

FEDERAL RESERVE BANK  
OF NEW YORK

January 31, 1918.

TO THE CASHIER,

SIR:

I take pleasure in announcing the following changes in the official staff of this bank, effective January 1, 1918:

Mr. Louis F. Sailer, cashier, has been elected deputy governor and cashier.

Mr. Gilbert E. Chapin, manager of the credit department, has been elected an assistant cashier.

Mr. J. Wilson Jones, who during the First and Second Liberty Loans acted as assistant cashier in the Bond Issue Division, has been elected an assistant cashier.

Mr. Walter B. Matteson, manager of the securities department and the U. S. Certificate of Indebtedness Division, has been elected an assistant cashier.

Mr. Leslie R. Rounds has been elected an acting assistant cashier to take charge of certain divisions of the work in connection with the Liberty Loan Bond Issues.

Mr. James F. Curtis, secretary and counsel, has been elected deputy governor and counsel, effective January 23, 1918.

Facsimile of the signatures of all of the officers now authorized to sign on behalf of the bank are within. Please cancel all previous instructions.

Respectfully,

BENJ. STRONG,

Governor.

MR. BENJAMIN STRONG, Governor, will sign:

*Ben. Strong*

MR. ROBERT H. TREMAN, Deputy Governor, will sign:

*RT Tremen*

MR. J. HERBERT CASE, Deputy Governor, will sign:

*JH Case*

MR. LOUIS F. SAILER, Deputy Governor and Cashier, will sign:

*L. F. Sailer*

MR. JAMES F. CURTIS, Deputy Governor and Counsel, will sign:

*J. Curtis*

MR. LAURENCE H. HENDRICKS, Asst. Cashier, will sign:

*L. H. Hendricks*

MR. EDWIN R. KENZEL, Assistant Cashier, will sign:

*E. R. Kenzel*

MR. JOSEPH D. HIGGINS, Asst. Cashier, will sign:

*J. D. Higgins*

MR. ARTHUR W. GILBART, Asst. Cashier, will sign:

*aw Gilbert*

MR. GILBERT E. CHAPIN, Assistant Cashier, will sign:

*G. E. Chapin*

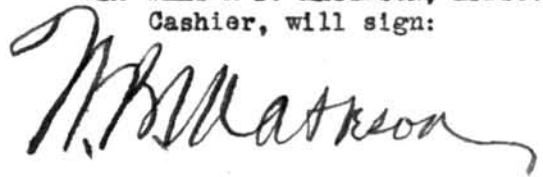
MR. J. WILSON JONES, Assistant Cashier, will sign:

*J. W. Jones*

MR. ADOLPH J. LINS, Asst. Cashier,  
will sign:



MR. WALTER B. MATTESON, Assistant  
Cashier, will sign:



MR. LESLIE R. ROUNDS, Acting Asst. Cashier,  
will sign:



MR. HOWARD M. JEFFERSON, Auditor, will sign correspondence:



MR. PIERRE JAY, Chairman, and Fed-  
eral Reserve Agent, will sign:



MR. GEORGE FOSTER PEABODY, Deputy  
Chairman, will sign:



MR. RAY M. GIDNEY, Assistant Federal Reserve Agent,  
will sign:



ANNOUNCEMENT AUTHORIZED  
BY  
SECRETARY OF THE TREASURY

WASHINGTON, D. C., February 20, 1918.

"The entire issue of five hundred million dollars United States Treasury certificates of indebtedness dated February 8th, was subscribed. This was due to the patriotic action of the larger banks in financial centers, notably New York, in taking more than their share of the issue and thus making up the deficiency which arose from the failure of other banks to respond to the request which was made of them. Only two districts, New York and Kansas City, exceeded their allotment, and one, Minneapolis, equaled its allotment. The amount of subscriptions from the country at large was distinctly disappointing. This may be partly because some banks had only a short interval to accumulate moneys for investment in Treasury certificates, and partly because some subscribed on the basis of one per cent. of their resources, not understanding that the request to set aside one per cent. a week carried with it the request to subscribe for an amount equal to at least two per cent. of their resources for each bi-weekly issue of certificates. No doubt this error will not be repeated and the banks will subscribe at least two per cent. of their resources for the next issue. It should be borne in mind, furthermore, that the programme of setting aside one per cent. a week and subscribing two per cent. for each issue, is a minimum programme; that there must be some banks and trust companies which cannot meet even this programme and others which can do much more than the minimum. Those banks and trust companies that can, should, of course, take certificates in excess of the indicated minimum.

