

FEDERAL RESERVE BOARD

WASHINGTON

X-3243
November 9, 1921.

SUBJECT: Removal of Limitation on Federal Reserve Exchange Drafts.

Dear Sir:

In April, 1917 the Federal Reserve Board extended to member banks the privilege of using two kinds of drafts; one known as the "Federal Reserve Exchange Draft" and the other as the "Federal Reserve Transfer Draft". The Federal Reserve Exchange Draft is a check drawn by a member bank on its own Federal Reserve Bank and made receivable for immediate availability at par at any Federal Reserve Bank, but actually payable only by the drawee Federal Reserve Bank. The Federal Reserve Transfer Draft is a check drawn by a member bank on its own Federal Reserve Bank and made payable upon advice of the drawee at any Federal Reserve Bank specified in the draft.

Under the terms of the original circular both forms of drafts were limited to \$250. This letter has reference, however, only to the Federal Reserve Exchange Draft, for it appears that the Federal Reserve Transfer Draft has been but little used.

Before the establishment of the Federal Reserve System, banks were accustomed to draw their drafts on correspondents in reserve cities and to have them become immediately available at par. On August 12, 1918 the Federal Reserve Board, at the suggestion of an informal conference held between representatives of the Federal Reserve Banks of Cleveland, New York, Chicago, Philadelphia and Boston, issued a circular, effective September 3, 1918, increasing the limit of drawings of Federal Reserve Exchange Drafts from \$250 to \$5000. On November 15, 1919 the Board issued a circular commenting upon the action taken by a Conference of Transit Managers and Auditors, held in Cleveland June 23rd and 25th, 1919. This Conference voted that the limit on exchange drafts be removed, and the Board's reply, after hearing from all Federal Reserve Banks, was a disapproval of this recommendation of the Transit Conference. The records show that the Federal Reserve Banks of New York and Chicago were not in favor of removing the limit, while those of Cleveland, Richmond, San Francisco and St. Louis were decidedly in favor of such action. Other Federal Reserve Banks expressed no objection but appeared to acquiesce in the recommendation of the Transit Conference above referred to.

This subject has been frequently discussed at group conferences and at conferences of the Governors. Some of the group conferences have urged that the limitation be removed but no unanimous action appears to have been reached at any conference of the Governors of Federal Reserve Banks. It appears from the minutes of the conference held here several days ago that this question was brought up but it was voted that consideration be postponed until another conference of Governors, in order that the several Governors might have an opportunity in the meantime to study it and be prepared to report back at the next conference. This means further delay.

The Board is anxious that member banks should have unrestricted use of their excess balances with Federal Reserve Banks and believes that the time is opportune for removing the limitations which now exist. It has been intimated that certain large member banks, which do a country-wide business, are not in favor of this action. The Board does not know whether this is true or not, but in view of the fact that Federal Reserve Banks pay no interest on deposits, while the large member banks do pay interest on bank deposits, it does not appear that the business of the member banks in large cities would be adversely affected should the limitation on Federal Reserve Exchange Drafts be removed. Even in the face of opposition on the part of large member banks the Board would still feel that this action should be taken, unless more valid objections can be raised.

You are requested, therefore, to consider the matter and to advise the Board as promptly as possible of the attitude of your bank with respect to the proposition, and what practical objection, if any, you see to it. Matters of this kind, which relate to inter-bank transactions, are clearly within the scope of the Board's jurisdiction and it is important, therefore, that after all arguments for and against the proposition have been presented the Board should give the matter consideration and determine the policy to be pursued.

Very truly yours,

G o v e r n o r .

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