

August 10, 1931

Governor Mayer

Use of bills payable in foreign

Mr. Smead

currencies as collateral security for
F. R. notes.

On Monday, August 3, while talking with Mr. Paddock over the telephone I advised him that Boston was the only Federal reserve bank which was pledging bills payable in foreign currencies as collateral security for Federal reserve notes. I also stated that while the Board had taken no specific action with regard to whether or not they should be so pledged I thought he would like to know the practice followed by the other Federal reserve banks.

I wanted to bring this subject to your attention last Thursday morning but you were so busy with other matters that I concluded it would be better not to bother you with it at that time. On Thursday afternoon, Mr. McClelland called me and stated that the Board would like to have me talk the matter over informally with the officials of the Boston bank while I was there on Friday. While in Boston I was informed by Governor Young and Mr. Paddock that they had discontinued the practice promptly following my telephone conversation with Mr. Paddock last Monday, and upon reference to the bank's balance sheet I find that the change was made on Wednesday, August 5.

This question first arose in 1927 at which time I discussed it with Governor Crissinger and Governor Strong. Governor Strong was quite emphatic in his position that none of the sterling bills which were then being bought through the Bank of England should be pledged as collateral security for note issues. Section sixteen of the Federal Reserve Act, in describing the collateral that may be pledged as security for Federal reserve notes states that "The collateral security thus offered shall be notes, drafts, bills of exchange, or acceptances acquired under the provisions of Section thirteen of this Act, or bills of exchange indorsed by a member bank of any Federal reserve district and purchased under the provisions of Section fourteen of this Act, or bankers' acceptances, purchased under the provisions of said Section fourteen, or gold or gold certificates." You will note from this that trade bills (not bankers' acceptances) to be eligible as collateral for Federal reserve notes must bear a member bank endorsement.

Some of the bills now being purchased abroad are trade bills which, of course, are not endorsed by member banks and consequently are not eligible as collateral security for notes issued. If, therefore, the decision were reached to pledge any of these bills as collateral security for Federal reserve notes, the trade bills would have to be separated from the bankers' bills and arrangements made for the bankers' bills to be held in custody for the amount of the respective Federal reserve agents.

Form No. 131.

Office Correspondence

FEDERAL RESERVE
BOARD

Date September 24, 1929

To Governor Young

Executive Folder

From Mr. Smead

Subject: Foreign bills bought for the account
of the Federal Reserve Bank of New York
during 1929.

Date 9/25/29

I am handing you herewith a statement showing the amount of foreign bills bought for the Federal Reserve Bank of New York by months from January to August, 1929, inclusive. This statement also shows the rate at which the bills were purchased and the exchange rate. On September 19 the System held about \$16,040,000 of Sterling bills, \$650,000 of French bills, and \$770,000 of Hungarian bills, or a total of \$17,460,000.

SEP 24 1929
R. A. Y.

FOREIGN BILLS BOUGHT BY THE ACCOUNT OF THE FEDERAL RESERVE BANK OF
NEW YORK DURING 1929

| <u>Bought by Bank of England</u> | | (Sterling) | | |
|----------------------------------|--------------------|---------------|---|--------------------------------|
| <u>Date</u> | <u>Days to run</u> | <u>Amount</u> | <u>Discount rate</u> <u>(per cent)</u> | <u>Exchange</u> <u>rate</u> |
| January | 62 - 80 | \$139,266.84 | 4-3/16 to 4-9/32 | \$4.8493 |
| February | 70 - 83 | 90,611.53 | 4-1/4 to 5-7/32 | 4.8493 |
| March | 81 - 84 | 105,632.71 | 5-3/16 to 5-9/32 | 4.8493 |
| April | 68 - 91 | 120,109.77 | 5-3/32 to 5-1/4 | 4.8493 |
| May | 72 - 90 | 148,963.28 | 5 to 5-9/32 | 4.8493 |
| June | 80 - 86 | 71,751.41 | 5-7/32 to 5-1/4 | 4.8493 |
| July | 69 - 76 | 112,782.07 | 5-1/4 to 5-13/32 | 4.8493 |
| August | 28 - 93 | 10,889,187.93 | 4-3/4 to 5-13/32 | 4.8482 - 4.8493 |

| <u>Bought by Bank of France</u> | | (Franc) | | |
|---------------------------------|---------|------------|-----------------|--------|
| January | 40 - 78 | 434,156.31 | 3-1/8 to 3-9/32 | .03906 |
| February | 28 - 77 | 197,116.23 | 3-1/4 | " |
| March | 32 - 80 | 483,788.81 | 3-1/4 | " |
| April | 32 - 82 | 272,642.15 | 3-1/4 to 3-5/16 | " |
| May | 28 - 82 | 433,948.90 | 3-1/4 to 3-3/8 | " |
| June | 44 - 89 | 309,233.73 | 3-3/8 to 3-1/2 | " |
| July | 58 - 83 | 304,096.20 | 3-3/8 to 3-1/2 | " |
| August | 66 - 84 | 296,399.43 | 3-3/8 to 3-1/2 | " |

| <u>Bought by Bank of France from the Magyar Nemzeti Bank of Budapest</u> | | | | (Pengo) |
|--|---------|--------------|------------|---------|
| July | 22 - 84 | 1,012,287.42 | 7-1/2 to 8 | .1749 |
| August | 52 - 80 | 207,393.13 | 7-1/2 to 8 | " |

FEDERAL RESERVE BOARD
DIVISION OF BANK OPERATIONS
SEPTEMBER 24, 1929.

Form No. 121

Office Correspondence

FEDERAL RESERVE
BOARD

Date August 1, 1927

To Mr. Eddy

Subject: Paper pledged as collateral se-

From Mr. Smead

curity for Federal reserve notes

Ex. Committee Aug. 2, 1927. Instructed informally to defer action.
246.1 Eddy
3/19/29
 I discussed with Governor Crissinger some few days ago the advisability of using sterling bills, which the system is buying through the Bank of England, as collateral security for Federal reserve notes, and Governor Streng, who came into the room at the time, was very emphatic in his position that none of them should be pledged as collateral security for note issues. Governor Crissinger asked that I submit a memorandum covering the subject.

Trade bills bought by the Bank of England for the account of the Federal reserve banks, not being endorsed by member banks, are not under the law eligible as collateral security for Federal reserve notes. Bankers' acceptances so acquired, however, are apparently eligible as collateral security, and the question as to whether or not they should be so used would seem to be one that should be passed upon by the Board. We have prepared a suggested letter, a copy of which is attached hereto, to be used in case the Board should decide that bills payable in foreign currencies and held abroad should not be used as collateral for note issues.

Refer

FEDERAL RESERVE BOARD

WASHINGTON

**ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD**

August 1, 1927.

**SUBJECT: Paper pledged as collateral
security for Federal reserve notes.**

Dear Sir:

Section 14 of the Federal Reserve Act provides that paper acquired by the Federal reserve banks in the open market, in order to be eligible as collateral security for Federal reserve notes, must be in the form of bankers' acceptances or of bills of exchange endorsed by member banks. Some of the sterling bills which are being purchased for the Federal Reserve Bank of New York by the Bank of England, and in which a participation is allotted to each other Federal reserve bank, are bankers' acceptances and thus eligible as collateral security for Federal reserve note issues, while others are trade bills. As the trade bills do not bear the endorsement of a member bank, they are not eligible under the Act as collateral security for Federal reserve notes. Inasmuch, however, as all of these bills are payable in a foreign currency and are in the physical possession of a correspondent in a foreign country, the Board has ruled that none of them should be pledged with Federal reserve agents as collateral security for outstanding Federal reserve notes.

Very truly yours,

DRAFT OF SUGGESTED LETTER TO ALL F.R.AGENTS

Form No. 131.

Office Correspondence

FEDERAL RESERVE
BOARD

Date

March 31, 1925

To Mr. Eddy

Subject: Purchases of Sterling bills 1925

From Mr. Sneed

RECEIVED
OFFICE OF
THE GOVERNOR

For the information of the Board I am giving below a summary table showing the amounts of sterling bills purchased by the Federal Reserve banks since September 18, 1924, the date on which, according to our records the first bills payable in a foreign currency were purchased by a Federal reserve bank.

The bills purchased by the Federal Reserve Bank of New York on September 18 from the Bank of England represent an investment of a portion of the balance carried with the Bank of England for a number of years. These bills had a maturity ranging from 84 to 90 days and as they matured in December other bills were purchased to take their place. The bills purchased in March 1925 were also to replace maturing bills purchased in December. The sterling bills purchased by the Boston and Cleveland banks and those purchased from the International Acceptance Bank by the Federal Reserve Bank of New York were all taken on an exchange secured basis. The exchange at which sterling was converted in the case of the bills bought by Cleveland was several points below actual sterling quotations on the dates of purchase while in the case of the Boston and New York purchases conversion was apparently made at the exchange rate of the day. The Cleveland bank states that the Bank from which the bills were purchased has contracted in writing to take them up on the maturity date at the same rate for sterling at which they were sold to the Reserve bank.

The difference in rates on prime bills in the London market and in this country is clearly brought out by the fact that bills purchased for the Federal Reserve Bank of New York by the Bank of England on March 11 were taken on a basis to yield 4-13/32 per cent, whereas the bills bought on March 7 and 13 by the Federal Reserve Bank of Cleveland from the Central Bank, Savings and Trust Company were taken on a basis to yield 3-1/4 per cent.

PURCHASES OF STERLING BILLS BY FEDERAL RESERVE BANKS

| Date | Amount | | Rate of ex- change | Discount rate (per cent) | Maturity (days) | Purchased from |
|----------------------------------|--------------|--------------|--------------------------|--------------------------------|--------------------|----------------------|
| | Pounds | Dollars | | | | |
| Federal Reserve Bank of New York | | | | | | |
| 1924 | | | | | | |
| Sept. 18 | 50,633:4:5 | 226,689.99 | \$4.4771 | 3-11/16 | 84 to 90 | Bank of England |
| 25 | 100,654:0:11 | 448,917.04 | 4.46 | 2-1/4 | 75 to 90 | International Ac. Bk |
| 29 | 402,085:12:6 | 1,793,301.86 | 4.46 | 2-1/4 | 68 to 90 | " |
| Dec. 10 | 7,946:6:7 | 37,292.92 | 4.6931 | 3-9/16 | 87 to 90 | Bank of England |
| 11 | 3,009:11:7 | 14,129.59 | 4.6949 | 3-9/16 | 82 to 86 | " |
| 12 | 6,182:5:1 | 28,964.48 | 4.6851 | 3-9/16 | 85 | " |
| 13 | 4,486:8:4 | 21,058.34 | 4.6938 | 3-5/8 | 84 | " |
| 17 | 13,421:14:0 | 62,953.14 | 4.6904 | 3-11/16 | 84 | " |
| 18 | 15,989:0:18 | 75,082.90 | 4.6959 | 3-11/16 | 83 | " |

Form No. 131.