"The extent of the response to the telegram sent to the banks and trust companies of the United States under date of February 6th, is shown by the fact that the number of subscribers for certificates of the issue dated February 8th was double the number of subscribers for certificates of the preceding issue dated January 22nd.

"A telegram is being sent to every bank and trust company in the Continental United States, which has not as yet responded to the telegram of February 6th, asking again for a reply. The request to all the banks and trust companies will be followed up by the Treasury Department and through the organizations of the Federal reserve banks.

"The banks and trust companies of the country, which have not responded, are earnestly requested to send in their subscriptions for the next issue, to the full extent of their ability, so that the number of subscribers for the coming issue shall be again doubled and approximately every bank and trust company in the United States shall be upon the roll. This is a patriotic duty which is set for the banks and trust companies of the nation. I hope that they will meet the requirements of the situation.

"The next issue of Treasury certificates will bear interest at the rate of four and one-half per cent. per annum. There will be no further increase in the interest rate in connection with the issue of certificates in anticipation of the Third Liberty Loan. In order to popularize these issues of certificates, they will be issued in denominations as low as five hundred dollars."

Dated at.....

.....1918

FEDERAL RESERVE BANK OF NEW YORK,

NEW YORK, N. Y.

DEAR SIRs:

Pursuant to the terms stated in your letter of April 13, 1918, please enter our subscrip-  
tion at par and accrued interest from April 22, 1918, for \$.....

United States Treasury 4½ per cent Certificates of Indebtedness dated April 22, 1918, due  
July 18, 1918, and we agree to pay for any certificates allotted to us on account of this sub-  
scription at the Federal Reserve Bank of New York on (.....) after allotment.  
(DATE)

Please be governed by the following instructions:

Issue the definitive certificates in the following denominations:

.....	at \$	500	.....
.....	at	1,000	.....
.....	at	5,000	.....
.....	at	10,000	.....
.....	at	100,000	.....
	Total \$		.....

Regarding disposition of temporary receipt (if any):

.....  
.....

Regarding disposition of definitive certificates:

.....  
.....

Regarding method of payment by us:

.....  
.....

Signed.....

Address.....



FEDERAL RESERVE BANK  
OF NEW YORK

Circular No. 97

BANKERS' ACCEPTANCES.

New York, February 26, 1918.

TO THE PRESIDENT,

DEAR SIR:

At the request of various New York bankers, the officers of this bank have conferred with the Federal Reserve Board with respect to the advisability of issuing a statement of the general policy of the Board in passing upon the eligibility of bankers acceptances issued under syndicate acceptance credit arrangements. In response to our request the Federal Reserve Board has prepared a statement of its views on this subject, a copy of which is enclosed herewith in the form of a letter from Mr. Harding, Governor of the Federal Reserve Board, and an accompanying memorandum.

I am sending this circular to you in the belief that you will be interested in the subject matter and also in the hope that your institution will cooperate with the efforts of the Board and of the Federal Reserve Banks in assisting to develop the acceptance market of this country along the sound and conservative lines contained in the Board's announcement.

In this connection it may be pertinent to point out that, while any Federal reserve bank may, of course, exercise its discretion as to the amount of paper of a given classification which it will purchase or discount, the Federal Reserve Board under the provisions of Sections 13 and 14 of the Federal Reserve Act, has the sole right to determine or define the character of the paper eligible for rediscount or purchase by the Federal reserve banks.

