

## New York as an International Money Market

New York holds today a position in international finance of undisputed prominence among the major cities of the United States and shares with London the leadership among world centers\*. This has been for New York a comparatively recent development in the course of this century. It has been brought about by the shift in the position of the United States from debtor to creditor country as a result of the First World War, and has been strengthened by the emergence of the United States as the world reservoir of economic resources during and after the Second World War.

The rise of New York from local to world leadership might not have been possible without the impulse given by the Federal Reserve System. In fact, the promotion of New York as an international money market was one of the earlier objectives set forth by the System, after it became established in 1914. The growth of New York may be directly associated with actions taken by Federal Reserve authorities during the twenties in promoting acceptance practices and the establishment of foreign branches and foreign subsidiaries by metropolitan banks, in opening placement and investment opportunities for reserve funds of foreign banks, and in developing a close and effective cooperation between the Federal Reserve Bank of New York and the central banks

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\* Selected Essays on Contemporary Aspects of New York as an International Money Market:

HOLMES, A. R., *The New York Foreign Exchange Market*, Federal Reserve Bank of New York, 1959; "International Gold and Dollar Flows", in *Federal Reserve Bulletin*, March 1959, Annual Review; TAMAGNA, F. M., and WILLIS, P. W., "United States Banking Organization Abroad", in *Federal Reserve Bulletin*, December 1956; TAMAGNA, F. M., and SOLOMON, R., "Bankers' Acceptance Financing in the United States", in *Federal Reserve Bulletin*, May 1955; TAMAGNA, F. M., and AXELROD, S., "United States Banks and Foreign Trade Financing", in *Federal Reserve Bulletin*, April 1955; KREPS, C. H. Jr., "Bankers' Acceptances", in *Money Market Essays*, Federal Reserve Bank of New York, March 1952.

throughout the world. These actions, and the general monetary and credit policy of the System, contributed to enhancing the prestige of the dollar, not only as the currency of the United States, but also as the unit of account and settlement in international transactions.

This process took place gradually and not without relapses. It may be interesting to note that a fundamental study on "The New York Money Market", published in 1931 under the auspices of Columbia University, made only incidental references to the international activities of New York institutions. Interest in foreign business by the metropolitan banks, after rising to a high point in the twenties, entered a declining phase in the thirties, a decade marked by world depression and impediments to trade, and reached its low point during the Second World War and in the immediate post-war years. With the gradual restoration of the economies of the world and the relaxation of restrictions, the New York banks have been taking in recent years a new interest in the scope of their international business. This trend has again found support from the authorities of the System, which in early 1957 revised the rules concerning foreign subsidiaries of United States banks to permit more flexible forms of operations in accordance with the new role of the United States in world trade and finance.

#### The Structure of the market

A money market may be defined as a combination of institutions and practices facilitating the flow and placement of short and medium term funds for production, trade, and financial transactions. This definition is intended to distinguish a money market from a capital market, whose function is to channel savings to investment through specialized institutions and the distribution of equity and long term credit instruments. An international money market is characterized by the fact that its funds originate in, or are directed to foreign countries, and that its institutions act as intermediaries between domestic and foreign residents, or among residents of foreign countries, or for international organizations.

An international money market may therefore be examined from five points of view, namely:

1. The institutional organization, from the point of view of the administrative facilities developed by the institutions and the legal framework within which they conduct their foreign operations.

2. The banking institutions, acting as custodians and lenders of funds — including official and private, domestic and foreign banks, operating through branches, subsidiaries and correspondents, and providing the connecting links between the United States and the rest of the world.

3. The depository facilities, including those related to the custody of foreign monetary reserves, to the holdings of balances for commercial banking and nonbanking interests, and to the placement of foreign funds in assets consistent with the requirements of foreign holders.

4. The provision of credit, whether to foreign monetary authorities, bankers, or others, for meeting general or specific needs related to balance of payments, trade and finance, or to the maintenance of stable monetary conditions in foreign countries.