Office Correspondence

FEDERAL RESERVE
BOARD

Date

To

Subject:

From

- 2 -

PURCHASES OF STERLING BILLS BY FEDERAL RESERVE BANKS

| Date | Amount | | Rate of ex- change | Discount rate (per cent) | Maturity (days) | Purchased from |
|--|--------------|------------|--------------------------|--------------------------------|--------------------|----------------------|
| | Pounds | Dollars | | | | |
| <u>Federal Reserve Bank of New York (Cont'd)</u> | | | | | | |
| 1925 | | | | | | |
| Mar. 4 | 2,822:9:5 | 13,440.61 | 4.762 | 4-7/16 | 84 to 88 | Bank of England |
| 9 | 15,532:18:11 | 74,017.60 | 4.7652 | 4-7/16 | 90 to 91 | " |
| 10 | 3,494:19:1 | 16,663.59 | 4.7679 | 4-3/8 | 85 | " |
| 11 | 19,790:1:3 | 94,430.26 | 4.7716 | 4-13/32 | 91 | " |
| 18 | 9,952:3:11 | 47,529.70 | 4.7758 | 4-11/32 | 93 | " |
| <u>Federal Reserve Bank of Boston</u> | | | | | | |
| 1924 | | | | | | |
| Dec. 29 | 100,755:2:0 | 474,304.63 | 4.7075 | 3 | 64 to 79 | First National Bk. |
| <u>Federal Reserve Bank of Cleveland</u> | | | | | | |
| 1924 | | | | | | |
| Oct. 31 | 20,218:14:3 | 90,984.20 | 4.50 | 2-1/4 | 54 to 56 | Central Bk.Svgs.& Tr |
| Nov. 8 | 22,142:6:9 | 114,360.57 | 4.50 | 2-1/4 | 75 to 77 | " " |
| 24 | 20,501:5:7 | 92,255.79 | 4.50 | 2-1/4 | 74 to 80 | " " |
| 28 | 25,218:3:5 | 113,481.77 | 4.50 | 2-1/4 | 75 | " " |
| Dec. 17 | 25,000:0:0 | 115,000.00 | 4.60 | 2-7/8 | 78 | " " |
| 30 | 25,838:0:2 | 118,854.85 | 4.60 | 3-1/8 | 65 to 76 | " " |
| 1925 | | | | | | |
| Jan. 15 | 25,515:18:8 | 121,334.88 | 4.70 | 3-1/8 | 58 to 90 | " " |
| Feb. 6 | 25,385:6:8 | 119,311.07 | 4.70 | 3-1/8 | 75 to 78 | " " |
| 13 | 25,631:12:7 | 120,468.66 | 4.70 | 3-1/8 | 75 to 87 | " " |
| 25 | 50,637:4:5 | 238,023.13 | 4.70 | 3-1/8 | 69 to 79 | " " |
| Mar. 7 | 25,456:0:6 | 119,643.31 | 4.70 | 3-1/4 | 73 | " " |
| 13 | 25,095:0:0 | 117,946.50 | 4.70 | 3-1/4 | 73 to 76 | " " |

File
2431
#2
FEDERAL RESERVE BANK
OF NEW YORK

IN REPLY PLEASE REFER
TO GL - HF

2431
33
FEB 14 1925
February 13, 1925.

Federal Reserve Board,
Washington, D. C.

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

Gentlemen:

In reply to your letter of February 12, it will be satisfactory to us for you to amend our previously published figures to include in "Bills Bought in Open Market," Sterling Bills Purchased thru the Bank of England of \$245,000 shown on September 24 and October 1 in "All Other Earning Assets." Any figures published by us hereafter will be in accordance with this revision.

Very truly yours,

J. M. Rice
J. M. Rice,
Manager, Accounting Department.

JMR

2431

2

333
333.41

February 12, 1925.

Dear Sir:

You will doubtless recall that when your bank purchased sterling bills from the Bank of England on September 18, 1924, there was some question as to how they should be reported in the weekly press statements. It was finally decided that they should be included with bills bought in open market and this was done beginning with the statement for October 3. In the statements for September 24 and October 1 these bills were shown as "All other earning assets," but it was not thought necessary when the October 3 statement was issued to make any revision of the figures already published.

In preparing our annual report, however, we find it necessary either to make the change, i. e., to increase bills bought in open market for September 24 and October 1 by \$245,000, or else to show that on the dates mentioned such bills are included with all other earning assets and thereafter with bills bought in open market. We would prefer not to take the latter course, and as we understand from Mr. Freeland of your office that there will be no objection on the part of your bank to amending the weekly statement figures, we shall do this instead. Your bank's holdings of bills bought in open market as shown in the weekly press statements for September 24 and October 1 will therefore be increased by \$245,000, with an offsetting change in All other earning assets.

We shall appreciate your advice in case this action is not entirely satisfactory to your bank.

Very truly yours,

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

Mr. J. M. Rice, Manager,
Accounting Department,
Federal Reserve Bank,
New York, N. Y.

✓
Assistant Secretary
Files

Don

①
Sterling Bills

#4

2431
~~2431~~

FEDERAL RESERVE BANK
OF CLEVELAND

333

233.44

January 30, 1925.

SUBJECT: Schedules reporting the
purchase of sterling bills.

Mr. E. L. Smead, Chief,
Division of Bank Operations,
Federal Reserve Board,
Washington, D. C.

Dear Mr. Smead:

The sterling bills scheduled on schedules numbers 193, 198, 216 and 226, reporting purchases on November 24 and 28th and December 17 and 30th, aggregating \$439,592.41, were all purchased exchange secured. The bank from whom we purchased them have contracted in writing to take up the bills on the maturity date at the same rate for sterling at which they were purchased by us. Bills aggregating \$121,334.88 purchased on January 15, 1924 and shown on schedule number 16, were purchased under the same condition.

We shall be very glad in future transactions to state on our schedules that the bills are bought exchange secured, as it is our policy to buy them only under that condition.

Very truly yours,

E. R. Tancher
Governor.

ERF.
ZCD.

"Exchange Secured"
written on Schedules.
M.P.C.

#4
333
January 29, 1925 333.7-1

SUBJECT: Schedules reporting the purchase
of sterling bills.

Dear Sir:

We have your schedules numbered 193, 198, 216 and 226 reporting purchases on November 24 and 28 and December 17 and 30, of prime sterling bills aggregating \$439,592.41. These schedules do not state whether these bills were bought exchange secured or whether in the event that the rate of exchange on the due date is not identical with the rate at which the bills were purchased, the profit or loss on exchange is to be absorbed by the Federal reserve bank.

It will be appreciated if you will kindly advise the Board in this regard and in the future have the schedules themselves show whether or not the bills are bought exchange-secured.

Very truly yours,

(Signed) E. L. Smead

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

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

✓
Assistant Secretary
Files

7062

Form No. 101.

Office Correspondence

FEDERAL RESERVE
BOARD

Date **December 8, 1924.**

324

To Committee on Discount & Open Market Policy Subject: _____
(Messrs. Miller, Platt & Cunningham)

From Mr. Eddy

333

Not report necessary, since Board has already approved the resolution on account of the

By direction of the Governor, there is referred to the Committee on Discount and Open Market Policy, for report at the meeting of the Board on Thursday, the attached memorandum with regard to action of the recent Federal Reserve Agents' Conference on the subject of investments by Federal reserve banks in foreign bills.

The Board on November 12th approved a recommendation of the Governors' Conference, contained in the report of its Open Market Committee -

"That action on the recommendation of the Advisory Council relative to the purchase of foreign bills be deferred until such time as we may be in a position to know more about the development of conditions relating to foreign exchanges; and that the System make no purchases of such bills until that time."

*No. 100
E 16*

Form No. 131.

Office Correspondence

FEDERAL RESERVE
BOARD

Date December 4, 1924.

To Federal Reserve Board.

Subject:

333.4-1

From Mr. Eddy.

2-8405

The following topic was considered by the recent Federal Reserve Agents' Conference:

"Has the time come for Federal reserve banks to consider investing some of their funds in foreign bills?"

The following report of a Committee appointed to consider this topic was unanimously adopted:

"The committee has been advised by Mr. Jay that he discussed the resolution of the Federal Advisory Council with the Governor of the Bank of England a fortnight ago, and learned from him that in his opinion it would not be practicable for the Federal reserve banks to make any really substantial investment in the London market, as under present conditions it would not be practicable to secure a large volume of bills. The committee feels that when the System goes into foreign markets to invest in bills it should do so for some constructive purpose other than merely to secure earnings. Should England and some of the continental countries like Holland and Switzerland decide in due course to resume gold payments there will doubtless be an opportunity for Federal reserve banks to extend them a considerable volume of credit, either here or abroad, in a manner which would be very helpful not only to them, but to the stabilization of exchange generally with all of the attendant advantages to American trade and commerce. It appears to the committee that if Federal reserve banks should undertake, contrary to the credit policies being pursued in England and other European countries to enter their markets at the present time, the result might hinder rather than help their return to a gold basis."

Action of Nov. 12th affirmed
AT BOARD MEETING
DEC 22 1924

Wap

Joint Conference discussion of the following topic:

"Has the time come for Federal reserve banks to consider investing some of their funds in foreign bills. (Resolution adopted by the Federal Advisory Council, September 25, 1924, copy enclosed.)"

Governor Crissinger: Then we will take up No. 7,
Mr. Perrin.

7. Has the time come for Federal reserve banks to consider investing some of their funds in foreign bills. (Resolution adopted by the Federal Advisory Council, September 25, 1924, copy enclosed.)

Mr. Perrin: The committee has been advised by Mr.

Jay that he discussed the resolution of the Federal Governor of the Advisory Council with the/Bank of England a fortnight ago, and learned from him that in his opinion it would not be practicable for the Federal reserve banks to make any real, substantial investment in the London market, as under present conditions it would not be practicable to secure a large volume of bills. The committee feels that when the system goes into foreign markets to invest in bills it should do so for some constructive purpose, other than merely to procure earnings. If England and some of the Continental countries, like Holland and Switzerland, decide in due course to resume gold payments there will doubtless be an opportunity for the Federal reserve banks to extend them a considerable volume of credit, either here or abroad, and in a manner which would be very helpful not only to them, but to the stabilization of the situation generally, with all of the attendant advantages to American trade and commerce. It appears to the committee that if Federal reserve banks should undertake, contrary to the credit policy pursued in England and other European countries, to enter their markets at the present time, the result might hinder rather than help a return to

a gold basis.

Governor Crissinger: What have the Governors to say about this topic?

Governor Strong: Substantially the same thing. It depends on who speaks first, I see. I do not want any member of the Board to think that there has been a conspiracy between the Governors and the Chairmen at all. We have not collaborated.

Mr. Perrin: We had lunch together, that's all.

Governor Strong: Our action was this: That action on the recommendation of the Advisory Council relative to the purchase of foreign bills should not be taken until we were in a position to know more about existing conditions relative to foreign exchanges, and that the System make no purchase of such bills until that time. It is a little shorter, but to the same point.

RESOLUTIONS ADOPTED BY THE FEDERAL ADVISORY COUNCIL ³³³

SEPTEMBER 25, 1924.

RESOLUTION NO. 1: WHEREAS, a further easing of money rates at this time might render it extremely difficult to ward off a period of acute inflation with its subsequent evil consequences with which the country is only too well familiar, and

WHEREAS, forced investments of Federal Reserve Banks in our market and continued substantial importations of gold into the United States are factors that might tend to enhance the plethora of money already existing,

RESOLVED, that this Council recommend to the Federal Reserve Board to consider the question whether the time has come for Federal Reserve Banks to exercise their power to invest some of their funds in foreign bills with approved American banking indorsements and payable by and repayable to Federal Reserve Banks in dollars.

The Council believes that observing these safeguards and by properly scattering its purchases the Federal Reserve System can safely invest substantial amounts abroad, without any risk of loss on account of exchange or otherwise, and in doing so ward off to that extent the inflow of gold, incidentally assisting the foreign countries involved in their efforts to stabilize their exchanges and to bring them back to definite gold relations.