Very truly yours,

BENJ. STRONG,

Governor.

FEDERAL RESERVE BOARD  
WASHINGTON

February 7, 1918.

MR. BENJAMIN STRONG,  
Governor, Federal Reserve Bank of New York,  
New York, N. Y.

MY DEAR SIR:

Receipt is acknowledge of your letter of January 29th in which you ask for a statement of the Board's policy in dealing with acceptances drawn under credits extending over a period of one or two years. After a very full discussion of the matter, the Board has decided to authorize this expression of its views in accordance with the principles outlined in the memorandum attached hereto. The banks of New York may, during a period which can be declared ended at any time, proceed upon the basis of this memorandum in accordance with your letter of January 23rd. The essential principles may be summed up as follows:

(1) Acceptance credits opened for periods in excess of ninety days should only in exceptional cases, extend over a period of more than one year, and in no case for a time exceeding two years.

(2) Banks which are members of groups opening these credits, should not buy their own acceptances, and where an agreement is made with the drawer for purchase of acceptances for future delivery, the rate should not be a fixed one, but should be based upon the rate ruling at the time of the sale.

(3) Transactions covered by these credits should be of a legitimate commercial nature, and acceptances must be eligible according to the rules and regulations of the Board.

(4) Whenever syndicates are formed for the purpose of granting acceptance credits for more than moderate amounts, Federal Reserve banks should be consulted with regard to the transaction. The question of eligibility, both from the standpoint of the character of the bill and of the amount involved, will be passed upon by the Federal Reserve bank subject to the approval in each case of the Federal Reserve Board.

As stated in the memorandum, the Board will rely upon the fair spirit of cooperation on the part of the New York banks, but it must be understood in passing upon these transactions that not only quality but also quantity must be the controlling factors. The aggregate of these acceptances should not be permitted to constitute the greater proportion of outstanding acceptances at any time, and it must be understood that while the Federal Reserve banks and the Federal Reserve Board might look with favor upon a transaction as long as

the total amount involved is not excessive, transactions of exactly the same character may be ruled out whenever the aggregate amount of outstanding acceptances of this character becomes, in the opinion of the Federal Reserve Board, unduly large.

You are authorized to communicate the contents of this letter to the accepting banks of your district, and the Board will advise the other Federal Reserve banks of the policy which has been agreed upon.

Very truly yours,

(Signed) W. P. G. HARDING,

Governor.



## M E M O R A N D U M

In dealing with the question of acceptances, it is desirable that the Board should not be obliged to adopt inflexible regulations unless absolutely necessary. It should be borne in mind that we are competing in the acceptance field with other countries which have no legal restrictions, in which sound business judgment, guided from time to time by the central banks of these countries, constitutes the unwritten, but none the less rigid law. The banks of the United States would greatly assist the Board in its work of developing a modern and efficient system of American bankers' acceptances--and they would best serve their own purposes--if they would study and assimilate the underlying principles which must guide the Board, and observe these principles voluntarily without requiring inflexible rules. Unless the bankers cooperate with the Board in this manner, many transactions--unobjectionable as long as they are engaged in for legitimate purposes and within reasonable limits--will have to be barred because strict regulations do not admit of discrimination.

Proper regard for conservation of the strength of the Federal Reserve System requires that it must be possessed of short paper well scattered in its maturities (not exceeding ninety days), that when this paper matures it can be actually collected and that the supply of new paper coming into the market can be controlled to a certain degree by an advance or decline in the rate of interest at which bankers' acceptances are bought. Higher rates will exert a restraining influence on the producer and the dealer and will thereby reduce borrowings and bring about a certain degree of contraction.

