, unless it be under very extreme circumstances.

I admit that there are arguments on both sides, and as Governor Strong will be here very soon (probably to-morrow), I shall hope to go over this matter with him within a day or two, showing him your letter, and he will undoubtedly take up the matter further with you or with the Board.

We thought it would do no harm, in view of the outlook for great demands upon us, to try this out in a reasonably small way, and it has worked quite satisfactorily in this case.

Again expressing our appreciation of your interest, I remain

Sincerely yours,

Deputy Governor.

Honorable Paul M. Warburg,
Vice Governor, Federal Reserve Board,
Washington, D. C.

*Strong's letter to & from -
in Mr. Warburg's file*

RHT/HAB

333.4 (2)

August 4, 1917.

Dear Mr. Treman:

I see from Mr. Gidney's letter that the Federal Reserve Bank of New York has sold on August first, \$2,500,000 of its bankers acceptances to the Hanover National Bank, and \$5,000,000 to a broker; and I note from what you said to me over the phone that you have increased these direct and indirect sales to about \$15,000,000/

As I said to you when I saw you last Monday, this is the time for the Federal Reserve Bank of New York to liquidate its investments and I was delighted to see other Federal Reserve Banks re-appearing as purchasers of acceptances, and I encouraged you to sell to these banks of your own holdings rather than to purchase in the market where the member banks, at present, are active buyers of acceptances.

There cannot be any doubt but that it is a wise policy for the Federal Reserve Bank of New York to liquidate whenever the money market is flush and easy, so as to be all the more prepared to come to the assistance of the market when the tide turns again - and with the

(2)

large problems ahead of us I am quite confident that the tide will turn soon enough and that demands upon your bank will then be as strong as in the past, if not, indeed, stronger. This is to be anticipated particularly in view of the fact that we are going into the crop moving period.

I am very much pleased ^{therefore} with the effect of your sales to member banks and to brokers, but none the less I am not quite certain in my mind whether quite generally speaking it is proper for a Federal Reserve Bank to sell its paper to member banks or in the open market except when there is an exceptional situation, making it necessary that steps be taken for the purpose of strengthening the Federal Reserve Bank or for the purpose of bringing about higher rates in the market.

You know, of course, that the Bank of England in order to control money rates borrows at times in the market. I doubt, however, whether any one of the leading European central banks ever sells its portfolio in the market. As a matter of fact, I do not know of any case where the Bank of England, the Banque de France, or the Reichsbank sold their paper except in the case of a loan of gold made to the Bank of England by the Banque

(3)

de France after the Baring crisis; in which case, and I believe in one later instance, the Bank of England pledged some of its English portfolio to secure this gold advance. If a central bank is well administered the bulk of its assets will consist of ninety-day paper pretty evenly spread as to maturities; so that the mere fact that a Government bank does not reinvest its maturing paper will bring about a liquidation of about one-third of its assets per month. In addition to this paper, central banks generally carry short and long term Government securities, and of course nothing stands in the way of their realizing upon that in case it should be desirable to do so. To accelerate this liquidation by going into the market and selling ninety-day paper I should think would be a step to be undertaken only in case of very extraordinary situations. In theory Federal Reserve Banks ought always to be buyers of dollar paper, even though the rate at which they buy may sometimes make them inactive as actual purchasers. But normally they should not be sellers of paper.

It may well be that the present situation may be considered as an exceptional one - so exceptional indeed as to warrant our accelerating the liquidation of our port-

(4)

folios. It may even be that this may be advisable not so much in our own interest as in the interest of our member banks, who are very anxious at this time to secure paper which they can rediscount with the Federal Reserve Banks in case of need.

But I am writing you at such length because I think it is important to make it very clear that Federal Reserve Banks should normally not be jobbers in acceptances, - institutions that purchase and sell all the time with a small margin, such, for instance, as the discount companies in England which are always purchasers and sellers, while the big and strong British joint stock banks are generally only purchasers of bills and only in the rarest cases rediscounters or sellers.

I believe that we must keep our credit and prestige as high as possible and should not permit the Federal Reserve Banks to take the place of these "jobbing" discount companies, and I want to emphasize these views as strictly my own, even though ~~it may~~ after discussion, *it may possibly* prove to be a perfectly advisable policy for the Federal Reserve Banks at this time to sell its acceptances in order to meet the extraordinary exigencies of the

(5)

present situation.

