

W. P. G. HARDING, GOVERNOR
ALBERT STRAUSS, VICE GOVERNOR
ADOLPH C. MILLER
CHARLES S. HAMLIN

J. A. BRODERICK, SECRETARY
L. C. ADELSON, ASSISTANT SECRETARY
W. T. CHAPMAN, ASSISTANT SECRETARY
W. M. IMLAY, FISCAL AGENT

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

EX-OFFICIO MEMBERS
CARTER GLASS
SECRETARY OF THE TREASURY
CHAIRMAN
JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD

WASHINGTON

September 19, 1918.

X-1213

SUBJECT: Rediscounts between
Federal Reserve Banks.

Dear Sir:

After carefully considering the several suggested plans for lessening the clerical work connected with the handling of rediscounts between Federal Reserve Banks, the Board has concluded that no material change should be made at this time in present methods, which, it is understood, closely follow the procedure adopted in handling discounts for member banks.

An outline of the clerical work connected with the handling of rediscounts between Federal Reserve Banks, as provided by the Board's circular letter X-212 of June 15, 1917, and the accompanying memoranda, is given below for the purpose of simplifying and making as uniform as practicable the methods used by all Federal Reserve Banks. Two methods are outlined whereby Reserve Banks desiring accommodation for a period short of the actual maturity of the rediscounted paper may repurchase such paper from the lending Reserve Bank before maturity by making the necessary transfer of funds through the Gold Settlement Fund.

(1) MATURITIES AND CLASSES OF PAPER REDISCOUNTED: When a Federal Reserve Bank rediscounts paper with another bank it is necessary for the discounting bank to furnish the rediscounting bank and the Federal Reserve Board with a statement on schedule BD-4 or 7, showing the identification number, name of each maker, class of paper rediscounted as called for by

form 38, and particularly the amount of each item secured by government obligations, also due date, face amount and rate at which rediscounted. It will not be necessary to give the names of endorsers on schedules BD-4 or 7 in reporting rediscounts. Paper thus rediscounted will be carried on the book of the lending bank in the same manner as paper discounted for member banks. It will be necessary also to telegraph the lending bank sufficient data regarding maturities of paper rediscounted to enable it to furnish the Board on the following Friday with the maturity distribution of its bill holdings for the Board's weekly statement. The total amount of paper secured by government obligations also should be telegraphed.

(2) ENDORSEMENT: Rediscounted paper must be endorsed by the borrowing bank. Rubber stamp endorsement is recommended and may be made in blank or substantially as below:

Pay to the order of any Federal Reserve
Bank or Federal Reserve Agent.
FEDERAL RESERVE BANK OF BOSTON
C.C. Bullen, Cashier

(3) UNEARNED DISCOUNT: Rediscounted paper should be classified on schedules BD-4 or 7 in accordance with maturity dates. The following hypothetical example is given to illustrate a simple method of computing discount:

Number of days to maturity	Face amount of all paper having maturity shown in preceding column.	Rate at which discounted	Unearned discount
37	\$1,000,000	4-3/4%	\$4881.94
38	1,500,000	"	7,520.83
40	1,000,000		5,277.78
48	2,000,000		12,666.67
54	550,000		3,918.75
56	<u>450,000</u>		<u>3,325.00</u>
	\$6,500,000		\$37,590.97

Net credit (face amount less unearned discount) \$6,462,409.03

The discounting bank should credit gold settlement fund - suspense account on form 34 for the account of the borrowing bank with the face amount of the paper with a later adjustment for unearned discount. In case it is necessary to protect the reserves of the borrowing bank, an immediate transfer through the gold settlement fund may be effected.