By keeping these principles in mind--upon which the strength of our structure depends--we can readily understand the hazardous conditions which would be created if, for example, \$300,000,000 of acceptance credits should be opened for the purpose of financing corporations for a period of two or three years, the corporations having secured from the acceptors (directly or by a trading process) a fixed and definite rate of interest for the entire term of the credit. This rate would necessarily be much higher than the current rate for bankers acceptances. Let us assume that \$300,000,000 had been loaned to corporations at 8% for two years, plus the acceptance commissions. If during these two years the bank rate should advance to 20%, the corporations would not be affected thereby; they would renew from time to time as though money rates had remained unchanged; and consequently, the bank rate, as far as they are concerned, would lose its power to bring about contraction. Thus the acceptance would cease to serve the purpose of financing the borrower; it would be for the purpose of financing the accepting bank. It would really become an accommodation draft for the benefit of the banker, regardless of the current rate and regardless of general conditions, and whether these conditions demand commercial contraction or expansion, the bankers would have to rediscount these acceptances, at a profit or at a loss, if their own position so required. Here, too, the bank rate would lose its power to produce contraction because the commitment is a definite one for two years.

Another flaw in this method of financing is that there is practically no limit to the amount of acceptances which may be created in this manner.

In addition, the rate guaranteed the corporation by the banker would likely be so high as to tempt the accepting bank (having exchanged its acceptance with another bank associated in this business) to rediscount the acceptance with the Federal Reserve Bank or to sell it in the open market. For the accepting bank this transaction would not involve the investment of money as long as the market is able to absorb the acceptances offered. The unavoidable consequence of this process must be that in order to prevent an avalanche of these acceptances, the discount rate would have to be advanced so as to reduce the tempting margin and thereby lessen the supply. These syndicate or accommodation acceptances would therefore tend to raise the rate to the detriment of the legitimate business of the country--particularly the import and export business. When, three years ago, we began our campaign to establish American bankers' acceptances, our rate was 2-2½% and the English rate was about 5%. Our rate has not moved up to 4-4½% while the English rate is about 3-7/8%. This signifies that we have reached a point where American houses find it to their advantage again to draw on English banks, as they did some years ago, rather than upon banks of the United States.

It is certain that if syndicate acceptances of this character were offered in European countries the market would at once discriminate against them and put an end to such transactions. It is the application of this rigid principle of keeping the acceptance market primarily reserved for strictly commercial uses that has kept the acceptance business in England in a sound condition and has made the English acceptance market so important an adjunct of the money market.

If in the light of these considerations we seek to apply these principles to actual operations we must reach these conclusions:

There is no reason why a bank should not agree that for legitimate commercial purposes, and for transactions complying with the rules and regulations of the Federal Reserve Board, it would commit itself for two years to accept for a customer for importations or exportations, or for the purpose of carrying staples properly warehoused. There is no reason why a bank should not say to a tobacco manufacturer: "Whenever you have tobacco properly stored and for which you will give me proper warehouse receipts, I am willing to accept for you and charge you a commission of \_\_\_\_%." Whether it would be wise to make a commitment which would force the bank to accept for a customer even when convinced that the borrower is carrying too large a supply of raw material, or that the transaction is speculative, is a question of banking judgment. It would be safer, of course, if the banker could qualify his obligation to accept. But this is an instance where it would be a mistake to lay down a rule and where reliance must be placed upon the business sagacity of the banker for, in such a case, the borrower would remain subject to the hazards of the money market and any advance in rate would have an effect upon his own commitments.

However, the manufacturer should not feel that, in dealing with a banker's acceptance he is taking any other risk than that of the interest rate. He should be trained--and this is an important matter--to understand that he can at any time sell his acceptance, not to the acceptor but to other banks, or through brokers in the market, or to the Federal Reserve Banks. It is much to be desired that the American banks and banking firms should follow the European practice of freely endorsing first class bankers' acceptances. No drawer of bankers' acceptances in Europe, in normal times,

would expect to encounter any difficulty in selling his paper. He can sell it to discount companies or to private banks, or bankers, to be re-discounted at rates a fraction above the ruling interest rate. (In England for as little as  $1/8\%$  above the discount rate and often less). The manufacturer, after having his bill accepted, should feel quite safe in keeping the acceptance in his portfolio, being confident that, without any further negotiation, he could sell it at any time that he would be in need of cash. Instead of forming syndicates guaranteeing the interest rate to the acceptor, banks should make agreements with manufacturing concerns to buy acceptances, from time to time, from the drawees at, say,  $1/4\%$  in excess of whatever might be the ruling interest rate for bankers' acceptances. In this way a real discount market would be developed in this country. Federal Reserve Banks will, sooner or later, have to adopt the European rule of buying only paper bearing a third name, viz: the indorsement of a bank, banker or responsible firm.

