

FEDERAL RESERVE BOARD

WASHINGTON

March 6, 1922.
St. 2629.

SUBJECT: Rediscounts.

Dear Sir:

In accordance with the recommendation of the Federal Reserve Agents at their conference with the Federal Reserve Board in October 1921, the Board has ruled that in the future bills rediscounted by member banks and by Federal reserve banks shall be included with other discounted bills on the asset side of condition reports and set up separately as a new item among liabilities, instead of being reported as a contingent liability below the body of condition reports as has been the practice in the past. A supply of Form 105, revised as of February 15, 1922 to provide for the inclusion of rediscounts in the body of the report, will be forwarded to you today for use of State bank and Trust company members in preparing their next condition reports.

In case one Federal reserve bank rediscounts paper with another in the future, the rediscounting or borrowing bank will include the amount of rediscounted bills with its bill holdings under the general caption "Bills discounted for member banks", and report the amount thereof against liability item "Bills rediscounted with other Federal reserve banks", which will appear immediately preceding the item "All other liabilities". The discounting or lending bank should change the general caption "Bills discounted" appearing in the present statement to "Bills discounted for member banks", and insert a new item "Bills discounted for other Federal reserve banks" immediately before item "Bills bought in open market". Inasmuch as the amounts of bills rediscounted with other Federal reserve banks will be included in the total earning assets of the borrowing banks as well as in those of the lending banks, the caption "Total earning assets" in the Board's detailed statement of condition of Federal reserve banks and in statements of borrowing banks will read "Total earning assets, including rediscounts with other Federal reserve banks".

No changes will be made in the Board's consolidated press statement for the reason that all inter-Federal reserve bank discount operations must be eliminated in order to obtain a consolidated statement of the resources and liabilities of the System as a whole. As the sum of resources and liabilities in the detailed statement will, therefore, exceed the resources and liabilities shown in the consolidated statement by the amount of paper under rediscount between Federal reserve banks, a note will be added to the Board's detailed statement of resources and liabilities to show that the figures are inclusive of rediscounts between Federal reserve

banks. A sample form of the revised statement is enclosed, in which new items are shown in parentheses and on which lines have been drawn through items to be eliminated. On the daily balance sheet, form 34, the rediscounting or borrowing bank should include paper under rediscount in its bill holdings and report the total amount thereof in the Miscellaneous Liabilities block against code COTT. The lending bank should report rediscounts for other Federal Reserve Banks following code BURK against code BARR. Data with regard to maturities on the reverse side of the form should be exclusive of rediscounts for other Federal Reserve Banks, i.e., they should cover paper discounted for member banks in your own district, and acceptances bought in the open market. Inasmuch as no Federal reserve bank is now rediscounting any of its paper, no changes will be made in the form of the Board's weekly statement until it again becomes necessary for some Federal reserve bank to rediscount with another Federal reserve bank.

In view of the revised form of statement and with the idea of definitely determining in all cases the extent to which a Federal reserve bank finds it necessary to obtain accommodation from another Federal reserve bank, it is desirable, in case bankers' acceptances are sold by one Federal reserve bank to another for the purpose of obtaining accommodation, that the selling bank endorse such acceptances, in which case they will be shown among "Bills rediscounted with other Federal reserve banks" and "Bills discounted for other Federal reserve banks" by the selling and purchasing banks, respectively. When bankers' acceptances are sold at the request of the purchasing bank, and not at the request of the selling bank for the purpose of obtaining accommodation, they need not be endorsed by the selling bank, and the amount will not be shown among rediscounts nor taken into consideration in calculating adjusted reserve percentages.

Very truly yours,

GOVERNOR.

Enclosure.

Letter sent to all F. R. Agents.