5. The intermediary facilities, including services of non-banking specialists, such as dealers and brokers in acceptances and exchange, facilitating the placement of funds and settlement of international transactions.

The description that follows, of the organization and functions of the New York market, is intended to set forth the processes, extent and limitations of the role which its various parts perform in the international field.

#### The Institutional Organization

The international character of the New York market derives from the concentration of large and important domestic and foreign banks, conducting transactions between the United States and the rest of the world, or among foreign countries, or related to international organizations.

The New York banks conduct foreign or international business either *directly*:

- (a) through the foreign departments of their organization in the United States; and

- (b) through their branches and representative offices abroad;

or *indirectly*:

(c) through specialized subsidiary institutions chartered in the United States and operating in the United States or abroad;

(d) through institutions chartered in foreign countries and affiliated with their subsidiary institutions; and

(e) through correspondent banks in foreign countries.

A bank's choice among these various facilities depends upon relative advantages in terms of its own internal organization, the type of business it conducts, and the conditions in countries in which it operates. United States banks are chartered either by the Federal Government (national banks) or by State governments (state banks); all national banks must, and state banks may, be members of the Federal Reserve System. With respect to the activities of foreign branches, national banks are subject to supervision by the Comptroller of the Currency (an official of the Department of the Treasury), while state member banks are subject to supervision by Federal Reserve authorities. Moreover, all member banks (national or state) are subject to the jurisdiction of the Board of Governors of the Federal Reserve System with respect to the establishment of branches abroad and to the participation in subsidiary corporations engaged in foreign banking or foreign financing activities.

The foreign department of a United States bank conducts general banking business (i.e., accepting deposits, extending credit, and providing exchange facilities) in the United States on behalf of banks and customers abroad, and provides facilities related to foreign transactions for customers and other banks in the United States. The foreign department is the channel through which the domestic departments of the bank conduct foreign operations, and its branches abroad conduct operations in the United States, as may be related to their principal activities. Liaison between the department and foreign branches, correspondents and customers is maintained by divisional representatives. These officers are assigned to particular geographic districts, including districts in the United States, and their function is to visit periodically their area and to develop banking, business and other contacts conducive to an expanded volume of foreign business for the department.

The foreign department of a large metropolitan bank may in size and diversity of operations be compared with any other depart-

ment of the bank. Foreign departments of other banks are more limited in size and specialized in operations, and smaller banks conduct their occasional foreign transactions through the intermediary of a correspondent metropolitan bank. By and large, however, the foreign departments of United States banks have remained subordinate in importance to the domestic departments, whose interests dominate the policies of the institutions. This is a reflection of the more limited scope that foreign trade and foreign finance have traditionally played in the United States, as compared with the more important role of these activities in other countries.

Although the tradition of banking in the United States is a local one, and branch banking domestically has always been subject to the limitations established by state legislation, there has been a marked tendency on the part of metropolitan banks to conduct their business in foreign countries through direct branches or subsidiaries. Direct branches — as integral part of the banks — have certain advantages over subsidiaries in name, administration and size of operations; on the other hand, they are subject to the more restrictive of the regulations applied by either the United States authorities or the authorities of the countries where they operate. In 1955 the Board of Governors of the Federal Reserve System proposed to Congress that foreign branches of United States banks be permitted to conduct certain operations which are usual in the foreign country of their location, even though not provided for under United States laws, but such proposal failed to attain legislative approval. Because of the double limitation imposed on branches, and the greater flexibility allowed to subsidiary corporations, in the past few years United States banks have manifested a renewed interest in the subsidiary type of organization.

