

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

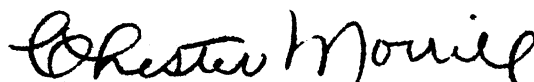
X-9354

October 31, 1935.

Dear Sir:

There is inclosed for your information a copy of a letter which is being sent today to the Governor of the Federal Reserve Bank of Cleveland with regard to the procedure to be followed in the future in the establishment of rates of discount and purchase by the Federal reserve banks.

Very truly yours,

Chester Morrill,
Secretary.

Inclosure.

TO ALL F. R. AGENTS.

X-9354-a

October 31, 1935.

Mr. M. J. Fleming, Governor,
Federal Reserve Bank of Cleveland,
Cleveland, Ohio.

Dear Governor Fleming:

Reference is made to your letter of October 7, 1935, from which it is noted that your directors, on October 4, 1935, established rates of discount and purchase for a period of fourteen days commencing October 5, and that your bank had been advised by its counsel that it was at least open to question whether the rates of discount and purchase fixed by your bank on September 20, 1935, and approved by the Board of Governors of the Federal Reserve System, continued in effect until the rates fixed by your board at its meeting on October 4, 1935, were reviewed and determined by the Board of Governors of the Federal Reserve System as provided in subsection 14(d) of the Federal Reserve Act, as amended by the Banking Act of 1935, and you had received advice of the Board's approval thereof.

Your letter suggests that, in view of this opinion, the Board establish a procedure whereby advice of the Board's action on rates established by your directors will be sent to your bank on the date of receipt by the Board of information from the bank as to rates fixed for a future period, in order that there shall be at all times rates of discount and purchase for the bank without any possibility of question as to the validity of rates in effect.

It has been the experience of the Board in the past that, because of the important questions of policy involved in rate changes, it was not always possible to reach a decision on rates submitted to it by a Federal reserve bank on the date advice of the bank's action was received. In view of the increased responsibilities placed upon the Board by the Banking Act of 1935, there undoubtedly will be occasions in the future when the Board will require more than one day in which to review all of the important factors which must be taken into account. For this reason, the Board believes that it would not be advisable to set up a procedure which would require it to pass upon rates of discount established by the banks upon the date upon which advice of the bank's action is received.

The only change in subsection 14(d) of the Federal Reserve Act as amended by the Banking Act of 1935 is the addition of a provision by which the Federal reserve banks are required to establish their rates of discount every fourteen days, or oftener if deemed necessary by the Board. Therefore, the Board takes the position that when a bank has established rates of discount in accordance with this requirement upon which action by the Board is pending, the existing rates continue in effect until rates subsequently established with the approval of the Board become effective. This is on the assumption, of course, that the language used by the bank in establishing the existing rates did not otherwise limit the period for which they were to be in effect. In this connection, the Board feels that it would be preferable for the bank not

to place a limitation on the time during which rates established are to remain in effect.

Of course, the Board will consider rates of discount submitted to it by the Federal reserve banks, and will act thereon and advise the banks of its action, as promptly as possible in the circumstances.

Very truly yours,

(Signed Chester Morrill

Chester Morrill,
Secretary.