

FEDERAL RESERVE BOARD

WASHINGTON

X-3077

March 22, 1921.

SUBJECT: Unauthorized Statements as to Rate Changes
and Future Policies.

Dear Sir:

The Board desires to call the attention of the officers and directors of the Federal Reserve Banks to the importance of their refraining from expressing any opinion as to the likelihood of changes in discount rates. Anything in the nature of a forecast of the rate policy of a Federal Reserve Bank or a forecast by responsible officials of the Federal Reserve Banks as to rate policies generally is fraught with grave possibilities of harm. A statement which may be taken as predicting a change in policy or a continuance of present policies might well make those charged with the administration of the Federal Reserve System and the shaping of its policies open to the charge of deceiving the public in case contrary action should be taken.

Paragraph (d) of Section 14 of the Federal Reserve Act authorizes the directors of each Federal Reserve Bank "to establish from time to time, subject to review and determination of the Federal Reserve Board, rates of discount to be charged by the Federal Reserve Bank for each class of paper." The Board reserves the right, under its power of review, to modify existing rates at any time but it has always been the practice to permit the Federal Reserve Banks to exercise the initiative. It should be borne in mind, however, that any action taken by the directors of the Federal Reserve Banks with respect to discount rates is not final, but is subject to review and determination of the Federal Reserve Board. With the possibility that there will be constantly increasing pressure for rate changes, the officers and directors of the Federal Reserve Banks cannot be too careful to avoid making any statements which may be regarded as a forecast. When the directors of a Federal Reserve Bank vote to make a change, no publicity whatever should be given to such action until the changes proposed have been approved by the Federal Reserve Board. Then it should be announced publicly at the close of business on the day that final action is taken by the Board. In this way no advantage will be obtained by any one person or class of people.

The following resolution which has been adopted by the directors of one of the Federal Reserve Banks is commended by the Board for favorable consideration by all Federal Reserve Banks:

"In view of the ultra-confidential character of the work of the personnel of the Federal Reserve Bank, and in view of the sometimes exaggerated importance attached even to informal or personal comments or statements made by Federal Reserve Bank employes concerning general banking matters, no employe of the Federal Reserve Bank shall in any way disclose to anyone, other than an employe or officer of the bank entitled thereto, any information obtained in the course of his or her work, or discuss any banking matters that may in any way concern or relate to the Federal Reserve Board, the Federal Reserve Banks, or any member bank, with anyone not connected with the Federal Reserve Bank, and in no event outside of the office of the Federal Reserve Bank. Anyone guilty of a breach of this rule will be subject to immediate dismissal."

You are requested to take the first opportunity of bringing this letter to the attention of your Executive Committee and of your Board of Directors.

Very truly yours,

G o v e r n o r .

CHAIRMEN AND GOVERNORS OF ALL FEDERAL RESERVE BANKS.