Suggested plan for deposit and disbursement of those funds to be derived from the sale of United States bonds and certificates of indebtedness which are to be used to purchase foreign securities and which will be disbursed by foreign governments in this country.

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In adopting any plan of procedure in the collection and disbursement of funds realized from the sale of United States securities authorized by the Act of April 24, 1917, provision must be made --

(1) For the deposit of such funds in the Treasury or to the credit of the United States with Federal reserve banks or member banks, or with those nonmember banks which subscribe to and purchase such securities.

(2) For the withdrawal of such deposits by the Secretary of the Treasury for the purpose of purchasing foreign securities.

(3) For the deposit in a bank or banks in the United States by the foreign government whose securities are purchased of the proceeds of sale of such foreign securities.

(4) For the disbursement of such proceeds by the foreign government making the deposit.

It is important that these transactions be consummated as far as possible by an exchange of credits so as to make it unnecessary to transfer funds from the vaults of member banks or nonmember banks to the vaults of the Treasury or of the several Federal reserve banks, and so as to avoid the necessity of maintaining and drawing against a large number of deposit accounts.

On the other hand, it is important that the subscribing banks should contribute as far as possible on a pro rata basis the funds disbursed by the foreign governments rather than to have abnormally large withdrawals from a few banks.

With this end in view, it is respectfully suggested

(a) Where member or nonmember banks subscribe to bonds or certificates of indebtedness, such banks should be permitted to deposit the bonds as security and to retain the amount of subscription as a Government deposit until it becomes necessary for the Secretary to use the proceeds of such subscriptions to purchase foreign securities.

(b) Following the plan adopted in the payment of the two hundred million dollars to the United Kingdom of Great Britain and Ireland for the purchase of securities, the Secretary might issue a Treasury warrant in payment of other securities in favor of the accredited representative of the foreign government. Such representative might indorse this warrant and deliver the same to the Treasurer with the request that payment be made by having the amount placed to the credit of the foreign government on the books of one or more Federal reserve banks.

(c) In order to open this credit it is necessary to deposit an equivalent amount with such Federal reserve banks. This might be accomplished by issuing orders to the subscribing banks to make remittance of the amount of subscription to the Federal reserve banks. The Federal reserve banks, instead of requiring the actual transfer of funds, might agree to accept the note of the subscribing bank payable at or before fifteen days from date, and might accept as collateral security for this note the bonds or certificates of deposit purchased by the subscribing bank.

In the case of nonmember banks, the note of such nonmember banks, secured by bonds or certificates of deposit, might be discounted with a member bank and by the member bank with a Federal reserve bank. The total amount of the purchase price could in this way be credited to the account of the United States on the books of the Federal reserve banks, provided, of course, the Federal reserve banks have sufficient reserve on hand to enable them to make these loans. The Federal Reserve Board might fix a special rate of interest to cover such loans.

(d) When those credit balances have been opened in favor of the United States on the books of the Federal reserve banks, the Treasurer may direct such Federal reserve banks to transfer such balances to the account of the foreign government whose securities are purchased in accordance with the plan followed in the case of the English loan.

(e) In order that each subscribing bank may contribute on a pro rata basis to funds withdrawn by foreign governments from the Federal reserve banks an arrangement might be entered into by which each subscribing bank would undertake to transfer to the Federal reserve bank a sufficient amount to meet its pro rata part of any withdrawals made by the foreign government, such transfer of funds to the Federal reserve bank by a subscribing bank to be credited on the note of such subscribing bank under discount by the Federal reserve bank.

Assuming that the foreign governments can and will give a few days advance notice of the larger withdrawals the details of such an arrangement could be worked out without great difficulty.

The obvious advantage of such a plan is that the foreign governments would have to maintain only a few banking accounts, but in any case of withdrawal of funds standing to the credit of such government each subscribing bank would contribute its part and the burden would not fall on a few banks. The funds withdrawn would, in most cases, be redeposited in banks and little disturbance would result.

To make such a plan possible it is, of course, necessary that all member banks should deposit their surplus gold with the Federal reserve banks so as to provide the necessary reserve.

Respectfully,

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