It is true that the banks accepting in the present syndicate transactions make an additional profit in the interest rate which they guarantee to the borrower. It is suggested, however, for their consideration that it would be a sounder policy if they would charge a higher acceptance commission for domestic transactions of this kind, for larger commissions would be justified for credits extending over a considerable period. This would be sounder than to adopt a policy which, if permitted freely to develop, would undermine the safety of our acceptance system and our money market.

The principles governing the acceptance are equally applicable to single name paper. A bank may agree to carry a customer over a period of a year and to buy from time to time his single name paper. If this paper, according to the statements submitted, should be eligible in other respects, Federal Reserve Banks might discount it, provided the paper is not part of a loan which has been negotiated at a fixed rate for a definite period, in excess of 90 days, a year or two for example. A ninety day note made under a definite renewal agreement in this way is a camouflage for the convenience of the banker to enable him to finance himself by using the 90 day form as a mask to conceal what is, in effect, an ineligible one year note. But if the interest rate should remain open between borrower and lender subject to adjustment to the market rate, a different aspect would be presented, and the Federal Reserve Banks might discount such notes within reasonable limits.

When a credit is required for two years, it should be regarded as an unsound basis for commercial borrowings on 90 day paper. Without a guaranty for renewals it would be dangerous for the borrower. With such a guaranty it would be an unsound banking credit. A demand for one or two year money, except for special contracts, indicates a need for greater working capital which ought to be obtained by increase of capital or by sale of obligations in the investment market.

It may be argued that there is at present no investment market, and that therefore these renewal transactions are necessary. But does the abrogation of the investment market afford a reason for the destruction of the commercial paper market also? Some plan must, and will be developed to restore to a certain extent, at least, the security market. But even if this restoration cannot be effected, should we not look upon credit as a commodity of which only a limited supply is available? If we have approached the

limit, would it not be wise to conserve credit and apply it only in those directions where its use will most benefit the country? In the case of the Tobacco Company if it had not secured the full credit it sought, it would in that event have bought less tobacco and possibly might have advanced its selling prices. What if it had reduced its inventories and the consumption of tobacco? Would not this have been just what is at present required? The corollary is that business must adjust itself to credit; not credit to business at this time.

To recapitulate:--agreements to grant credits for an extended period by the purchase of 90 day paper or by 90 day acceptances ought to be based upon transactions connected directly with the purchase and sale of goods and the intermediate process of manufacturing. Credits so extended, should relate to the resources of the borrowing concern, and should not be granted for the purpose of furnishing working capital, or for the temporary financing of permanent investments.

These transactions should be of an individual character; they call for direct contact between banker and borrower, and syndicate credits should be avoided. Agreements by bankers to furnish one or two year money at a definite rate of interest against 90 day paper or acceptances to be used to finance themselves should not be countenanced either openly or in the form of exchange of paper between bankers.

These are the principles which the Federal Reserve System must apply. It would be inexpedient to attempt more than to establish the principles. It would be detrimental to formulate definite regulations dealing in minute detail with the various phases of the problem. It would be far better to give some latitude to the banks in dealing with these matters. But this will depend entirely upon the wisdom and discretion of the member banks. The banks will best serve their own interests if, following the example of European institutions, they will adopt these principles as self-imposed, well tried rules of business prudence, rather than by abusing their freedom of action to force the Board to tie their hands by rigid regulations.