RESOLUTION NO. 2: The Council has learned that the Secretary of the Treasury is about to call in for redemption on February 1, 1925, the \$118,489,900-4% Loan of 1925, and desires to record its entire approval of the policy involved in this step.

#2
FEDERAL RESERVE BANK
OF NEW YORK

333.47

November 20, 1924.

My dear Governor:

The enclosed reply to Vice Governor Platt's inquiry in regard to the recommendation of the Federal Advisory Council was dictated on Election Day, but has not been sent before this date because of my desire to complete inquiries then under way as to the technique of the conduct of dealings in future exchange.

This has now been completed, and I feel satisfied to send the report, explaining, however, that were any important transaction imminent, I would have preferred to rearrange the letter in a little more logical form, so that this rather technical subject would be reported upon in a less technical way.

Dr. Stewart has expressed a good deal of interest in this matter, and I therefore ask that the letter be shown to him.

Very truly yours,

Benj. Strong
BENJ. STRONG
Governor.

Honorable D. R. Crissinger,
Governor, Federal Reserve Board,
Washington, D. C.

Enc.

St. Louis
FEDERAL RESERVE BOARD

OFFICE OF THE VICE GOVERNOR

To *Governor Cressinger*

I have read this letter with much interest. I don't know whether Mr. Stuart has yet seen it or not.

_____, 19____

1 *# 4* *243.1 Jan files*
**FEDERAL RESERVE BANK
OF CLEVELAND** *333.*
204 *333.41*

November 8, 1924.

Federal Reserve Board,
Washington, D. C.

Attention: Mr. E. L. Smead, Chief,
Division of Bank Operations.

Gentlemen:

I thank you for your letter of November 4 in answer to my letter of October 31 in connection with sterling bills purchased by us on October 31.

I am glad to have your instructions regarding the method of reporting these transactions and will be governed accordingly. I failed to state in my letter of October 31 that a schedule of the complete transaction was being forwarded to the Board in the usual manner. The bills in question were purchased from the Central National Bank Savings and Trust Company of Cleveland, and I might add that we are making another purchase today from the same bank of about 20,000 pounds under the same conditions. If you will refer to our schedule of October 31 you will find the transaction of that date fully reported.

With best regards, I am,

Very truly yours,

Z. C.D.

End

F. F. Burlingame
Deputy Governor.

FEDERAL RESERVE BANK
OF NEW YORK

*Return
to
Crawford* 333.4-1

November 5, 1924.

Federal Reserve Board,
Washington, D. C.

Dear Sirs:

Replying to Vice Governor Platt's letter of October 25, the following is a statement of personal views regarding the resolution passed by the Federal Advisory Council at its meeting on September 25, 1924, recommending that the Federal Reserve Board consider investing funds in foreign bills. Our directors prefer to defer an expression of opinion pending further consideration.

My associates inform me that advocates of the plan believe, (a) that it will furnish investments for Federal reserve banks without the inflationary effects which it is claimed result from domestic investment; (b) that it will facilitate the creation of a market for sterling bills in New York, and (c) that it will assist in the stabilization of sterling exchange and promote return to gold payment.

Before discussing the recommendation and arguments, it should be understood what has been the usual course of business in handling paper of the character described, and just how the investment recommended by the Federal Advisory Council would be made by Federal reserve banks, so that they might be reasonably insured against risk of loss either on the paper itself or by fluctuation in exchange.

Prior to the war, (but to a less extent since the dollar acceptance has been introduced into this market) exports from the United States of certain commodities, such as cotton, etc., were largely financed by drawing sixty and ninety day bills on foreign acceptors, with documents attached. These bills were negotiated through various channels at the points of origin, finally reached New York banking institutions which had banking connections abroad, and by those banks were remitted to their

FEDERAL RESERVE BANK OF NEW

2.

Federal Reserve Board,
Washington, D. C.

11/5/24.

foreign correspondents who presented the bills for acceptance and then disposed of them in accordance with the instructions of the New York banks by which they were remitted.

Much the same course was pursued with various banking centers on the continent, as with London. During a large export movement of such commodities as cotton, the volume of bills so handled was very heavy, in fact too great at times for even large American banks to carry them all to maturity in portfolio as investments, and the customary practice was for the New York banks to sell the bills in London and draw demand exchange against the proceeds, the drawings often being made simultaneously with the remittance of the documentary bill, so that the bills remitted and the bills drawn arrived in London frequently by the same steamer and the New York banks got immediate reimbursement for the funds invested in the bills by the sale of exchange in New York. When the money rates in London were higher than in New York, it proved profitable for the New York banks to carry some portion of these bills in portfolio in London, but when money rates in New York were higher than in London, an immediate sale of the bills in the London market and simultaneous drawing against the proceeds enabled the New York banks to employ the funds in New York at the more profitable rates.

During all the years of the writer's experience prior to the war, when these bills were passing through New York banks in very large volume, there was no difficulty whatever in their negotiation so long as the responsibility of the drawers, endorsers and prospective acceptors was well known to the New York banks and the documents were in order. The natural market for the discounting of the bills was, of course, at the place where the bills were made payable by the drawer, (that is, London) the discount naturally taking place in the currency of the country where the bills were payable.

With the outbreak of the war, interruptions of mails, and the suspension of gold payment, the handling of these bills became impeded because of the uncertainty

FEDERAL RESERVE BANK OF NEW

3.

Federal Reserve Board,
Washington, D. C.

11/5/24.

and insecurity of transit, the difficulty of drawing against the proceeds, and the possibility of heavy losses in exchange in cases where the purchase and resale of the bills and the corresponding sale of demand exchange were not simultaneous. By gradual stages of evolution, dealing in so-called "forward" exchange has developed throughout the world, so that buyers of bills maturing in the future are now able to make sales of the resulting exchange to be delivered and paid for at maturity date. This business has gone through a variety of changes and assumed a variety of forms, but at the present time, even with mail facilities restored and the facilities of the discount markets about as adequate as they were before the war, it is still necessary, because of the exchange risks, for all dealers in exchange either to "balance" their books, that is to say, to discount and sell against everything they buy, and buy against everything they sell simultaneously, or else to cover future maturities by future sales.

This development of the "forward" exchange market, while not entirely new since the war, has, nevertheless, progressed until it is now conducted in a fairly orderly way on very close margin, and has become an important element in the conduct of the foreign exchange business. It should, however, be understood that the capacity of dealers in "forward" contracts to make these contracts, is limited by three factors. The first is the actual amount of true exchange which is produced by actual purchases and sales of goods for future payment, that is to say, those who sell goods abroad to be paid for at a future date, have "forward" exchange to sell in the market, whereas those who buy goods abroad for future delivery and payment, are in the market to buy "future" contracts, both seller and buyer undertaking this for the purpose of insuring against exchange losses incidental to trade in goods. This is the true supply or true demand for "futures," arising out of the business of those who conduct actual trade in goods and who supply the market with the exchange or demand for exchange for future delivery. A second source of supply of "futures" is that furnished by the brokers, dealers and speculators who are constantly trading in contracts for exchange

FEDERAL RESERVE BANK OF NEW

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Federal Reserve
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and who may themselves be willing at times to assume speculative future commitments beyond the actual amount which they immediately cover through purchases or sales. A third source of supply is actual accumulated balances in bank, against which sales of "futures" are made, usually by banks and bankers.

However, in a broad way, it may be said that the supply of future contracts for exchange is limited by the amount of transactions in goods for future payment, by existing bank balances, and by the extent to which those who indulge in speculative operations in exchange are willing to enter into contracts without having exchange in hand or the payment in hand for cover.

The process, therefore, by which Federal reserve banks would purchase sterling bills in the American market would be to buy them at the rate of exchange on the day of purchase from American dealers in long sterling bills, and simultaneously with this purchase make an actual sale of the "future" exchange arising at the maturity of the bill, to some responsible purchaser whose contract to take it could be relied upon as absolutely good. These would be unaccepted bills with documents attached and would have to be immediately remitted to London for acceptance and there held by our correspondent for collection at maturity. (A possible purchase of bills in London is discussed later.) It will be observed that the risks involved in this business are, first, the ordinary commercial banking risk of the goodness of the paper purchased, with dependence upon the documents, as well as the acceptor, endorser and drawer of the bill, and second, the risk involved in the contract for the delivery of exchange to the buyer of the "future" which is limited to the possible exchange depreciation.

At the present time, and probably usually, it will be found that the difference between the rate of exchange at which long bills can be purchased and the rate of exchange realized for the "future" delivery is so great that it will absorb the entire difference between the discount rates prevailing in the London market on paper of this character and the rates commanded by dollar acceptance in New York.

FEDERAL RESERVE BANK OF NEW

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Purchases made through New York institutions would, necessarily, be subject either to a commission charge or to some slight advance in the rate of exchange at which the transaction was conducted so as to insure a profit to the New York bank over what would be realized by the institution itself remitting the bills to London and selling forward exchange, or discounting them and selling demand. This is discussed in a letter addressed to Governor Crissinger by our Mr. Case on September 30 last, and I shall not repeat the figures therein stated. It will be observed that there is no advantage over rates at which our funds can be employed in this market when the difference in the exchange rate is considered, and especially when commissions are deducted by those with whom the business is transacted. Not only is there some additional risk in the purchase of these bills as against domestic bills, but the amount of clerical work and expense involved in the accounting, distribution, collection and settlement of the bills is greater than any other type of investment which we could make.

Referring to the arguments mentioned, i.e.,

(a) As to the point that these purchases will have less inflationary tendency than the purchase of domestic bills or Government securities, there is in fact no difference whatever. An investment in foreign bills places an equivalent amount of Federal reserve funds in the market in the hands of member banks, which serves as reserve just as any other Federal reserve funds serve as reserve for the members, and the same structure of credit can be erected upon the credit balance so created as will arise from any other credit balance at the Reserve bank. The effect is illustrated by what transpired in our purchase of bills from the International Acceptance Bank. For £100,000 of bills, we issued to the International Acceptance Bank our check for \$450,000 in round figures. These are Federal reserve funds and count as reserve to the member bank which gets them. The International Acceptance Bank deposits this check with its depository bank, say, the Hanover National, and against the balance draws its check to the exchange dealer from whom it buys the £100,000 sterling with which to pay for the

FEDERAL RESERVE BANK OF NEW YORK 6.

Federal Reserve Board,
Washington, D. C.

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bills in London. (The £100,000 payment in London is probably made by a cable transfer, and is simply a transfer of a balance in an English bank from the credit of one party to another.) The exchange dealer who receives the check of the International Acceptance Bank in turn deposits it in his bank, which thereby gets the additional reserve at the Reserve bank of \$450,000. And from then on the process of lending and relending this amount of Federal reserve funds goes through the usual course and creates the usual structure of bank loans and bank deposits, resulting either from gold imports or from any expansion in the earning assets of Reserve banks. It effects no transfer of "money" to London, but simply effects a transfer of a sterling balance in London from one depositor to another. It does withdraw £100,000 of bills from the London discount market temporarily and creates a future demand for dollars in London which must be satisfied whenever the account is ultimately liquidated.

(b) The creation of a market for paper of this character in New York impresses the writer as mythical and liable to be misleading as to what is sought to be accomplished. The real market for sterling bills must always be London, just as the real market for dollar bills must be in New York. The purchase of sterling bills by Federal reserve banks will neither improve the "market" for those bills, nor will it provide a true discounting place for them, but will simply substitute the Federal reserve banks temporarily as holders of the bills instead of the American banks which, in the usual course, must remit them promptly to London for acceptance and to be carried as investments or to be discounted through the London banking machinery. If we buy them prior to acceptance, we would then be obliged to send them to London.

