

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4089
June 14, 1924.

SUBJECT: Announcements of Rate Changes.

Dear Sir:

Your attention is again called to the prime importance of keeping secret and confidential all information concerning prospective rate changes until such changes have become effective. Section 14(d) of the Federal Reserve Act authorizes Federal reserve banks "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." Under this provision of law, rate changes do not become effective until they have been approved by the Federal Reserve Board and, although as a general practice, Federal reserve banks initiate rate changes, it must be borne in mind that any action taken by directors of Federal reserve banks with respect to discount rates is not final. Until, therefore, the Board has given its approval to any change in rate, such change is not effective and it cannot be too strongly emphasized that no publicity whatever should be given to any prospective rate changes.

This matter has been called to your attention several times in the past. In Circular Letter X-3077, dated March 22, 1921, the Board stressed the importance of withholding information concerning rate changes and in the previous circular letters the Board directed that code telegrams be used in all communications respecting discount rates. See circular letters X-1852, dated March 4, 1920; X-1833, dated February 16, 1920; X-1307, dated December 14, 1918. The instructions contained in these letters, however, have not always been followed strictly and in several cases information concerning rate changes has been given to the public prior to the dates on which the changes became effective.

In order to prevent further occurrences of this nature, the Board has in mind promulgating rules and regulations governing the announcement of rate changes. To this end, it has tentatively adopted the following and before finally issuing same requests such suggestions and comment thereon as you may care to make.

1. All telegraphic communications dealing with rate changes shall be in code.
2. No information of any kind with respect to any rate change shall be published until the Federal reserve bank in question shall have been advised that such change has been approved by the Federal Reserve Board.
3. Announcements of rate changes which have been approved shall be made as nearly as possible simultaneously by the Federal reserve bank concerned and the Federal Reserve Board and such announcements shall be made immediately after the close of business at the bank concerned on the day on which the rate change was approved and not sooner.
4. The new rate shall be effective at the beginning of the first business day following the day on which the announcement of the change was made.
5. In view of the dual capacity of the Federal reserve agent as Chairman of the Board of Directors of the Federal reserve bank and as local representative of the Federal Reserve Board, all announcements with respect to rate changes on the part of the Federal reserve bank shall be made by him and he will be held strictly responsible for compliance with these rules and regulations.
6. All communications or announcements to other Federal reserve banks with respect to such rate changes shall be made only by or with the approval of the Federal Reserve Board.

Yours very truly,

Walter L. Eddy,
Secretary.

To Chairmen and Governors of all Federal Reserve Banks.