

## FEDERAL RESERVE BOARD

WASHINGTON

X-3949

January 22, 1924.

**SUBJECT: Discount of Non-member Bank Paper.****Dear Sir:**

For your information there is enclosed herewith copy of the letter addressed to one of the Federal Reserve Banks in answer to an inquiry as to whether the Federal Reserve Board's circular letter of July 18, 1923, rescinding certain rulings theretofore made in connection with the discount of non-member bank paper, affects in any way the ruling of the Federal Reserve Board, published on page 743 of the August 1918 Bulletin, with relation to the eligibility for rediscount of a note of a non-member bank used in trading in government obligations.

Very truly yours,

Walter L. Eddy,  
Secretary.

(Enclosure)

**TO GOVERNORS OF ALL FEDERAL RESERVE BANKS.**

( C o p y )

X-3949-a.

January 18, 1924.

Dear Sir:

Receipt is acknowledged of your letter of December 29, in which you inquire whether the Federal Reserve Board's circular letter of July 13, 1923, rescinding certain rulings theretofore made in connection with the discount of non-member bank paper affects in any way the ruling of the Federal Reserve Board published on page 743 of the August 1918 Bulletin.

The ruling published on page 743 of the August 1918 Bulletin refers solely to the question whether notes of non-member banks issued for the purpose of carrying or trading in Government obligations are eligible for rediscount under the terms of Section 13 of the Federal Reserve Act, and therefore, was not mentioned specifically by the Board's circular letter of July 13, 1923. The Board has always been of the opinion, however, that while such notes are eligible for rediscount under the terms of Section 13, Federal reserve banks are forbidden to rediscount them without permission of the Federal Reserve Board by that provision of Section 19, which prohibits any member bank to act as a medium or agent of non-member banks in obtaining rediscounts at Federal reserve banks except with the permission of the Federal Reserve Board.

In order to encourage the sale of Liberty bonds and Treasury certificates during the war, the Board granted general permission for Federal reserve banks to rediscount for member banks notes of non-member banks secured by Liberty bonds and Treasury certificates; but the Board's circular letter of July 13, 1923, was intended to revoke this permission. You will note that the first paragraph of that letter states that, "all previous rulings on this subject were rescinded"; and the third paragraph of that letter (which is numbered "2") states that, "Except with the Board's permission, no Federal reserve bank shall discount any paper acquired by a member bank from a non-member bank or bearing the signature or endorsement of a non-member bank \* \* ". Inasmuch as notes of non-member banks secured by Liberty bonds necessarily bear the signatures of such banks they clearly come within the terms of this prohibition.

Very truly yours,

D. R. Crissinger,  
Governor.