In my experience in dealing with sterling bills, which would go back for ten or fifteen years prior to the commencement of the war, there never was any difficulty about marketing bills in New York for remittance to London in the usual course. Almost our entire export cotton movement was financed prior to the war on long bills and no difficulty was experienced in the movement of those bills through the banking machinery in the south and in New York. The same is true of other types of long

FEDERAL RESERVE BANK OF NEW

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Federal Res. Jard,
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bills which are drawn against actual exports and which have that commercial character which qualifies them for discount at the Bank of England in the case of sterling bills or at the Federal Reserve Bank of New York in the case of dollar bills. Our purchase would simply be a substitution of one holder for another, pending remittance to London for acceptance collection or discount. No "market" is needed here.

As to (c), that the holding of a large investment account of this character would be an aid toward the stabilization of exchange and a return to the gold standard, we think possibly the effect of such investments in any volume which would be of importance to that end, might prove to be a menace to the stabilization of exchange and the return to gold payment rather than an assistance. In the first place, our investigations of this market indicate that the amount which could be purchased with satisfactory "forward" exchange sales contracts, in other words, with the obligations of institutions in which we have confidence, is limited. At the outset, we believe it might be limited to not over \$50,000,000, if that much. It must also be borne in mind that the names which we would get on these contracts are very largely names of institutions which already appear on many dollar bills which we buy, and it would then be a multiplication of the credit risk. We would not be willing to accept forward contracts from firms and individuals, and the number of institutions whose names we could get on these contracts is probably comparatively few. If, as we believe, the number of those making commitments for future purchases of exchange is rather limited, and if we undertake to cover purchases of sterling bills by sales of futures to a limited number of the strongest institutions doing this business and maintain the volume of the account at a large amount, say \$100,000,000, indefinitely, it would mean that those institutions, because of the size of these commitments, would thereafter be limited in the amount of this business which they could undertake. It might effect a considerable impairment of the capacity of the market generally to undertake dealings for future delivery. Our sales of exchange for future delivery would be

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Federal Reserve Board,
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conducted with a comparatively small number of institutions and if the account was a large account the amount of their obligation to us in each case would be quite heavy. Should the time come when these institutions, for one or another reason, became unwilling to continue to make purchases of futures to replace those which matured, we might be forced to let the bills run off or continue the operation at constantly declining rates for sterling. The tendency would likely be to widen the difference between the demand rate for sterling and the rate at which futures could be sold. It is not difficult to conceive of a situation where the continuance of an investment account of this character would be quite beyond our control, and where, in fact, it might be necessary to reduce it or close it out at a time which would embarrass the stabilization of the exchange market and the return to gold payment.

Even though we were able to secure a large volume, 50 or 100 million dollars or more, the effect of such purchases would be to create a large unliquidated open account hanging over the sterling market, and were conditions to change, - for example, were we to have heavy discounting by our members or a large export gold movement, - we might then be forced to liquidate the account at an unpropitious time and jeopardize whatever progress had been made abroad toward stabilization and gold payment by other and more comprehensive methods.

The above remarks apply simply to local purchases of long sterling bills of American origin bearing American names. Such purchases would, of course, necessitate the remittance of bills to London, where they would be held for our account until maturity. The small transaction already effected, however, was in fact a purchase of bills of English origin, the bills themselves being actually taken out of the London market and shipped to this country. The comments above in regard to purchases of bills of American origin should be modified as to this form of purchase in the following respects:

FEDERAL RESERVE BANK OF NEW

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Federal Reserve Board,
Washington, D. C.

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The process which we would employ in buying bills in London of British origin would be somewhat different from that which would be necessary in buying them in New York. We would probably make an arrangement with the Bank of England by which they would make regular purchases in London, and it would be necessary to make the sales of futures there, payable, of course, in dollars in New York. In fact, a sale of dollars would have to be effected first in London by drafts on New York so as to create the necessary sterling balance with which to buy the bills, because the sale of the dollars to create the sterling balance, the sale of the future cover, and the purchase of the bills, must be substantially simultaneous transactions in an exchange market which fluctuates as rapidly as the market does just now. Otherwise, the loss of time in cable transfers, etc., would subject the bank to a risk of exchange loss which might indeed eat up all of the discount profit. I at one time discussed some such arrangement with Governor Norman and he expressed a great deal of doubt whether more than a very limited volume of bills could be acquired in London, the limitation in the volume of bills and in the amount of good "futures" which could be obtained being such as to restrict the volume of purchases which could be made.

It is undoubtedly true that at a time when discount rates are higher in London than in New York, the tendency is for American buyers of bills to carry them in portfolio in London so as to realize the higher rate of discount return, insuring themselves, of course, by selling "forward" exchange as above described. It might, therefore, be argued that discount facilities for American banks should be developed here for their protection in case their portfolios become unduly large in London. We doubt whether the demand for such protection is of any considerable proportions, if it exists at all. The London market has always, even during the war, been ample. Most of the large American banks are doubtless glad to take advantage of the higher return for their funds so employed than at present can be realized on similar employment in New York. When New York rates are higher, they can promptly melt their London bills. On the other hand, however, consideration should be given to what

FEDERAL RESERVE BANK OF NEW

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Federal Reserve
Washington, D. C.

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effect such a policy conducted in a large way, would have upon the respective money markets, and especially upon the prospects of a return to the gold standard. The Bank of England is at present pursuing a policy of maintaining a somewhat higher money market in London than prevails in New York. The withdrawal of a large amount of bills by the Federal Reserve banks from the London discount market would have a tendency to create easier money there, that is to say, to reduce the demand for loans upon bills at the joint stock banks by bill dealers, thereby releasing funds for other employment, whereas at the same time the equivalent in dollars would be injected into this market the same as in the case of the purchase of domestic bills.

It is impossible to forecast absolutely that large transactions of this sort would in fact have any considerable effect upon the money market in London, but if it had any effect, it would be in the direction of creating easier money in that market and a somewhat similar effect in this market. The return of sterling to par, however, will best be facilitated by high rates in London and lower rates here.

We do not believe that such a program should be undertaken without a very full understanding in London, especially having in mind the major object of an ultimate return to the gold standard. If the time comes when the Federal Reserve banks should make investments in London for the purpose of facilitating the return to gold payment, we think that such purchases should be made actually in London through our own connections there, and with every possible safeguard against loss either on the bills or on the rate of exchange.

The writer believes that one of the greatest services that can now be performed for the business interests of this country and the rest of the world would be to secure the restoration to gold payment by the principal nations of Europe, and especially by Great Britain. This will not be accomplished by the Federal Reserve banks appearing as volunteers in an investment account of this character without any arrangement to insure that the result of the effort will in fact be a return to gold payment by Great Britain.

FEDERAL RESERVE BANK OF NEW

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Federal Reserve Board,
Washington, D. C.

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the officers of the Bank of England, and we believe those who are generally responsible for the British policy in this regard, fully understand that whenever the time is propitious for considering this question, we stand ready to discuss it with them and, if possible, aid in bringing about this desired result, but until we are able to undertake some comprehensive plan with some assurance of success, and in fact with some obligation on their part to return to gold payment, we believe any attempt by us to volunteer to promote it single-handed and without cooperation and understanding in London, will be unavailing and might do more harm than good.

this is a subject which has been discussed, as the Board knows, at great length with Governor Norman and his associates while he was in this country and during my visits to London. If the Board believes that this is the principal object to be served by the purchase of sterling bills and that this is a favorable time to undertake some constructive work along this line, it would be more desirable to take it up directly with London and arrive at understandings which would have more assurance of success than could be expected from the purchase of an unimportant amount of sterling bills by the methods proposed. Mr. Jay has been asked by cable to discuss the matter with Governor Norman, and will be able to throw further light upon the subject on his return.

My recommendation to our directors has been that the bills already purchased be permitted to run off at maturity, and that, as a matter of policy, we do not undertake to continue these transactions except under some arrangements with our friends in London, which we are willing to discuss at any time. Some further and more formal action will likely be taken by our directors at a later date, which will be transmitted to the Board.

Very truly yours,

Ben: Strong
BENJ. STRONG
Governor.

*Report of
Bills*

*#4
214*

24.31
FEDERAL RESERVE BANK
333
333.47

November 4, 1924.

Dear Mr. Zurlinden:

Receipt is acknowledged of your letter of October 31 in which you advise that you have purchased from a member bank, exchange secured, sterling bills payable in London, and that pending receipt of the actual bills, which are now in transit, you have made an advance of \$112,500 to the member bank against $4\frac{1}{2}$ per cent Treasury notes.

In our weekly statement to the press showing the condition of the Federal reserve banks such bills will be combined with other bills bought in open market, and consequently they may be combined with other bills on your daily balance sheet form 34. If you prefer, however, they may be shown separately against the caption now used. In your Wednesday night form 34 telegram, it will be necessary for you to give the maturity distribution of these bills the same as of any other bills. In case the actual maturity is not known and cannot be definitely ascertained, a careful estimate should be made of actual maturities and proper distribution wired to the Board pending the arrival of the bills.

In the case of future purchases it will be appreciated if you will furnish us with a memorandum schedule on the date the purchase is made, giving such particulars as are available, followed by a detailed schedule giving full particulars as soon as the bills are actually received.

Very truly yours,

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

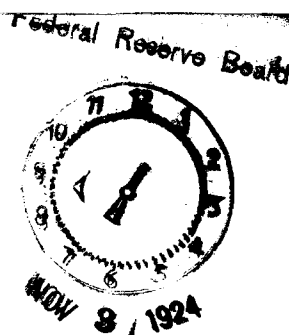
Mr. F. J. Zurlinden, Deputy Governor,
Federal Reserve Bank,
Cleveland, Ohio.

Assistant Secretary
Files

JW

FEDERAL RESERVE BANK
OF CLEVELAND

333.47



October 31, 1924.

Federal Reserve Board,
Washington, D. C.

Attention: Mr. Smead.

Gentlemen:

We are today opening a new account on our general books entitled, "Advances secured by U. S. Government obligations account of Sterling bills in transit". The circumstances are as follows:

We today purchased from a member bank sterling bills, payable in London and which are in transit from London to the member bank. Pending receipt of the actual bills we have made an advance to the member bank of \$112,500, representing 25,000 pounds, at \$4.50, secured by \$120,000 Series B-1926, 4 1/4 per cent Treasury Notes. The bills in question will approximate 25,400 pounds.

On receipt of the bills the member bank will endorse them and deliver them to us, at which time we shall release to the member bank the Government obligations deposited with us. When the bills are delivered to us we shall compute the discount on the dollar amount of the bills, based on a rate for sterling agreed upon today, (\$4.50), crediting the account of the member bank with the difference between the proceeds as arrived at on receipt of the bills and the amount of the advance made today against the bills. The member bank will guaranty reimbursement to us at maturity at the same rate for sterling. The purchase consists of prime sterling bills with maturities between sixty and ninety days, and the discount is to be computed at 2 1/4 per cent.