I am not quite certain that my colleagues would all freely subscribe to the views that I have expressed in this letter. Several of them are absent at this time and we have not been able to discuss the matter fully in the Board. I am writing you, therefore, expressing only my personal views, and I am doing it for the purpose of having you and the other officers of your Bank carefully consider the matter from the angle outlined by me, which possibly may be a new point of view to some of your officers.

I am sending a copy of this letter to Governor Strong because I am anxious to get his reaction concerning the problem in hand.

Very sincerely yours,

Sgd. Paul M. Warburg.

R. H. Treman, Esq.,
Federal Reserve Bank,
New York.

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Short term loans

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al.

FEDERAL RESERVE BOARD FILE
333.

March 23, 1917.

333-409

Mr. Pierre Jay,
Chairman Federal Reserve Bank,
New York.

Dear Mr. Jay:-

Your letter of the 21st instant was duly received
and I note with interest your matured views on the matter
of short time loans to the United States Government.

I would suggest that you discuss this matter with Mr.
Barburg when he visits you on Monday next.

Very truly yours,

Governor.

FEDERAL RESERVE BANK
OF NEW YORK

333.4(2)

RECEIVED
MAR 22 1917
GOVERNOR'S OFFICE

March 21, 1917.

Dear Governor Harding:

We have been discussing among ourselves in the bank to-day the matter of the prospective 70-day loan of the United States Government, of which you advised us yesterday, and we all feel very glad of your assurance that the System will have some official connection with the placing of the loan.

As to whether we should serve merely as the agent of the government in disposing of the loan or should be actual purchasers of it with or without the idea of possibly redistributing it, which you will remember we discussed at lunch yesterday, we have looked at the matter from various angles and feel that it would be preferable for us to act as agent rather than as purchaser. We think the effect on the public would be about the same in either case. The public would understand that the Federal reserve banks were, very properly, assisting the government. But it is our feeling that the excellent effect produced on bankers and thoughtful men generally by our recent investment policy which, as you stated in your address last night, has brought our reserves up from 68% to 80%, and has put us in a strong position to assist our member banks when necessary, would be dispelled if the government, without^{first} going to the general money market, should draft us directly to its assistance by borrowing a round sum of money from us. We believe it would be a better and sounder policy for the government to regard us not as a primary but rather as a secondary source of borrowing, to be availed of temporarily and within reason when the outside market

FEDERAL RESERVE BANK OF NEW YORK

Honorable W. P. G. Harding,

3/21/17.

is not so available as at present. To place a large loan with us at a time when market funds are so abundant would seem to put the Reserve system in the primary position of a bank of discount rather than in the secondary position of a bank of rediscount, which we have always considered it was intended to be.

To secure the money perhaps a shade cheaper from the Federal Reserve System than in the open market does not seem to us a compensating advantage for the unfavorable impression we believe would be created by the government's direct use of our funds. While the Secretary may feel that we should lend at a low rate because we have government balances without interest possibly he will recognize, on the other hand, that we do considerable government work without compensation.

But the views which we have formed are based, not on the rate, but on the principle above outlined. While as officers of the bank we should be extremely glad of the added income the loan would bring, we feel that we must consider the subject from the broader point of view of a sound relationship between the Treasury and the System. From that point of view we are convinced that it would be wiser for us to act, perhaps without any compensation, as agents for the government in placing the loan rather than to become purchasers or even underwriters of it.

We believe that $2\frac{1}{2}\%$ would be a fair rate for the loan. Possibly it might be taken at a fraction lower, but it should be remembered that the extent of the market for money at 2% , the rate you thought the Secretary had in mind, is quite limited.

Very truly yours,


Chairman.

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

PJ/RAH

MEM. AUSA
LOBBYING BOARD BYYK

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FEDERAL RESERVE BOARD FREE
COPY
333.

REPORT OF A COMMITTEE APPOINTED BY THE
CONFERENCE OF GOVERNORS TO RECOMMEND A BASIS FOR THE APPORTION-
MENT OF INVESTMENTS MADE BY ONE FEDERAL RESERVE
BANK FOR THE OTHER FEDERAL RESERVE BANKS.

333.4(2)

January 31, 1917.