Since 1933 United States banks have not been permitted to hold stocks in domestic banking or nonbanking corporations, the sole and minor exceptions being related to preexisting relationships or to corporations set up for purposes directly related and incidental to the banks' internal administration. In the foreign field, however, United States banks have been permitted since 1916 to establish and participate in state-chartered corporations, and since 1919 in Federal corporations chartered by the Board of Governors of the Federal Reserve System, for the purpose of conducting activities abroad separately from their activities in the United States. The participation of member banks in state-chartered corporations (the so-called

"Agreement corporations") and the activities of Federally-chartered corporations (the so-called "Edge Act corporations") are subject to the provisions of the Federal Reserve Act and regulated by the Board of Governors.

The regulations issued by the Board, as revised last in 1957, provide for a clear demarcation between deposit banking operations, reserved to "foreign banking corporations", and other financing activities, permitted only to "foreign financing corporations". This distinction is in accordance with American banking principles and with the provisions of the United States legislation of 1933, separating commercial banking from investment banking. Under the Board regulations, a banking corporation may conduct deposit business and accept drafts or bills of exchange, and may also invest in stock of other corporations similarly engaged in foreign banking. On the other hand, a foreign financing corporation may finance itself by the issuance of securities and make investments in other foreign corporations, but is precluded from engaging in banking business. Neither a foreign banking nor a foreign financing corporation may conduct directly or indirectly business of a domestic nature within the United States. In accordance with these provisions, some among the larger banks of the United States have established subsidiaries doing foreign banking or financing business in New York and overseas. In turn, some of these first-line subsidiaries hold interests in other banking institutions, organized under foreign laws and operating outside the United States.

Some of the New York banks more actively interested in international activities maintain resident representative offices in foreign cities. These offices do not conduct banking business, such as accepting deposits and extending loans, but are helpful in establishing relations with the local banking and business communities, obtaining local information and assisting American customers interested in local business. Representatives channel business and transactions, which they may succeed in attracting, through correspondent banks and to the head office of their own institution.

Operations through correspondent banks are the traditional way by which banks in the United States conduct business in areas outside their principal location. All banks engaged in foreign business maintain correspondents in the principal foreign cities, either to extend their services or to obtain business in areas where they do not maintain banking or representative offices, or to com-

plement the activities of these offices and establish closer ties in the foreign market.

In a reciprocal way, foreign banks generally have correspondent relationships with banks in New York, and a number of important foreign banks maintain representative offices in the city. Several foreign banks, from different countries and of varying importance, also operate in New York through agencies and subsidiaries. Under the New York State Banking Law, branches may not be established in New York by any bank organized in any other state (of the United States) or foreign country; agencies, however, may be established by foreign banks. An important limitation on foreign agencies is the prohibition to accept deposits within the state. However, agencies may, under certain conditions, carry balances for accounts of others and have, in fact, made use of this power to carry out limited depository functions in New York.

Foreign banks may also establish and hold stock in subsidiaries organized as New York investment corporations, which may maintain offices in the state and conduct foreign banking business. Like the agencies, these may conduct banking business by borrowing and lending money, and by accepting foreign deposits, and may hold balances (but not deposits) for residents within the state. They enjoy otherwise special powers, including the power to invest within limits in domestic or foreign corporations.

### The Banking Institutions

A group of eight metropolitan banks, each with capital accounts ranging from \$135 to over \$700 millions and total resources between \$2 and over \$8 billion, dominate the international money market of New York, as shown in Table 1 (A). Seven of these institutions are incorporated under New York State charter, and only one is incorporated under National charter. With the exception of one bank, all maintain international organizations comprising specialized subsidiaries and- or overseas offices. In the domestic and international fields, The Chase Manhattan Bank and The First National City Bank of New York are about equal in size of resources and organization and lead all other banks in the group by wide margins.