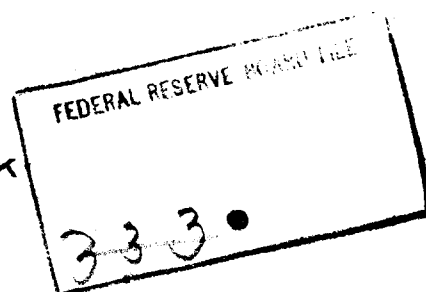
I trust that this account as set up will meet with your approval but I would be very glad to have your suggestions, as it appears that other transactions of this nature are probable.

Very truly yours,

Z.C.D.

F. C. Burlingame
Deputy Governor.

2
FEDERAL RESERVE BANK
OF NEW YORK



October 29, 1924.

Dear Governor Flatt:

Your favor of the 28th is received this morning.

Certainly there is no difference whatever, so far as inflationary influence is concerned, in the purchase of domestic bills or foreign bills, in the making of loans to member banks or to foreign banks, or in the purchase of anything by Federal reserve banks which creates a reserve balance for a member. The inflationary effect is identical in any case.

I shall hope to have a report in your hands early next week covering this matter, and in the meantime do not hesitate to advise you that I am very strongly opposed to continuing the purchase of foreign bills as I informed Governor Crissinger in Chicago.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Benj. Strong".

BENJ. STRONG
Governor.

Honorable Edmund Flatt,
Deputy Governor, Federal Reserve Board,
Washington, D. C.

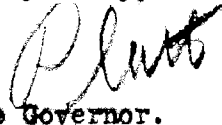
October 28, 1924.

Dear Governor Strong:

Your letter of October 27th, with relation to the investment of Federal Reserve Bank funds in foreign bills, reached me this morning and as Governor Crissinger was present and also Dr. Miller, who had been confined to his home by an attack of influenza for several days, we discussed the matter somewhat at length.

The Advisory Council resolution appears to take the ground that the purchase of foreign bills does not have the same inflationary influence that the purchase of domestic bills has, but the discussion of the Board this morning brought most of us I think to the opinion that there is practically no difference. Governor Crissinger informed us that you were rather strongly against the increase of purchase of foreign bills.

Yours very truly,



Vice Governor.

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

333.4-1

**FEDERAL RESERVE BANK
OF NEW YORK**

October 27, 1924.

Federal Reserve Board,
Washington, D. C.

Attention - Honorable Edmund Platt

Dear Mr. Platt:


On my return to the bank today Mr. Case has handed me your letter of October 25, asking for a comprehensive report from this bank covering the recent resolution of the Federal Advisory Council recommending the investment of Federal Reserve Bank funds in foreign bills.

This report we will very gladly submit to the Board in the near future, but, before doing so, we wish to make some particular inquiry as to the volume of business of this character which may be done within the limitations of prudence and with due regard to the various important considerations which would affect the decision.

This matter was discussed at some length at the meeting of the Investment Committee in Chicago on Friday last week, and doubtless Governor Crissinger will advise you of the views which I expressed at that time, which you, of course, will understand were without opportunity for conference with my associates in the bank.

I hope to have the report to transmit the latter part of this week.

Very truly yours,


BENJ. STRONG,
Governor.

333

October 25, 1924

(3)

Dear Mr. Case:

At the meeting of the Board yesterday, reference was made to the recent purchases by your bank, amounting to approximately £500,000, of sterling bills bearing the indorsement of an American bank and payable to you in dollars. This led to a discussion of the resolution passed at the recent meeting of the Federal Advisory Council, in which the Council recommended that the Board consider the question whether the time has come for Federal Reserve banks to exercise their power to invest some of their funds in foreign bills with approved American banking indorsements and payable by and repayable to Federal Reserve banks in dollars.

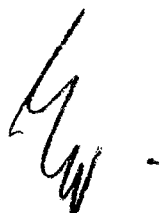
Following the discussion, one of the members moved "that the Federal Reserve Bank of New York be directed to make a comprehensive report covering the recent resolution of the Federal Advisory Council recommending the investment of Federal Reserve bank funds in foreign bills".

This motion was adopted and an early reply from you would be appreciated.

Very truly yours,


Edmund Platt,
Vice-Governor.

Mr. J. H. Case, Deputy Governor,
Federal Reserve Bank,
New York, N. Y.

✓


RESOLUTIONS ADOPTED BY THE FEDERAL ADVISORY COUNCIL

SEPTEMBER 25, 1924.

RESOLUTION NO. 1: WHEREAS, a further easing of money rates at this time might render it extremely difficult to ward off a period of acute inflation with its subsequent evil consequences with which the country is only too well familiar, and

WHEREAS, forced investments of Federal Reserve Banks in our market and continued substantial importations of gold into the United States are factors that might tend to enhance the plethora of money already existing,

RESOLVED, that this Council recommend to the Federal Reserve Board to "consider the question whether the time has come for Federal Reserve Banks to exercise their power to invest some of their funds in foreign bills with approved American banking indorsements and payable by and repayable to Federal Reserve Banks in dollars."

The Council believes that observing these safeguards and by properly scattering its purchases the Federal Reserve System can safely invest substantial amounts abroad, without any risk of loss on account of exchange or otherwise, and in doing so ward off to that extent the inflow of gold, incidentally assisting the foreign countries involved in their efforts to stabilize their exchanges and to bring them back to definite gold relations.

RESOLUTION NO. 2: The Council has learned that the Secretary of the Treasury is about to call in for redemption on February 1, 1925, the \$118,489,900-4% Loan of 1925, and desires to record its entire approval of the policy involved in this step.

Stirling Bills

2

243
133.44

October 16, 1924.

Dear Mr. Burgess:

On examining your monthly report of investment operations form A for the month of September, we note that the figures are exclusive of the £50,038.18; 6 of acceptances purchased through the Bank of England on September 18.

In our volume figures it is proposed to treat these as purchases in the open market during September, and we will appreciate it therefore if you will kindly advise us of the dollar amount of these bills and the rate at which the conversion from pounds to dollars was made.

Very truly yours,

(Signed) E. L. Smead

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

Mr. W. R. Burgess,
Assistant Federal Reserve Agent,
Federal Reserve Bank,
New York, N. Y.

Assistant Secretary
Files

Sterling Bills
254

#2
FEDERAL RESERVE BANK
OF NEW YORK

243.1
Federal Reserve Bank



October 18, 1924.

333,4-1

S i r s :

Attention: Mr. Smead.

Replying to your letter of October 16, we beg to advise that the sterling bills purchased through the Bank of England have been converted into dollars at the rate of 4.4771. The net cost of these bills in sterling is £50,178:7:3, and in dollars \$224,653.54, while the maturity value is £50,633:4:5 and \$226,689.99. ✓

Under the present arrangement these bills should of course be included under bills purchased.

Respectfully,

W. R. Burgess

W. R. BURGESS,
Assistant Federal Reserve Agent.

Federal Reserve Board,
Washington, D. C.

Our records changed to agree with the above mentioned figures - M.P.C. 10/20/24.

Copy retained in office M.P.C.

Form No. 131.

Office Correspondence

FEDERAL RESERVE
BANK OF ST. LOUIS

Date October 11, 1924.

To Mr. Egan

Subject: 333

From Mr. Egan

333,4-1

2

*Return to
Linsell*

The attached is the first detailed schedules received covering the purchase of sterling bankers' bills from the International Acceptance Bank, Incorporated. It occurs to me that you and the Board may wish to see them in order to have a general idea as to who the acceptors and endorsers are. I shall be glad to send over future schedules covering such purchases in case you would like to see them.

Form No. 131.

Office Correspondence

FEDERAL RESERVE
BOARDDate October 8, 1924.To Mr. Eddy

Subject: _____

From Mr. Smead

-8496

Starting with

I advised New York over the telephone this morning that the sterling bills recently purchased by the Federal Reserve Bank of New York through the Bank of England would in the future be combined in the weekly statement with other bills bought in the open market and that a brief statement regarding such purchase would appear in the Board's analysis accompanying the condition statement. Mr. Burgess of the New York Bank advises me that Mr. Case would very much prefer that no reference to these bills be made in any published statement, and I think that this fact should be called to the Board's attention before our statement is released to the press tomorrow.

The suggested wording of the statement which it was proposed to incorporate in the analysis is as follows:

"On September 18 the Federal Reserve Bank of New York used a portion of the small balance which has been kept on deposit with the Bank of England for a number of years to purchase prime sterling bills in the London market. The amount of such bills held, \$227,000, is included in the statement with other bills bought in open market."

*Stat. Off. had
Bd. Meeting
Oct 19, 24*

*8x7 Folder
Special*

Executive Folder

Date *10/6/24*

FEDERAL RESERVE BANK
OF NEW YORK

(2)

RECEIVED
1924
OFFICE OF
THE GOVERNOR
September 30 1924

333.4-1

Dear Governor Crissinger:

I wrote you on September 19/ about our arrangements with the Bank of England whereby part of our balance with that institution would be made productive, and you will recall that \$50,000 was placed in a special interest bearing account and \$50,000 was invested in commercial bills.

We have now received the full details from the Bank of England of these transactions and find that the rate of interest paid on the special account will be fixed each week. For the week ending September 20, interest was credited at 3-3/8%. With regard to the commercial bills which the Bank of England has bought for us with their guarantee of payment at maturity, I thought you might be interested in the names appearing on these bills:

| <u>Acceptor</u> | <u>Indorser</u> | <u>Amount</u> |
|------------------------------------|---|---------------|
| Bank of Liverpool & Martins Ltd. | Guaranty Trust Co. of New York and Canadian Bank of Commerce. | £ 2,289: 1: 7 |
| Standard Bank of South Africa Ltd. | ditto ditto | 1,549:16: 0 |
| ditto | " " | 2,658:12: 0 |
| " | " " | 1,385: 8: 0 |
| Westminster Bank Ltd. | Bunge & Co. Ltd. and Guaranty Trust Co. of New York. | 670:16: 5 |
| Hambros Bank Ltd. | ditto ditto | 2,322: 5: 6 |
| Midland Bank Ltd. | Canadian Bank of Commerce and Guaranty Trust Co. of New York. | 3,000: 0: 0 |
| Hambros Bank Ltd. | ditto ditto | 1,151:16: 0 |
| ditto | " " | 1,048: 7: 0 |
| " | Bunge & Co. Ltd. and Guaranty Trust Co. of New York | 914:10: 3 |
| J. Henry Schroder & Co. Ltd. | Canadian Bank of Commerce and Guaranty Trust Co. of New York | 2,498: 6: 0 |
| Wm. Brandt Sons & Co. | Bunge & Co. Ltd. and Guaranty Trust Co. of New York. | 740: 2: 9 |
| Midland Bank Ltd. | ditto ditto | 1,202: 2: 6 |
| Hambros Bank Ltd. | " " | 809:11:11 |
| Lazard Bros. & Co. Ltd. | Mercantile Bank of India Ltd. | 3,873: 6: 8 |
| Barclays Bank Ltd. | ditto ditto | 5,000: 0: 0 |
| ditto | " " | 716:13: 4 |

Carried forward £31,830:15:11

FEDERAL RESERVE BANK OF NEW YORK 2

Governor C. S. S. 9/30/24.

| <u>Acceptor</u> | <u>Indorser</u> | <u>Amount</u> |
|---------------------------|---|-----------------|
| | Brought forward | \$ 31,830:15:11 |
| Barclays Bank Ltd. | Mercantile Bank of India Ltd. | 2,916:13: 4 |
| David Sassoon & Co. Ltd. | ditto ditto | 4,000: 0: 0 |
| ditto | " " | 3,708: 0: 0 |
| Barclays Bank Ltd. | " " | 608: 6: 8 |
| Midland Bank Ltd. | International Banking Corpora- tion and National City Bank of New York and Seecombe, Marshall & Campion, | 1,790:14:10 |
| Kleinwort Sons & Co. Ltd. | Mercantile Bank of India Ltd. | 1,400: 0: 0 |
| Bank of Australasia, | ditto ditto | 3,155:13: 2 |
| Westminster Bank Ltd. | " " | 605:12: 0 |
| ditto | " " | 617: 8: 6 |
| | Total | \$ 50,633: 4: 5 |

These bills mature in from 84 to 92 days and you will note that many of them bear American indorsements. The bills were purchased at 3-11/16% discount and when it is considered that the Bank of England's guarantee is added to the strength of the names actually appearing on the bills, there can be no doubt as to the excellence of the investment.

