

2071

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FEDERAL RESERVE BOARD

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SHERMAN F. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

WASHINGTON

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

X-331.

August 15, 1917.

Dear Sir:

The Board is advised that several of the Federal reserve banks have recently requested the Federal Reserve Bank of New York to buy acceptances for their account. That particular institution is very wisely, in the opinion of the Board, not investing its funds in the market at this time, but is on the contrary liquidating its maturities. In order to fill the orders which have been received from other Federal reserve banks, the New York Bank has been selling to them from its own portfolio. From the standpoint of the Board, there is no objection to this, because the cash and reserve position of the system as a whole, is not affected. The Federal reserve banks, however, should not request the Federal Reserve Bank of New York, or any other Federal reserve bank to make purchases in the market for their account, at a time like the present, when the intermediary bank is not buying for its own account; in other words, while there is no objection to having Federal reserve banks participate if mutually agreeable, in the purchases which have already been made by the two or three banks which hold the bulk of acceptances, the Board does not feel that additional purchases should be encouraged at this time, and believes that the Federal reserve banks should adopt the policy of strengthening their position while money is easy, and that they should not seek investments for the sake of the income to be derived therefrom. The banks will have ample opportunities to increase their earnings during the periods of payments for government loans.

Very truly yours,

Governor.