

FEDERAL RESERVE BOARD

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WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

September 23, 1926.

SUBJECT: Discretion of Federal Reserve Agent in accepting or rejecting paper offered as collateral for Federal reserve notes.

Dear Sir:

The question has been raised whether the action of the Board of Directors of a Federal reserve bank in accepting paper for discount deprives a Federal Reserve Agent of discretion in accepting or rejecting such paper when offered as collateral for Federal reserve notes. The Board has given careful consideration to this matter and the conclusions which it has reached may be set out as follows:

Under the terms of Section 16 of the Federal Reserve Act, the Federal Reserve Board, acting through the Federal Reserve Agent, is charged with the responsibility of determining in each case whether an application by a Federal reserve bank for Federal reserve notes should be rejected or granted in whole or in part. It is clear that the Board is empowered to exercise its discretion in passing upon the desirability of collateral tendered as security against the issue of Federal reserve notes. This discretion is ordinarily exercised through the Federal Reserve Agent to whom the collateral is offered. In order that Federal reserve notes may always be fully protected by collateral security of proper kinds and amounts, it is important that the function of passing upon such collateral security should not be exercised in a perfunctory manner but it should be performed with care, and it should not be assumed that all paper discounted by a Federal reserve bank constitutes, without further examination as to its quality or goodness, acceptable collateral for the protection of Federal reserve notes.

The fact that a Federal Reserve Agent as a member of the Executive Committee of a Federal reserve bank may have participated in admitting a particular piece of paper to rediscount by the bank in no way precludes the exercise by him of independent judgment as to the desirability of such paper when it is tendered as collateral for the issue of Federal reserve notes.

The Federal Reserve Board expects Federal reserve agents at all times to see to it that all Federal reserve notes issued by them to their respective banks are fully protected by proper collateral deposited with them, and that in any cases where collateral tendered to them is deemed unsatisfactory in quality or amount, it shall be rejected and other collateral asked, and the matter of such rejection shall be reported to the Federal Reserve Board.

Very truly yours,

D. R. Crissinger,
Governor.

To all Federal Reserve Agents.