(4) RELEASE FOR PAYMENT: Rediscounted paper may be rebated or taken up by the borrowing bank before maturity upon payment through the gold settlement fund of the face amount of the paper less the amount of unearned discount. Unearned discount on notes taken up before maturity may be calculated in the same manner as indicated in paragraph 3. Suppose, for example, that all paper rediscounted as above was taken up at the expiration of 35 days from the time it was rediscounted, then unearned discount would be figured as follows:

<u>Number of days to maturity</u>	<u>Face amount of all paper having maturity shown in previous column</u>	<u>Rate at which discounted</u>	<u>Unearned discount</u>
2	\$1,000,000	4-3/4%	\$ _____
3	1,500,000		_____
5	1,000,000		_____
13	2,000,000		_____
19	550,000		_____
21	450,000		_____
Total	\$6,500,000		\$ _____

Net credit (face amount less unearned discount) \$ _____

(5) RELEASE FOR COLLECTION: Rediscounted paper released to the borrowing bank for collection should be endorsed (rubber stamp) by the Federal Reserve Agent of the borrowing bank, substantially as below:

Pay to the order of the Federal Reserve Bank of Boston for collection for the account of
 F.H. CURTISS
 FEDERAL RESERVE AGENT.

When this endorsement is used, written instructions substantially as follows should accompany the delivery of the paper to the bank:

(Date)

Federal Reserve Bank of _____

Dear Sir: _____

I hand you herewith for collection and credit of the Federal Reserve Bank of _____ for the account of the Federal Reserve Agent at _____ the following commercial paper, which has been held in trust for the Federal Reserve Agent named. Please advise the Federal Reserve Bank to this effect.

-----	-----	-----	-----
Maturity	Amount	Maturity	Amount

Very truly yours,

Federal Reserve Agent.

Receipt of the above described commercial paper is hereby acknowledged.

Assistant Cashier.

When payment is received by the borrowing Federal Reserve Bank for rediscounted paper collected by it, proper transfer through the Gold Settlement Fund should be made to the credit of the lending Federal Reserve Bank with appropriate advice to the Federal Reserve Agent.

(6) BORROWING FOR FIXED PERIODS: Under the Federal Reserve Act, any accommodation extended by one Federal Reserve Bank to another must be in the form of rediscounts, and therefore borrowing for fixed periods on

promissory or collateral notes would require an amendment to the Federal Reserve Act. In case, however, a Federal Reserve Bank is reasonably sure that it will not need accommodation for the entire period for which paper under rediscount has to run, an agreement may be entered into, whereby, if the accommodation is desired for say 15, 30 or 45 days, discount may be calculated for the period for which the accommodation is desired. Under this plan all paper must have a maturity of at least or beyond the period for which accommodation is required. While the calculation of unearned discount for fixed periods will be permitted, the lending Federal Reserve Bank must classify the paper on form 38 according to the actual maturities and without regard to the period for which discount has been figured. Paper released upon payment by the borrowing bank will again be taken into its bill holdings. No report covering this latter transaction need be furnished to the Federal Reserve Board.

REDISCOUNTS UNDER PARAGRAPH 6.

Bank "A" arranges to rediscount \$10,000,000 of commercial paper with bank "B" for 30 days at 4-3/4%. (Face amount of paper \$10,004,372. Discount \$_____.) Debit and credit entries may be made as below:

BANK "A"

At time of rediscount:

<u>Debits</u>		<u>Credits</u>	
Gold Settlement Fund	\$ _____	Bills discounted, members	\$ _____
Unearned discount	\$ _____		

At expiration of 30 days:

Bills discounted, members	\$ _____	Gold Settlement Fund	\$ _____
---------------------------	----------	----------------------	----------

BANK "B"

At time of rediscount:

<u>Debits</u>		<u>Credits</u>	
Bills discounted, other F.R. banks	\$ _____	Gold Settlement Fund	\$ _____
		Unearned discount	\$ _____

At expiration of 30 days:

Gold Settlement Fund	\$ _____	Bills discounted, other F.R. banks	\$ _____
----------------------	----------	------------------------------------	----------

Debit and credit entries made by both bank "A" and bank "B" at the expiration of the 30-day period will be reduced by amounts rebated, if any. Any necessary adjustment in unearned discount account may be made at the time the periodic proof is taken to determine whether the amount held in the account is sufficient to cover interest unearned on discounted paper or at the expiration of the period for which the paper was rediscounted.

Yours very truly,

Secretary.

Approved;

Governor.