The details of our initial purchase of sterling bills through the Bank of England are received at a most opportune time in view of the recent recommendation of the Federal Advisory Council that the Federal Reserve Board consider the question whether the time has come for Federal reserve banks to exercise their power to invest some of their funds in foreign bills with approved American banking indorsements and payable by and repayable to Federal reserve banks in dollars. As explained in Mr. Kenzel's letter of September 24, this bank has purchased from the International Acceptance Bank a parcel of sterling bills, the method employed in that transaction being the one suggested by the Federal Advisory Council. In view of these circumstances, it is interesting to compare our purchase of sterling bills through the Bank of England with the transaction with the International Acceptance Bank. You will recall that in the latter case we had an American

FEDERAL RESERVE BANK OF NEW

3

Governor Criss

9/30/24.

indorsement, the whole transaction was on a dollar basis with no risk of exchange, and the bills were bought by us at $2-1/4\%$. Of course, we have not undertaken to cover the exchange risk on the £50,000 of bills bought through the Bank of England as that represents part of a complimentary balance which we have carried with the Bank of England for years. However, should further purchases of sterling bills through the Bank of England be made, we would presumably eliminate the risk of exchange as was done in the transaction with the International Acceptance Bank. That would be accomplished by selling future sterling against each purchase of spot that is made. For example, future sterling, deliverable 90 days hence, can be sold at about $1-1/8$ cents per pound discount under the quotation for spot sterling, and reducing that to a per annum basis, gives us about 1% discount to cover the risk in exchange. Consequently sterling bills bought through the Bank of England at $3-11/16\%$ discount would net us $2-11/16\%$ if the exchange risk were eliminated. To compare that return with the discount received on the bills bought from the International Acceptance Bank, it should be stated that rates in London declined slightly, say $1/16$ or $1/8\%$, between the date of the Bank of England purchase (September 17) and the purchase on September 24 from the International Acceptance Bank, and taking that reduction into account, the purchase through the Bank of England would have netted us $2-9/16\%$ or $2-5/8\%$ as against $2-1/4\%$ on the bills taken from the International Acceptance Bank. Most of the difference is accounted for by the fact that the International Acceptance Bank get $1/4\%$ for its indorsement while the Bank of England, under the terms of our agreement with them, guarantees bills bought for our account without charge.

We have been giving considerable thought to these transactions here at the bank and they have been discussed with our Executive Committee which approves in principle of such transactions as were undertaken with the International Acceptance Bank so far as they assist American banking institutions to develop a market

FEDERAL RESERVE BANK OF NEW

1

Governor Crissinger

9/30/24.

for sterling bills here and afford a means of rediscount in New York for prime sterling bills with good American banking indorsement; in other words, for this bank to render the same support to American banks and bankers in their purchase of prime sterling bills as we have done in helping them develop a dollar discount market. However, if the Federal reserve banks embark upon a program of investing a substantial amount of their assets in sterling bills or bills drawn in other foreign currencies with a view to preventing further ease in money here and to ward off additional gold imports as suggested by the Federal Advisory Council, we believe that such operations should be conducted directly through our own foreign correspondents. That is the method which the Federal Reserve Act clearly provides for making such investments since the Act authorizes Federal reserve banks to appoint foreign correspondents and establish agencies in foreign countries "wheresoever it may be deemed best for the purpose of purchasing, selling and collecting bills of exchange, and to buy and sell, with or without its indorsement, through such correspondents or agencies, bills of exchange (or acceptances), etc. etc."

Furthermore, one of the cornerstones in all of our agreements with foreign central banks has been the reciprocal purchase of bills. We, in conjunction with the Bank of England, have fostered the idea of close cooperation between central banks of issue and have felt that all important operations of central banks in foreign countries should be undertaken through the respective central banks of those countries. Keeping that in mind, we believe that you and your associates will agree with us that our purchases of sterling bills from American banks should properly be undertaken to assist in the development of a market as outlined above but that when the question arises of employing part of our resources in foreign bills, the Federal reserve banks should follow the usual course adopted by European central banks and in fact private commercial banks as well, of investing directly through our own correspondents with their guarantee or indorsement and agreement to discount.

Very truly yours,



J. H. CASE,
Deputy Governor.

Honorable D.R. Crissinger,
Governor, Federal Reserve Board,
Washington, D. C.

Form No. 131.

Office Correspondence

FEDERAL RESERVE
BOARD

Date September 30, 1924.

To Mr. Noell

Subject: 3334-1

From Mr. Smead

333

2-8495

JS
Last night we received a purchase schedule from the Federal Reserve Bank of New York covering the purchase on September 25 of \$100,000 prime sterling bankers bills. The schedule reads as follows:

"\$100,000. Prime sterling bankers bills, endorsed Rothschild & Co., London, and International acceptances bank, New York, delivery to be made on arrival in about ten or twelve days.

"These bills were purchased at the discount rate of 2-1/4 percent, exchange secured.

"Figuring exchange on the above bills at 4.46 they amount to the equivalent in dollars of \$446,000.

"We made part payment today of \$430,000, to International Acceptance Bank, New York - on account, against the deposit of a like amount of U. S. Treasury notes 4-3/4 percent series A - 1925 due March 15, 1925.

"Balance of payment will be adjusted upon arrival of the bills at which time a schedule giving complete details will be forwarded to the Federal Reserve Board."

"So far as I know this is the first purchase of foreign bills payable in foreign currency which has been made by a Federal reserve bank. I assume, therefore, that the Board members would be interested to know the details noted above regarding this purchase.

Executive Folder

Date 10/1/24

*Purchase of
Sterling bills
from Int. Bankers M.*

2

333

September 26, 1924.

333.47

Dear Mr. Kenzel:

Receipt is acknowledged of your letter of September 24th, addressed to Governor Grissinger, confirming your telephone conversation with him on that date and advising of the details of your purchase from the International Acceptance Bank as of September 25th of £ 100,000 prime sterling bankers' bills, indorsed by Rothschild & Company, London, and the International Acceptance Bank. Your letter has been brought to the attention of the members of the Board.

Very truly yours,

(Signed) Walter L. Eddy

Walter L. Eddy,
Secretary.

Mr. E. R. Kenzel, Deputy Governor,
Federal Reserve Bank,
New York, N. Y.

W

Form No. 131.

Office Correspondence

FEDERAL RESERVE
BOARD

33894
Date September 24, 1929

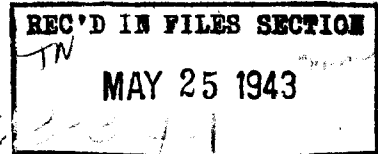
To Governor Young

Subject: Foreign bills bought for the account
of the Federal Reserve Bank of New York
during 1929.

From Mr. Smead

2-8405
020

I am handing you herewith a statement showing the amount of foreign bills bought for the Federal Reserve Bank of New York by months from January to August, 1929, inclusive. This statement also shows the rate at which the bills were purchased and the exchange rate. On September 19 the System held about \$16,040,000 of Sterling bills, \$650,000 of French bills, and \$770,000 of Hungarian bills, or a total of \$17,460,000.



74420

**FOREIGN BILLS BOUGHT ON THE ACCOUNT OF THE FEDERAL RESERVE BANK OF
NEW YORK DURING 1929**

**ALL BANK OF
REC'D IN FILES SECTION**

MAY 25 1943

Bought by Bank of England

(Sterling)

| <u>Date</u> | <u>Days to run</u> | <u>Amount</u> | <u>Discount rate (per cent)</u> | <u>Exchange rate</u> |
|-------------|--------------------|---------------|-------------------------------------|--------------------------|
| January | 62 - 80 | \$139,266.84 | 4-3/16 to 4-9/32 | \$4.8493 |
| Feb | | | | |
| February | 70 - 83 | 90,611.53 | 4-1/4 to 5-7/32 | 4.8493 |
| March | 81 - 84 | 105,632.71 | 5-3/16 to 5-9/32 | 4.8493 |
| April | 68 - 91 | 120,109.77 | 5-3/32 to 5-1/4 | 4.8493 |
| May | 72 - 90 | 148,963.28 | 5 to 5-9/32 | 4.8493 |
| June | 80 - 86 | 71,751.41 | 5-7/32 to 5-1/4 | 4.8493 |
| July | 69 - 76 | 112,782.07 | 5-1/4 to 5-13/32 | 4.8493 |
| August | 28 - 93 | 10,889,187.93 | 4-3/4 to 5-13/32 | 4.8482 - 4.8493 |

Bought by Bank of France

(Franc)

| | | | | |
|----------|---------|------------|-----------------|--------|
| January | 40 - 78 | 434,156.31 | 3-1/8 to 3-9/32 | .03906 |
| February | 28 - 77 | 197,116.23 | 3-1/4 | " |
| March | 32 - 80 | 483,788.81 | 3-1/4 | " |
| April | 32 - 82 | 272,642.15 | 3-1/4 to 3-5/16 | " |
| May | 28 - 82 | 433,948.90 | 3-1/4 to 3-3/8 | " |
| June | 44 - 89 | 309,233.73 | 3-3/8 to 3-1/2 | " |
| July | 58 - 83 | 304,096.20 | 3-3/8 to 3-1/2 | " |
| August | 66 - 84 | 296,399.43 | 3-3/8 to 3-1/2 | " |

Bought by Bank of France from the Magyar Nemzeti Bank of Budapest

(Pengo)

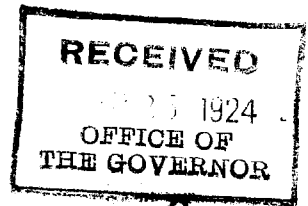
| | | | | |
|--------|---------|--------------|------------|-------|
| July | 22 - 84 | 1,012,287.42 | 7-1/2 to 8 | .1749 |
| August | 52 - 80 | 207,393.13 | 7-1/2 to 8 | " |

**FEDERAL RESERVE BOARD
DIVISION OF BANK OPERATIONS
SEPTEMBER 24, 1929.**

Boards

check

FEDERAL RESERVE BANK
OF NEW YORK



333.4-1 *ARC*

Sept. 24, 1924.

Dear Governor Crissinger:

Referring to our conversation over the telephone today I thought that you would be interested in the details of the transaction we have had with the International Acceptance Bank in respect of sterling bills. Following is a description of the way it worked out:

We have today bought from the International Acceptance Bank as of tomorrow, September 25, £100,000 prime sterling bankers' bills, indorsed Rothschild & Company, London, and International Acceptance Bank, delivery to be made on arrival in about ten or twelve days. We, however, will make payment tomorrow against the deposit with us of an equivalent sum of United States Government securities which we will re-deliver to the International Acceptance Bank upon delivery of the sterling on arrival.

