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115

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ADDRESS REPLY TO
FEDERAL RESERVE BOARD

August 29, 1918.

X-1163

Dear Sir:

Several inquiries have been made during the past few months as to possibilities of simplifying the present plan of operation in handling rediscounts between Federal Reserve Banks.

The attached memorandum has been prepared by the Statistical Division, and it would be appreciated if you will please give the undersigned the benefit of your criticisms or suggestions, preferably by wire.

Very truly yours,

Acting Secretary.

August 27, 1918. 116

REDISCOUNTS BETWEEN FEDERAL RESERVE BANKS.

There is submitted below a plan for handling rediscounts between Federal Reserve banks which it is believed will effect as great a saving in clerical work as is possible under the present law.

(1) When one Federal Reserve bank rediscounts the paper of another it will be necessary for the discounting bank to endorse all paper and furnish the rediscounting bank and the Federal Reserve Board with a statement on Schedule BD - 4 or 7 showing the identification number, the name of each maker, the due date, the maturity value, and the rate at which rediscounted.

(2) Credit should be given by the rediscounting bank, in the daily settlement or by transfer if necessary, for the entire maturity value of the paper without deduction for unearned discount.

(3) Instead of figuring discount on each piece of paper separately it will be sufficient to calculate the discount on the entire amount for one day and to credit the rediscounting bank daily, or at and as of close of business each Friday, also on the last day of each month with the amount of discount then accrued; or discount may be accrued daily on the same basis as interest is now accrued on U.S. bonds and settlement made between the banks when the rediscounted paper is redeemed or at such other time or times as may be agreed upon. It will be assumed under this plan that the paper is rediscounted for the entire period it has to run, although the discounting bank may redeem the paper at any time by merely crediting the rediscounting bank with the maturity value of the paper plus the amount of discount accrued, if any. If the paper is redeemed as above before maturity date the Board should be furnished with a statement to the effect that paper rediscounted with Bank "A" on a given date, as shown by Schedule No. _____ dated _____ was redeemed on _____.

(4) In case the above plan is adopted, bookkeeping entries in connection with earned and unearned discount could be made as follows:

By Discounting Bank: Debit unearned discount and credit either the rediscounting bank or discount accrued on rediscounts (liability item).

By Rediscounting Bank: Credit earned discount and debit either the discounting bank or Discount accrued on rediscounts (asset item).

It is of course assumed that under this plan the rediscounting Federal Reserve bank will carry the paper rediscounted on its books at its maturity value regardless of the period for which the discounting bank may desire accommodation. In view of the fact, however, that Federal Reserve banks file their bill holdings according to maturity dates it is thought that very little extra work will be necessary in order to comply with the maturity classification shown on form 34.