Pursuant to the recommendations made by this committee at a meeting held at Washington on December 11 - 14, 1916, which recommendations were subsequently adopted by the conference of Governors, the committee submits herewith a fourth table of estimated deficits and apportionment percentages.

The estimated deficits embodied in this table are calculated upon the following basis:

At the request of the committee each Federal Reserve Bank reported to the chairman the amount necessary to pay its accrued dividend to January 1, 1917. From this amount in each case the balance to the credit of profit and loss were deducted. In the case of several of the Federal Reserve Banks it appeared that various items of depreciation had been charged to profit and loss in excess of the amount necessary to depreciate furniture and fixtures, etc., at the approximately uniform rate adopted by the other Federal Reserve Banks. In these cases the excess which had been charged to profit and loss was deducted from the apparent dividend deficit of the bank. In one case the bank had charged to profit and loss the cost of unissued Federal Reserve notes. This cost was also deducted from the apparent deficit in the case of that bank.

In the accompanying table the net dividend deficit of each bank is shown in the last column. In each of the other columns the net deficit of the eleven Federal Reserve Banks are shown, the deficit of the bank whose name stands at the head of the column being omitted.

Therefore to apportion any investment purchased by one Federal Reserve Bank for the other Federal Reserve Banks, the figures appearing in the column under the name of the purchasing bank should be used, each other Federal Reserve Bank to receive the percentage placed opposite its name in the column.

Any bank making investments for all Federal Reserve Banks, including itself, will make apportionment according to the percentages shown in the last column of the table.

To illustrate:

New York in making investments will apportion them to all the Reserve Banks, including itself, as follows:

	<u>Percentage</u>	<u>Amount of Deficit</u>
New York	26.73%	\$ 920,000
Boston	7.70	265,000
Philadelphia	11.07	381,000
Cleveland	12.78	440,000
Richmond	.64	22,000
Atlanta	1.86	64,000

NEW YORK

COPY

-2-

Chicago	9.82	\$ 338,000
St. Louis	7.96	274,000
Minneapolis	4.36	150,000
Kansas City	5.14	177,000
Dallas	1.89	65,000
San Francisco	<u>10.05</u>	<u>346,000</u>
	100.00	\$3,442,000

ALFRED L. AIKEN,
 CHARLES J. RHOADS,
 GEORGE J. SEAY, CHAIRMAN.

The above percentages compare with the previous percentages in force from November 21, 1916, as follows:

Boston	4.40
New York	25.00
Philadelphia	11.51
Cleveland	17.36
Richmond	.12
Atlanta	3.67
Chicago	5.25
St. Louis	8.44
Minneapolis	7.03
Kansas City	1.39
Dallas	.23
San Francisco	<u>15.60</u>
	100.00

FEDERAL RESERVE
BANK OF NEW YORK

Correspondence

Date February 23, 1917.

To Mr. Jay

Subject: Allotment of Investments

From E. R. Kenzel.

The percentages of allotments among other Federal reserve banks at present in force are shown on the report of the committee dated January 31, 1917, copy of which is attached. On said copy is also stated, for purposes of comparison, the percentages determined by the committee on November 21, 1916, which were in force until superseded by the report of January 31, 1917.

There is attached also copy of our letter of December 6th to Governor Seay stating our contentions in regard to the basic principles of allotment, which have been practically adopted by the committee in the report of January 31, 1917.

ERK/IWB.

COPY

December 6, 1916.

George J. Seay, Esq.,
Governor, Federal Reserve Bank of Richmond,
Richmond, Va.

Dear Mr. Seay:

We have received your letter of November 27th regarding the allotment of investments, and regret that we have not made clear how simply the figures required for our method might be obtained. We agree with you that the expenses of a bank should be taken in total according to its own method of keeping its books in so far as that method is in accord with correct principles of accounting. We shall be perfectly satisfied with the figures now reported by the banks to the Federal Reserve Board, with the single exception as stated below. Perhaps it would be wise for us to try again and see if we cannot state our ideas regarding the method of allotting investments so that they will be easily understood. The following statement of basic principles may assist:

1. That distributable investments be apportioned on the basis of the necessities of each Federal reserve bank to meet its current expenses, its current dividend and a fixed proportion of its net deficit to the close of business December 31, 1916, including dividends accrued but not paid to that date.
2. That when these needs have been obtained the investments be distributed in the proportion that the deficit of each bank bears to the deficit of all the banks.