## INTERNATIONAL BANKING IN NEW YORK METRO

Institutions	Capital Accounts	Total Resources	Foreign Offices	Branches in:	Representative Offices in:
	(end of 1958, in millions of dollars)				
<b>A. Metropolitan Banks (Incorporated)</b>					
1. The Chase Manhattan Bank, N.Y.	672	8,402	25	Canal Zone, Cuba, England, France, Germany, Japan, Lebanon, Panama, Puerto Rico	Argentina, India, Italy, Mexico, Venezuela
2. The First National City Bank of New York	707	8,056	75	Argentina, Brazil, Canal Zone, Chile, Colombia, Cuba, Egypt, England, France, Hongkong, India, Japan, Lebanon, Malaya, Mexico, Panama, Paraguay, Peru, Philippines, Puerto Rico, Saudi Arabia, Singapore, Uruguay, Venezuela	Germany
3. The Morgan-Guaranty Trust Co., New York	505	4,306	3	Belgium, England, France	
4. The Manufacturers Trust Co., New York	293	3,480	4		England, Japan, Italy, Germany
5. The Chemical Corn Exchange Bank, New York	321	3,494			
6. The Bankers Trust Co., New York	263	3,179	1	England	
7. The Hanover Bank, New York	173	1,958	2	England	
8. The Irving Trust Company, New York	135	2,070			
<b>B. Metropolitan Banks (Private)</b>					
1. Brown Brothers Harri-man and Co.	24	261			

## POLITAN BANKS AND FOREIGN SUBSIDIARIES

TABLE I

Primary Subsidiary	Ownership in Other Subsidiaries	Nature of Business	Operating in:	Foreign Banking Offices
Chase Manhattan Overseas Corporation Chase International Investment Corporation	Owns stock of: The Chase Manhattan Bank (S.A.) Ltd. Owns stock of: Union Provinciale Immobilière, Paris The Chase Manhattan Executor and Trustee Corporation Arcturus Investment and Development Ltd.	Banking Banking Financing Ownership of Bank's Building Trust Investment	South Africa France Canada, England Canada	1 — — —
International Banking Corporation	Owns stock of: Bank of Monrovia The First National City Bank of New York (S.A.) Ltd.	Banking Banking Banking	England Liberia South Africa	1 7 1
Morgan & Cie. Incorporated, New York Guaranty Executor and Trustee Ltd.		Banking Trust	France England	1 —
Chemical International Finance Ltd.		Financing		
Bankers Company of New York	Owns stock of: Bankers Trustee and Executor Company, Ltd.	Trust	England	

Since the early fifties, The Chase Manhattan Bank has directed its interest in the foreign field to business financing, principally of investment and development types. Apart from minor subsidiaries, maintained for administrative convenience, the bank made use in 1955 of an inactive foreign subsidiary, The Chase Bank, for establishing a Canadian company, Arcturus Investment and Development Ltd., for the purpose of making investments in foreign countries. In the same year the bank took the initiative in organizing with four other banks the American Overseas Finance Corporation, an institution specializing in credits to American exporters and foreign businesses of types and on terms other than normally extended by commercial banks; this corporation, however, was reorganized as American Overseas Finance Company and ownership transferred to non-banking interests in 1957. In the same year, The Chase Manhattan Bank reorganized an existing subsidiary, The Chase Bank, as a "foreign financing corporation" under the name of Chase International Investment Corporation, and in 1958 it organized a new "foreign banking corporation", under the name of Chase Manhattan Overseas Corporation. This, in turn, initiated its activities by establishing a banking corporation in South Africa. This parallel organization of banking and financing subsidiaries is supported by a network of branches and representative offices maintained by The Chase Manhattan Bank in fourteen countries.

The tradition of The First National City Bank of New York — the only institution of this group organized under national charter — has long been connected with the financing of United States trade, principally in Latin America and Asia. The bank maintains nowadays offices in twenty-five countries. Since 1955 it has reactivated a foreign banking subsidiary, the International Banking Corporation, to acquire the stock of the Bank of Monrovia, a Liberian institution previously owned by Firestone rubber interests, and to establish a South African banking subsidiary.