Twelve days prior to the various maturities of the sterling purchased, we will deliver same to the International Acceptance Bank for collection against their deposit with us of an equivalent amount of United States Government securities which will be released to them as we receive payment through them at maturity for the relative sterling bills.

The discount rate is $2\frac{1}{4}\%$, exchange secured, that is, the whole transaction is on a dollar basis, and as the exact discount cannot be figured until the maturities of the bills are known on arrival, I have arranged to make payment tomorrow of a round amount, say \$430,000, on account. Figuring exchange at 4.46, the balance of the purchase price remaining to be adjusted upon receipt of the sterling will be about \$13,500.

Noted

AT BOARD MEETING

SEP 26 1924

Tid

FEDERAL RESERVE BANK OF NEW YORK

2-

9/24/24.

It will be seen that by this procedure the Federal reserve bank is protected at every point by possession of eligible assets against the outlay of its funds; also that we get a strong American banking indorsement on top of very strong London names and that there is no exchange hazard to us involved and the rate is slightly better than we could obtain on American bills in this market at the present time. Further, as distinguished from we ourselves going into the London market and buying bills there, we are in effect putting ourselves back of an American banking institution which invests its own funds in the London bill market and it would seem that transactions of this character with American banks might properly be regarded as in a measure extending the support which we have given to American banks in the development of a dollar discount market to their operations in the London market, making it possible for them to use their funds in the London market, relieved of the hazards of the London discount rate and the emergencies of the London discount market in the event that they found it desirable or necessary to relieve themselves of their sterling portfolios through discount or sale.

Very truly yours,



E. R. Kenzel,
Deputy Governor.

Hon. D. R. Crissinger,
Governor, Federal Reserve Board,
Washington, D. C.

ERK/VR

Bank of England

~~# 2~~

333

12

September 22, 1924.

Dear Mr. Case:

The Federal Reserve Board has received your letter of September 19th and notes that arrangements have been made with the Bank of England whereby part of your bank's balance with that institution will be invested. It is further noted that the question of participation in these investments by other Federal reserve banks will be taken up at the forthcoming Governors' Conference.

Very truly yours,

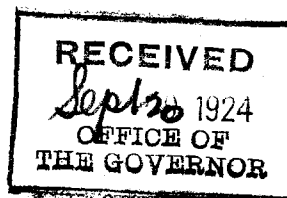
(Signed) Walter L. Eddy

Walter L. Eddy,
Secretary.

Mr. J. H. Case, Deputy Governor,
Federal Reserve Bank,
New York, N. Y.

RECEIVED
1924

FEDERAL RESERVE BANK
OF NEW YORK



September 19, 1924.

Dear Governor Crissinger:

During one of Governor Strong's visits to London, he had a discussion with the Governor of the Bank of England in regard to the present arrangement of our accounts and it resulted in the following proposal:

Of our present balance of some £165,000, approximately £100,000 to be made productive. As an experiment it was proposed that one-half of that sum be invested in commercial bills of the usual character which we are permitted to buy abroad, and the other £50,000 to be employed for short periods at interest under guarantee of the Bank of England, the procedure in the latter case to be to transfer the sum of £50,000 to a special account upon which interest will be earned at a little below the weekly Treasury bill "tap" rate.

I understand that Governor Strong made a statement to the Federal Reserve Board in the early part of June with regard to this proposed change in the handling of our account with the Bank of England, and I am merely writing you at this time to make it a matter of record for, we have just received a cablegram from the Bank of England informing us that to-day we are to receive \$250,000 for credit to its account on our books. The Bank of England also informs us that they have employed £50,000 of our balance at interest and that it has bought for our account £50,492:9:7 commercial bills at a net cost to us of £50,038:18:6. The question of participation of this account will be taken up at the Governors' Conference in November.

Very truly yours,

Honorable D.R. Crissinger,
Governor, Federal Reserve Board,
Washington, D. C.

J. H. CASE,
Deputy Governor.

Noted
AT BOARD MEETING
SEP 22 1924

RESOLUTIONS ADOPTED BY THE FEDERAL ADVISORY COUNCIL

SEPTEMBER 25, 1924.

RESOLUTION NO. 1: WHEREAS, a further easing of money rates at this time might render it extremely difficult to ward off a period of acute inflation with its subsequent evil consequences with which the country is only too well familiar, and

WHEREAS, forced investments of Federal Reserve Banks in our market and continued substantial importations of gold into the United States are factors that might tend to enhance the plethora of money already existing,

RESOLVED, that this Council recommend to the Federal Reserve Board to consider the question whether the time has come for Federal Reserve Banks to exercise their power to invest some of their funds in foreign bills with approved American banking indorsements and payable by and repayable to Federal Reserve Banks in dollars.

The Council believes that observing these safeguards and by properly scattering its purchases the Federal Reserve System can safely invest substantial amounts abroad, without any risk of loss on account of exchange or otherwise, and in doing so ward off to that extent the inflow of gold, incidentally assisting the foreign countries involved in their efforts to stabilize their exchanges and to bring them back to definite gold relations.

RESOLUTION NO. 2: The Council has learned that the Secretary of the Treasury is about to call in for redemption on February 1, 1925, the \$118,489,900-4% Loan of 1925, and desires to record its entire approval of the policy involved in this step.

1

254

333

June 4, 1924.

Gentlemen:

Referring to your communication of May 23rd, you are advised the Board has not issued a statement covering the subject of "Acceptances offered by the German gold discount bank as being made eligible for reserve bank discount."


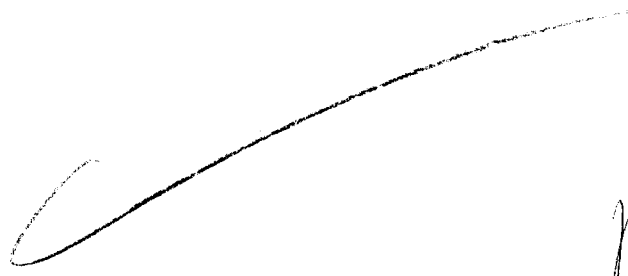
For your information, however, a ruling has been made on this subject by the Board's Counsel which will appear in the June issue of the Federal Reserve Bulletin, to be released for publication on or about the twelfth of the current month.

Yours very truly,

(Signed) J. C. Noell

J. C. Noell,
Assistant Secretary.

Reference Library,
Federal Reserve Bank,
Federal Reserve P. O. Station,
New York, N. Y.



R. L. 414.9-23

REFERENCE LIBRARY

FEDERAL RESERVE BANK OF NEW YORK

FEDERAL RESERVE P. O. STATION

NEW YORK, N. Y.

5/23/24

If available for Free distribution will you kindly furnish us with the following for our files:

Six (6) copies of:

Statement-acceptances offered by German Gold Rediscount Bank eligible for Reserve Bank discount.

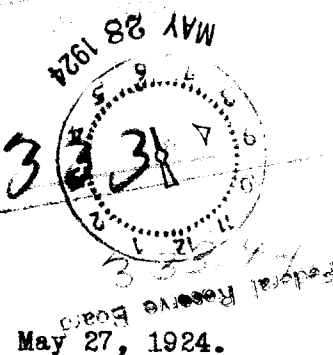
Quoted in Journal of Commerce of 5/9/24, p. 1.

Your courtesy in this matter will be greatly appreciated.

REFERENCE LIBRARY.

FEDERAL RESERVE BANK
OF NEW YORK

IN REPLY PLEASE REFER
TO



S i r s :

I received your letter of May 23 asking me to write the Board with regard to certain points in connection with the credit which the International Acceptance Bank has arranged here with a number of banks and bankers, for the German Gold Rediscount Bank, and yesterday discussed the subject with Mr. Miller over the telephone.

Should the Board decide to discuss this subject in the next "Review of the month" I think the circumstances that led to the opening of the credit here will be found set forth in my letter to the Board dated April 5. I feel quite certain that Mr. Warburg's purpose in arranging this credit and our own views in being willing to purchase these bills, with satisfactory American banking endorsement, arose from a desire to be helpful in connection with Germany's efforts to get back to a stable currency basis, and a desire to make certain that in acquiring credits for use in this connection Germany would not have to rely solely on sterling credits. Two principal advantages to be gained by the United States from the establishment of this credit were set forth in my letter of April 5, as follows:

- (a) Banking facilities extended between two countries are likely to lead to increased trade between them.
- (b) The credit will assist in maintaining the dollar as one of the bases of trade and settlements in Germany, whereas without this credit the pound sterling is likely to become the predominant medium.

FEDERAL RESERVE BANK OF NEW YORK

2

Federal Reserve B 1 May 27, 1924.

As to the "tests of desirability" which the reserve banks are expected to apply to the bills when offered to them for purchase, as far as we know none of the bills under this credit have yet been sent here for discount with the American members of the syndicate, but it is my understanding that it is very definitely agreed between the Gold Rediskont Bank, Berlin, and the syndicate manager for the groups of American banks and bankers who will participate in the proposed credit that no bills will be offered for rediscount to the syndicate that have not been drawn in a strictly commercial transaction, and that the American syndicate reserves the right to return any bills in connection with which there is any question in this regard. This point has been so stressed that it seems very improbable that any ineligible bills would even through misadventure be sent to the American syndicate for rediscount.

With regard to the last paragraph in your letter, in which you say that both Mr. Warburg and I stated that, "such of these German trade bills as are offered in this market will be related directly to some German import transaction requiring liquidation in dollar exchange." It is not my recollection that either Mr. Warburg or I made this statement, and I do not think that it is true. My recollection of the conversation was that Mr. Miller, in discussing the subject broadly, asked whether it was not true that this credit would eventually have to be liquidated by the shipment to this country probably of goods or possibly gold or securities, to which Mr. Warburg and I replied in the affirmative. As Mr. Warburg is absent in the South I am unable to confirm my recollection with him. But it is stated in my letter of April 7 that "only such firms are to be privileged to rediscount with the Gold Rediskont Bank as receive foreign exchange remittances in the regular course of their business." This means that the customers of the Gold Rediscount Bank whose bills may be

FEDERAL RESERVE BANK OF NEW YORK

#3

Federal Reserve Board


May 27, 1924.

sent to this country as a basis for credit are firms who are likely to have their invoices paid in foreign currencies which they could convert into dollars in order to pay their obligations here. In other words, these bills may be self-liquidating, but the liquidation will not necessarily be in dollars. It is likely, however, to be in some foreign currency which could be converted into dollars in order to pay the dollar obligation incurred by the rediscount of these bills in this country.

It is the opinion of the officers of this bank that under present conditions of easing credit, very few if any of these bills are likely to find their way into the Federal reserve bank as the members of the syndicate will themselves desire to hold them until maturity. We understand that the liability of the present syndicate ends July 29, 1924.

If this letter does not provide the information the Board desires, or if the Board desires further information, I should be obliged if Mr. Miller or Mr. Eddy would call me on the telephone so that I may endeavor to furnish what the Board desires.

Respectfully,


Pierre Jay
Chairman
Federal Reserve Board,
Washington, D. C.

4-1

FEDERAL RESERVE BANK
OF NEW YORK

IN REPLY PLEASE REFER
TO

May 24, 1924.

Dear Mr. Eddy:

I have your letter of May 23 with enclosure regarding the German trade bills. I will reply to this on Monday when Mr. O'Hara returns to the office, and if it will be too late for you to receive my reply in the mail Tuesday morning, please let me know, and I will telephone it to you on Monday.

