

EX-OFFICIO MEMBERS

WILLIAM G. MCADOO
SECRETARY OF THE TREASURY
CHAIRMAN
JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD

WASHINGTON

W. P. G. HARDING, GOVERNOR
PAUL M. WARBURG, VICE GOVERNOR
FREDERIC A. DELANO
ADOLPH C. MILLER
CHARLES S. HAMLIN
X-000
H. PARKER WILLIS, SECRETARY
SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

January 8, 1918.

The Federal Reserve Agent and the Governor,
Federal Reserve Bank of

Gentlemen:

For sometime the Board has been aware of the complicated system of bookkeeping which was made necessary by the present methods in vogue at most of the banks in accounting for commercial paper, notes, and acceptances deposited by the banks with the Federal Reserve agents as collateral security for Federal Reserve notes, and redeposited by them with the banks for collection. The Board is convinced that, in view of the large volume of business now being transacted by the Federal Reserve banks, it is essential that any plan adopted for the deposit and custody of commercial paper with Federal Reserve agents should be as elastic as possible, without violating the provisions of the Federal Reserve Act. The law as amended provides that funds and reserve notes shall be in the joint control of the Federal Reserve agent and the bank.

In August last the Board sent a memorandum to the Federal Reserve banks calling attention to the desirability of keeping under joint custody commercial paper and other eligible securities pledged as collateral for Federal Reserve notes, and suggested that "it would be proper, if desired, for the Federal Reserve agent to designate a senior employe in the discount or credit department as his representative, and for the bank to appoint a similar representative to act as custodian of paper pledged." The following plan is offered not as a regulation, but as a suggestion, with the view of simplifying and unifying the present method of handling pledged paper:

- 2 -

(1) PLEDGE:

All eligible paper may be pledged with the Federal Reserve agent on the day of discount and forthwith placed in the joint custody of the Federal Reserve bank and the Federal Reserve agent. If desired, the Federal Reserve bank may designate an employee in the discount department as its representative, and the Federal Reserve agent may designate the assistant discount clerk, or an employee of the Federal Reserve agent's Department, as his representative, to hold in joint custody all paper pledged as collateral security for Federal Reserve notes.

The Federal Reserve agent must have title to all paper pledged. Endorsements in blank are admissible, but notes made payable to or endorsed by the Reserve bank must be endorsed by the Reserve bank in blank or specifically to the agent.

(2) RECORD:

A daily record is made by the Reserve banks of all paper discounted or purchased. A copy of this record is sent to the Federal Reserve Board. At the present time a record is also made on a special form giving the number and face amount of each note pledged with the Federal Reserve agent. If all paper is pledged on the date of discount or purchase the following notation may be made in lieu of the listing of the numbers and amounts of each separate note:

"Notes Nos. _____ to _____ (except Nos. _____) aggregating \$_____, more fully described in B. D. 4 and 7, have this day been pledged with the Federal Reserve agent."

(3) WITHDRAWAL:

(a) Items settled for on payment/^{date}(including items paid for prior to maturity), and items withdrawn against excess collateral previously deposited.

It is necessary to list the number of the separate notes, drafts, and bills of exchange withdrawn in order that the agent may be in a position to trace or identify the items.

Nos. _____

aggregating \$ _____.

- 3 -

(b) Items delivered to Reserve bank prior to maturity, for collection.

Under the ruling of the Board of April 12, 1917, Federal Reserve agents were authorized to turn over maturing notes and bills to their respective Federal Reserve banks for collection upon the execution by the bank of a receipt reciting the fact that the notes and bills are taken over for collection only, and provided further that notes so delivered should be endorsed to the Federal Reserve Bank "For collection for the account of the Federal Reserve agent."

Under this ruling in the case of paper released by the agent to the bank prior to maturity and for which cash settlement is not received, paper must be endorsed "for collection for the account of the Federal Reserve agent", if the bank is to consider such paper as collateral security up to the date of maturity. The agent must be given a receipt for all notes so released.

Endorsement stamp suggested:

"Pay to the order of Federal Reserve
Bank of _____
for collection for account of
Federal Reserve Agent.

Pay to the order of any bank or banker
for collection
Federal Reserve Bank.

Cashier.

The point has been raised that some banks object to Federal Reserve bank endorsements on customers' notes. In such cases a printed rider with a gummed edge could be attached to the notes when sent for collection. It is believed, however, that if the stamped endorsement is placed on all notes that there will be few objections.

(4) Computation of Reserve and Equalization of Reserve against notes and deposits.

Under date of December 11, 1917, in answer to an inquiry from the Federal Reserve agent at San Francisco, it was stated:

- 4 -

"Gold held in the vaults of the banks may be counted as reserve against Federal Reserve notes, consequently if the ratio which the gold held by the agents plus the bank's redemption fund bears to the notes in circulation is less than the ratio which the total cash held by the banks bears to their net deposit liabilities, then the bank may easily equalize reserves without actual transfer of gold, by reckoning as part of the note reserve a sufficient amount of gold held by it".

As a matter of policy it would be well for Federal Reserve agents to retain, as part of the collateral security for Federal Reserve notes an amount of gold which will be equal at all times to at least 40% of the Federal Reserve notes in actual circulation.

As already stated, the foregoing is not a regulation, but is merely a suggestion; it is, however, desirable, in order to facilitate the work of ⁸examiners, that there be uniformity in the methods adopted by all the Federal Reserve banks, and you are therefore requested to communicate your views to the Board before taking steps to put the proposed plan into effect.

Very truly yours,

Governor.