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SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

March 19, 1918.

Dear Sir:

The Board's attention has been called to insistent rumors that acceptances are being made, and discounted by Federal reserve banks, which are not drawn in accordance with the provisions of the Federal Reserve Act or the regulations of the Board. It has been stated that there have been cases where the accepting banks have permitted customers, when the limit of credit granted under Section 5200 U. S. R. S. had been reached, to draw on the bank at ninety days' sight upon the unwarranted statement that the acceptance was against a transaction involving the importation or exportation of goods, and that in this way the bank has evaded the provisions of the law.

The statement has also been made that there are some cases where banks, not finding it convenient to make cash advances, have caused customers to draw upon them and have accepted these drafts under the pretense that they were either eligible domestic acceptances, or acceptances connected with the importation or exportation of goods. Statements to this effect have been made to members of the Board as well as to members of Congress, and it is very important that the Board should ascertain the facts.

You are therefore requested to bring this matter to the attention of your executive committee and Board of Directors and to

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have the acceptances held by your bank closely scrutinized in order that you may be informed of the underlying transaction in any case where there may be occasion to suspect a disregard of the law or regulations.

The Board wishes to be advised as to your rules and methods in purchasing acceptances. Is it the custom of your bank to investigate the basis or origin of transactions in cases of doubt, or do you buy acceptances upon the statement by the acceptor or seller that they are based upon eligible transactions? Whenever you may feel some hesitation in requesting acceptors, upon your own initiative, to give you the necessary information, the Board will assist you, if you will indicate the paper concerning which there may be doubt, by requesting in writing that you furnish information regarding these acceptances.

Very truly yours,

Governor.

To the Chairman,
The Federal Reserve Bank of