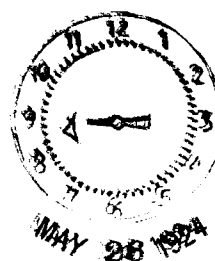
Very truly yours,

Pierre Jay

Pierre Jay
Chairman

W. L. Eddy, Esq.,
Secretary, Federal Reserve Board,
Washington, D. C.

Federal Reserve Board



33347

See file

May 23, 1924

Dear Mr. Jay:

Referring to the ruling made by the Board at the request of you and Mr. Warburg, concerning the eligibility for purchase by Federal reserve banks of German trade bills payable in dollars and in the United States, endorsed by the German Gold Rediscount Bank, and also by some American banking institution, I would state that the Board proposes to publish the ruling in its forthcoming issue of the Bulletin, in form as per the enclosure herewith.

There is set forth in the enclosed memorandum only the legal ruling and no reference is made therein to the general circumstances leading up to it, nor is any reference made to the tests of desirability which the Federal reserve banks are expected to apply to the bills when offered to them for purchase. In the next review of the month, the Board will, in commenting upon the recent recommendations of the Federal Advisory Council, refer to the subject of German trade bills and it would like to have from you a statement as to the basis upon which the expediency of this ruling depends and your views of the "tests of Desirability" which the reserve banks should apply to such bills.

I am certain that the Board in its discussion of the subject in the review of the month will want to cover the point made by both you and Mr. Warburg that such of these German trade bills as are offered in this market will be related directly to some German import transaction requiring liquidation in dollar exchange. It would be appreciated if you would elaborate upon this point.

Very truly yours,

Walter L. Eddy,
Secretary

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

(Enclosure)

See

Form No. 131.

Office Correspondence

FEDERAL RESERVE
BOARD

233.47
Date May 15, 1924.

To The Federal Reserve Board.

Subject: Ruling for the Bulletin re

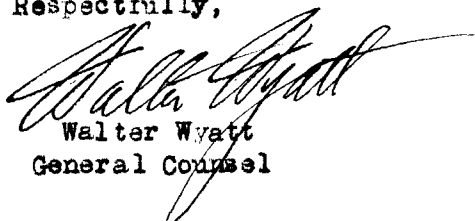
From Mr. Wyatt- General Counsel.

Eligibility of German Trade Bills for
Purchase by Federal Reserve Banks.

2-8495

In accordance with the attached request, there is respectfully submitted herewith a draft of a formal ruling for publication in the Federal Reserve Bulletin with reference to the eligibility of German trade bills for purchase by Federal reserve banks. This is intended to cover the subject ruled on informally in Governor Crissinger's letter of April 8 to Mr. Jay.

Respectfully,


Walter Wyatt
General Counsel

Ruling attached.

*suggest referring this
to Jay, Mr. A. Weber
immediately*
CSH
E.P.

Form No. 131.

Office Correspondence

FEDERAL RESERVE
BOARD

Date April 29, 1924.

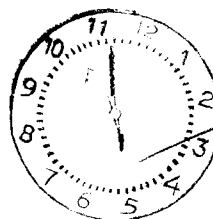
To Law Committee (Messrs. Hamlin & Platt) Subject:

From Mr. Eddy

2-8495

to be kept

By direction of the Governor there is referred to the Law Committee the attached file of correspondence, with regard to the recent inquiry of the Federal Reserve Bank of New York whether the Board would object to the purchase by that bank of German trade bills, payable in dollars in the United States and endorsed by the new German Gold Rediscount Bank and by banks and bankers in the United States. While the Board, on the advice of Counsel, has advised the New York bank that it will not object to the purchase of such bills it is desired to have a formal ruling on the question of their eligibility which could be published in the Federal Reserve Bulletin.



1 1 1924
OFFICE OF COUNSEL

333-47

RULING FOR THE BULLETIN

ELIGIBILITY OF GERMAN TRADE BILLS FOR PURCHASE BY
FEDERAL RESERVE BANKS

The Federal Reserve Board has recently been called upon to rule on the eligibility for purchase by Federal reserve banks of German trade bills, payable in dollars and in the United States, endorsed by the German Gold Rediscount Bank, and also by some American banking institution. These bills would arise out of a credit which certain American banks and bankers propose to arrange in favor of the German Gold Rediscount Bank.

It is provided in Section 14 of the Federal Reserve Act that Federal reserve banks may purchase bills of exchange of the kinds and maturities made eligible for rediscount under the terms of the Federal Reserve Act. The Regulations of the Board prescribe that a bill of exchange or trade acceptance eligible for rediscount shall be payable in the United States in dollars, but there is no requirement that the bill shall be drawn in the United States. A bill of exchange or trade acceptance drawn in a foreign country is technically eligible for discount or purchase at a Federal reserve bank upon the same terms and conditions as a bill of exchange or trade acceptance which is drawn in the United States. Accordingly if the German trade bills, which are to be drawn under the proposed credit to the German Gold Rediscount Bank as above described, are negotiable in form, arise out of commercial transactions, and have maturities not exceeding the maturities prescribed by the Federal Reserve Act for paper eligible for rediscount, there is no legal objection to their purchase by Federal reserve banks. The Federal Reserve Board has, therefore, ruled that German trade bills of the kind described above may be purchased by Federal reserve banks if they are negotiable bills of exchange arising out of commercial transactions. When the bills are offered to the Federal reserve banks for purchase they must,

- 2 -

of course, comply with the applicable provisions of the Federal Reserve Board's Regulation B. In making this ruling the Board has assumed that provision will be made for the payment of these trade bills in the United States at maturity.

Adopted
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*Gamm Trade
Bills*

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April 8, 1924.

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Dear Mr. Jay:

Replying to your letter of April 5th, in which you inquire whether there will be any objection on the part of the Federal Reserve Board to the Federal reserve banks purchasing German trade bills payable in dollars in the United States and endorsed by the new German Gold Rediscount Bank and by banks and bankers in the United States, which bills would grow out of the operation of the American syndicate arrangement described in your letter and also verbally described more in detail by you and Mr. Warburg at the meeting of the Board yesterday, I would state that the Board, on the advice of its Counsel, and on the assumption that the bills in question will be negotiable commercial trade bills, believes that they will be eligible for purchase by Federal reserve banks. The Board assumes also that provision will be made for their payment in the United States at maturity, and, therefore, no objection will be raised by the Board to their being purchased by Federal reserve banks, if offered at such times as the banks are in the market for bills.

Very truly yours,

(Signed) D. R. Crissinger

Governor

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

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THE SECRETARY OF THE TREASURY
WASHINGTON

333.4-1

April 9, 1924.

My dear Governor:

With reference to your letter of April 8th in connection with the purchase of commercial trade bills endorsed by the new German Rediscount Bank by the Federal Reserve Bank of New York, I see no objection to the proposed letter to Mr. Jay, Chairman of the Federal Reserve Bank of New York.

Very truly yours,

Ho. Nelson

Secretary of the Treasury.

Honorable D. R. Crissinger,
Governor,
Federal Reserve Board.

333,4-1

April 8, 1924.

Dear Mr. Secretary:

I am enclosing herewith, for your information, copy of a letter addressed to the Board by the Chairman of the Federal Reserve Bank of New York with regard to the eligibility for purchase by that Bank of German tradebills of the kind therein described.

I am also sending you draft of a reply which the Board proposes to make to this letter. The proposed reply, however, will not be forwarded until the Board is advised of your approval and until you have had an opportunity, if you desire, of discussing the matter with the Secretary of State.

Respectfully yours,

D. R. Crissinger,
Governor.

Hon. A. W. Mellon,
Secretary of the Treasury,
Washington, D. C.

FEDERAL RESERVE BOARD

3334-1

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

April 8, 1924.

Dear Mr. Jay:

Replying to your letter of April 5th, in which you inquire whether there will be any objection on the part of the Federal Reserve Board to the Federal reserve banks pur-
chasing German trade bills payable in dollars in the United States and endorsed by the new German Gold Rediscount Bank and by banks and bankers in the United States, which bills would grow out of the operation of the American syndicate arrangement described in your letter and also verbally described more in detail by you and Mr. Warburg at the meeting of the Board yesterday, I would state that the Board, on the advice of its Counsel, and on the assumption that the bills in question will be negotiable commercial trade bills, believes that they will be ~~eligible~~ eligible for purchase by Federal reserve banks. The Board assumes also that provision will be made by ~~the German Gold Rediscount Bank~~ for their payment in the United States at maturity, and, therefore, no objection will be raised by the Board to their being purchased by Federal reserve banks, if offered at such times as the banks are in the market for bills.

Very truly yours,

*draft of letter as
corrected at Board meeting
(P.M.) Apr 8, 1924*

D. R. Crissinger,
Governor.

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

Appd as amended

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Washington, D. C.,
April 5, 1924.

Federal Reserve Board,
Washington, D. C.

Sirs:

Mr. P. M. Warburg, Chairman of the International Acceptance Bank, has in mind the arrangement of a credit of \$5,000,000 with a group of American banks and bankers in favor of the new German Gold Rediscount Bank, such credit to be availed of in the form of German tradebills, payable in dollars in the United States, such bills to be endorsed by the Gold Rediscount Bank. He has asked us whether if such bills were offered to us for purchase or rediscount with a satisfactory American banking endorsement we would consider them eligible and would be willing to take them, along with other bills, when we were in the market.

We have told him that we consider them technically eligible and would be willing to take them at such times as we might be buying bills, but that we thought the Federal Reserve Board should be apprised of the matter as it presents a question of policy.

Mr. Warburg has given us the following information regarding the new Gold Rediscount Bank, which has been organized as a temporary institution to be developed into, or absorbed by, the large gold bank of Germany, contemplated under the plans of the so-called Dawes Committee.

The Gold Rediscount Bank is being started now with a capital of £ 10,000,000.-, 25% paid-in, balance payable in instalments before the end of the year. Of this a German syndicate, comprising the large German banks, banking firms and corporations, has taken £ 5,000,000.- (less one share), while the second half (plus one share) has been taken by the

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Reichsbank, which in turn receives for this purpose a L 5,000,000 credit for several years from the Bank of England, acting in conjunction with other European note-issuing banks.

The management of the new Gold Rediscount Bank is in the hands of the Reichsbank. It has received the privilege of issuing notes to the extent of £ 5,000,000.-, not less than half of which must be secured by foreign exchange or gold. It will buy German bills only if made payable in pounds sterling or dollars.

Only such firms are to be privileged to rediscount with the Gold Rediscount Bank as receive foreign exchange remittances in the regular course of their business. This means that the agricultural and small industries and trades are excluded.

The bills to be discounted must have at least three signatures, of which one must be that of a bank or banker.

We understand that British merchant bankers are arranging a discount credit of £ 10,000,000.- in London on German trade bills, similar to those proposed under the \$5,000,000 American credit, except that the bills will be payable in England in sterling, while under the American credit the bills will be payable in the United States in dollars.

We have felt that there were two principal advantages to the United States to be gained from the establishment of this credit here.

- (a) Banking facilities extended between two countries are likely to lead to increased trade between them.
- (b) The credit will assist in maintaining the dollar as one of the bases of trade and settlements in Germany, whereas without this credit the pound sterling is likely to become the predominant medium.

We are accordingly submitting the plan and our views regarding it to the Board for its information and consideration, and would propose if the

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credit is arranged to purchase such bills, with satisfactory American banking endorsement, from time to time as it may suit our convenience, unless the Board sees some objection to such a course.

Yours respectfully,

Perre Jay
Chairman