3. That if the bank earns all its requirements in accordance with the following schedule, it be not allowed to participate in investments.

4. That in determining the needs of each bank the procedure be as follows:

1. Add current earnings for quarter including service charges received.

2. Deduct the sum of

(a) Current expense for quarter including service charges paid.

(b) Current dividend requirements for quarter.

(c) Three-twelfths (or some other proportion to be determined) of deficit from operation to December 31, 1916, including accrued dividends.

3. Find the difference between earnings and expenses.

4. Find the per cent that each deficit bears to the total deficit and allot on that basis.

COMMENTS:

This plan is in exact accord with your own ideas except that we do not approve of the method employed in the November bulletin, page 595, in the eighth line of figures where "Expense of Transit Department" is deducted from "Gross Expenses" and so from "Net Earnings." It is improper accounting to single out one department, estimate its cost of operation and deduct this cost from current expense whether or not a part of this cost is returned. It is better accounting and, therefore, a better basis for distributing investments, to include actual receipts for service charges among the earnings and actual payments for service charges among the expenses, leaving the cost of operating the transit department in current expense, where it belongs.

BANK
NEW YORK

3.

Geo. J. Seay.

12/5/16
COPY

This subject will be discussed at the auditors' conference and the New York representative will urge most strongly a change in the method of reporting in the bulletin. We have heard from other auditors and know that they agree with us in this respect.

If the matter of reporting service charges received and paid and transit cost is adjusted in accordance with these ideas, the only earning and expense figures required under our plan are those now reported on forms 266-b and 267-b to the Federal Reserve Board at the close of each month. A sheet of carbon paper will furnish a copy for the representative of the Investment Committee.

In our letter of the 24th instant we referred to studies we had been making. In these we were endeavoring to equalize charges for amortization and depreciation. It is evident that some of the banks showing small percents of net earnings are writing off organization expenses more rapidly in proportion than other banks showing a greater percentage of net earnings. These differences ought to be adjusted upon some uniform basis to be agreed upon, and we only omitted from our earlier letter the idea of making such an adjustment in order to have the plan more simple in operation.

The working out of the net deficit to December 31, 1916, presents some difficulties the solution of which must be arbitrary. The following plan appeals to us:

Each bank will calculate its net gain or loss from organization to the close of business December 31, 1916. Let them deduct from the net gain, or add to the net loss if any, the amount of dividend accrued but not paid to the close of business December 31, 1916. Then, let the conference of governors decide what they think will be a reasonable time for the banks to work off these deficits. Let us assume that they think the deficits should be

FEDERAL
RESERVE BANK
NEW YORK

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Geo. J. Geary, . . .

COPY

worked off in twelve months. We should then burden each bank's requirements for a quarter with three-twelfths of its deficit including dividends unpaid to the close of business December 31, 1916, in addition to the requirements for current dividends and current expenses.

Barring the inequality of charges to current expense for amortization and depreciation, we think this plan is simple and will require practically no information to be furnished by the banks. It can be adjusted quarterly and thus keep the distribution of investments more nearly in harmony with current requirements and will, we believe, provide a reasonably equitable distribution.

Very truly yours,

Secretary.

HBJ/HAB

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RECEIVED
333
332.4

332.4 (17)

January 24, 1917

Dear Mr. Treman:

I notice that the New York Bank is buying acceptances for San Francisco. At what rate are these acceptances purchased and is this a similar case to the one of Chicago, of which you spoke to me? That is, that New York is keeping out of the market for the benefit of the system and another Federal Reserve Bank is dipping into it in order to secure earnings? If that is so, I think we want to look into the matter,

Very truly yours,

(Signed) PAUL M. WARBURG.

R. H. Treman, Esq.,
Federal Reserve Bank,
New York.

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Statements of investments

F. Delano

2 1/2

FEDERAL RESERVE BANK
OF NEW YORK

JAN 25 1916
OFFICE OF
VICE-GOVERNOR

FEDERAL RESERVE BOARD FILE
3330
262

January 24th, 1916

3330-4(2)

Dear Mr. Delano:

I understand that you inquired for another set of the enclosed statements showing ~~investments~~ made by this bank for ~~account of the other Federal~~ reserve banks at their direction.

