EX-OFFICIO MEMBERS

WILLIAM G. McADOO
SECRETARY OF THE TREASURY
CHAIRMAN

JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD X-503

WASHINGTON

W. P. G. HARDING, GOVERNOR
PAUL M. WARBURG, VICE GOVERNOR
FREDERIC A. DELANO
ADOLPH C. MILLER
CHARLES S. HAMLIN

H. PARKER WILLIS, SECRETARY
SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

November 14, 1917.

Copy of letter to a Federal Reserve agent regarding endorsement of paper sold by one Federal Reserve bank to another:

Dear Sir:

Receipt is acknowledged of your letter of November 6th in which you ask whether the Federal Reserve Bank of New York should not have endorsed the $5,000,000 of bankers' acceptances which you bought recently from that bank in accordance with the suggestion of the Federal Reserve Board.

Your point is well taken and the question was fully discussed by the Board when the transaction was arranged. In reviewing the conditions which led to this transaction, it should be remembered that the Federal Reserve banks, with hardly any exception, have been accustomed, with the approval of the Board, to invest liberally in bankers' acceptances which were purchased for them by the Federal Reserve Bank of New York. These transactions have been regularly engaged in and on a large scale, particularly by those banks which, like your own, did not find a sufficient field of investment in their own districts. The New York acceptance market has thus been developed to a considerable degree by the combined operations of the Federal Reserve banks. It has frequently happened that the Federal Reserve Bank of New York has given other Federal Reserve banks larger participations in these bankers' acceptances than it would have desired had the matter been looked upon from the viewpoint of its own interest alone. These liberal participations have been given other Federal Reserve banks when the New York bank's earnings were not sufficient to meet its own dividend requirements, while the other banks, by receiving a liberal allotment of acceptances purchased in New York, were enabled thereby to make a better showing in the matter of earnings.

There have been other occasions when the Federal Reserve banks have discontinued their purchases in anticipation of heavy demands in their own districts, thus throwing the whole burden of sustaining the acceptance market upon the Federal Reserve Bank of New York. In this way they conserve their own resources, while the reserves of the Federal Reserve Bank of New York were correspondingly reduced because of the larger part of the burden which it had to assume. These facts are brought to your attention for the purpose of emphasizing the point that a participation in the purchase of acceptances is not only a privilege but that it is perhaps a duty also, the measure of which can hardly be gauged by the convenience of any individual bank. Final responsibility in the matter rests under the law upon the Federal Reserve Board, and it may become necessary for the Board in the future to undertake a more complete regulation of these functions.

In suggesting to a number of Federal Reserve Banks which were in a strong position, to purchase bankers' acceptances from the Federal Reserve Bank of New York, the Board asked merely that they resume their purchases of acceptances in the manner in which they had engaged in these transactions heretofore; i.e., without the endorsement of the Federal Reserve Bank of New York. The Board anticipates that there will be a quick change in banking conditions shortly after the fifteenth instant, when the pressure on New York should diminish and bear heavier upon some of the other districts. From this point of view, the most natural operation perhaps would have been the rediscount by other Federal Reserve banks of the fifteen day member banks' collateral paper, of which the Federal Reserve Bank of New York holds a very large amount at this time. Such a transaction, however, would necessarily have been dealt with as a rediscount, as it would have involved single name collateral notes of member banks taken under Section 13, endorsed by the Federal Reserve Bank of New York under instructions from the Federal Reserve Board. It would have been necessary to show a transaction of this kind in the weekly statement, thereby creating more or less comment, which might have been undesirable in the present circumstances, and the Board felt, therefore, that it would be better for the adjustment to take the form of a sale of acceptances suggested by the Board rather than by a rediscount transaction ordered by the Board. The Board understands, of course, that in any case where a rediscount operation is ordered, Federal Reserve banks should have the right to require that the paper bear the endorsement of the selling bank; but where the Board invited the banks to resume purchases of bankers' acceptances upon the same conditions which have prevailed hitherto, it was felt that there was no necessity for requiring an endorsement. Had any bank to which the Board suggested a purchase, stipulated that the paper should be endorsed, the Federal Reserve Bank of New York, in that event, would have been called upon to decide whether it would prefer not to consider the proposed sale.

While your letter was in transit the Board effected a second transaction of this kind. When the Federal Reserve bank governors were assembled here last Thursday, some of them, whose banks were in a particularly strong position, were asked if they were willing to take from the Federal Reserve Bank of New York a specified amount of bankers' acceptances. Without hesitation they all stated their willingness to do so. This transaction also had the character of a voluntary purchase on the part of the Federal Reserve banks, upon the suggestion of the Federal Reserve Board, and as there was no compulsion in the matter, the endorsement of the Federal Reserve Bank of New York was not required.

Respectfully yours,

W. P. G. HARDING,

Governor.