Very truly yours,

Re: Amos W.
Governor.

Hon. F. A. Delano,
Federal Reserve Board,
Washington, D. C.

BE Jr/VCM-4

FEDERAL RESERVE BANK
OF NEW YORK

RECEIVED
JAN 22 1916
VICE-GOVERNOR

January 21, 1916.

333.4(2)

Dear Mr. De La Mater:

Replying to your letter of January 20th
to Mr. Strong, I have just been talking with him
over the telephone and he tells me that he yester-
day gave Vice Governor Delano a copy of the state-
ment referred to therein.

Very truly yours,

Handwritten signature
Chairman.

John De La Mater, Esq.,
Sec'y. to Vice Governor,
Federal Reserve Board,
Washington, D. C.

PJ/RAH

333.4(2)

January 20th, 1916.

My dear Mr. Strong:-

Can you accommodate me by sending me copy of a large hektographed statement recently gotten out by your Bank, entitled "Comparative Statement of Capital, Investments, Earnings and Expenses of the Several Federal Reserve Banks, as of December 30, 1915." This statement bears no date, but I trust the above description will enable you to identify it.

I shall greatly appreciate your courtesy in this matter.

Respectfully,

Secy. to Vice Governor.

Mr. Benjamin Strong, Jr.,

Governor, Federal Reserve Bank,

New York City.

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FEDERAL RESERVE BOARD FILE
333-4
~~2670~~

MWH

October 30, 1915. 333 402

S i r :

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sent

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

Respectfully,

Secretary.

Mr. Pierre Jay,
Chairman, Board of Directors,
Federal Reserve Bank of New York.

AKW

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FEDERAL RESERVE BANK
OF NEW YORK

FEDERAL RESERVE BOARD FILE
333-4
267
RECEIVED
OCT 14 1915
OFFICE OF
VICE-GOVERNOR

October 13, 1915.

333. 4(2)

S i r :

Your letter of October 8th relative to open market operations under Section 14 of the Act, was received on October 11th, and in accordance with your instructions will be called to the attention of our Board of Directors at their next meeting.

Respectfully,

Piercy
Chairman.

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

PJ/RAH

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333.4 (2)

FEDERAL RESERVE BOARD

WASHINGTON

300

October 9, 1915.

S I R :

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

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

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

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

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

-2-

not with the question of what the regulation shall contain but merely with the Board's duty in the premises. Generally speaking "while Congress can not delegate the power to make laws it can delegate the power to determine some fact or state of things upon which the statute makes or intends to make its own action depend." For collection of cases see *Encyclopedia of Law and Procedure*, Volume 8, page 630.

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

"(b) To permit, or, on the affirmative vote of at least five members of the Reserve Board to require Federal reserve banks to rediscount the discounted paper of other Federal reserve banks at rates of interest to be fixed by the Federal Reserve Board.

(c) To suspend for a period of not exceeding thirty days, and from time to time to renew such suspension for periods not exceeding fifteen days, any reserve requirement specified in this Act.

(k) To grant by special permit to national banks applying therefor, when not in contravention of State or local law, the right to act as trustee, executor, administrator, or registrar of stocks and bonds under such rules and regulations as the said Board may prescribe.

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

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

Respectfully,

M. G. ELLIOTT

Counsel

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

*As corrected
James L. Sullivan to
all Agents 10/8/15*

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FEDERAL RESERVE BOARD
333-4
~~2678~~

FEDERAL RESERVE BOARD

WASHINGTON

333.4(2)

October 8, 1915.

Memo 376

Mr. Pierre Jay,
Chairman, Board Of Directors,
Federal Reserve Bank of New York.

Sir:

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

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

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

C O P Y

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

C O P Y

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

The Board appends opinions of Counsel bearing upon the subject of open market transactions.

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

Respectfully,

(Signed)

F. A. Delano,

Acting Governor.

(Signed) H. Parker Willis

Secretary.

COPY

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FEDERAL RESERVE BOARD

WASHINGTON

October 8, 1915.

Sir:

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

Section 14 provides in part that -

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

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

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

Respectfully,

M. C. Elliott,

(Signed)

Counsel.

Hon. Charles S. Hawlin,
Governor.