Third place in the New York foreign market is held by The Morgan Guaranty Trust Company of New York, a new institution, which has emerged from the combination of the Morgan Bank and the Guaranty Trust Company. The institution maintains in operation a Morgan subsidiary doing a general banking business in Paris, and three branches maintained by Guaranty in three European cities. The merger of these two banks has brought into existence an institution characterized by larger individual accounts and opera-

tions and a smaller foreign organization than are maintained by the other major banks of this group.

Among the other banks, The Chemical Corn Exchange Bank, which had joined The Chase Manhattan Bank in The American Overseas Finance Corporation, established in 1958 its own subsidiary, The Chemical International Finance Ltd.. The Manufacturers Trust Company, without foreign branches or subsidiaries, maintains representative offices in Europe and in the Far East, specializing in trade financing through foreign correspondents. The Bankers Trust Company and The Hanover Bank maintain banking offices in London. Finally, The Irving Trust Company is the only New York bank doing a substantial volume of international business through its International Division and foreign correspondents — but without overseas offices or subsidiaries.

Only one private New York banking company (organized as a partnership) plays an important role in the foreign field, Brown Brothers Harriman and Co. (Table 1 B). Originally established in 1825 as the New York end of a London firm, Brown, Shipley and Co., since 1918 it has attained independent status and it now maintains branches in New York, Boston, Philadelphia and Chicago. This company conducts a diversified banking and investment business, and competes actively for foreign deposits and loans with other banks in the city.

This group of metropolitan banks is joined, in the foreign market of New York, by the local subsidiaries of two out-of-town banks, the Bank of America, New York, and the First Bank of Boston (International), New York (Table 2). The first of the two, the banking subsidiary of the United States' largest bank, the Bank of America N.T. and S.A., San Francisco, is developing its own foreign banking organization. In addition to branches in six countries, the Bank of America, New York, has acquired nearly all the stock of the Banca d'America e d'Italia — one of Italy's important banks and, like the San Francisco parent institution, a former affiliate of the Transamerica Corporation. This New York subsidiary also holds participations in the Ibero-Amerika Bank, a Bremen institution specializing in financing trade with Latin America, and in two development corporations, the Industrial Credit and Investment Corporation of India, Ltd., and the Pakistan Industrial Credit and Investment Corporation. The First Bank of Boston (International) does not maintain a foreign organization of its own,

## INTERNATIONAL BANKING IN NEW YORK

	Institutions	Capital Accounts	Total Resources	Foreign Branches		Subsidiaries	Nature of Business
		(end of 1958, in millions of dollars)		Number	Countries		
1	Bank of America, N.Y.	5	43	6	France, Germany, Guatemala, Hong-kong, Lebanon, Singapore	Owns stocks of: Banca d'America e d'Italia Société Anonyme Immobilière (Paris)	Banking  Ownership of building
2	First Bank of Boston (International), New York	—	—	—	—	—	—

## SUBSIDIARIES OF OUT-OF-TOWN U.S. BANKS

TABLE 2

Operating in:	Foreign Branches	Parent Institutions	Capital Accounts	Total Resources	Foreign Offices	Branches in:	Representative Offices in:
			(end of 1958, in millions of dollars)				
Italy	68	Bank of America N. T. and S. A., San Francisco	596	10,780	19	England, France, Japan, Philippines, Thailand	Argentina, Brazil, France, India, Italy, Lebanon, Mexico, Switzerland, Cuba, Germany
France	—	—	—	—	—	—	—
—	—	First National Bank of Boston	163	1,911	15	Argentina, Brazil, Cuba	—

## INTERNATIONAL BANKING IN NEW YORK

## SUBSIDIARIES OF FOREIGN BANKS

TABLE 3

	Institutions	Total Resources	Affiliated Banks	Total Resources	Nationality	Parent Institutions	Areas of Operations of Parent institutions
		(millions of \$, 1958)		(millions of \$, 1958)			
1	J. Henry Schroder Banking Corporation, N.Y.	137	Schroder Trust Company, N.Y.	89	British	J. Henry Schroder and Co. Baring Bros. and Co.	England
2	French-American Banking Corporation, N.Y.	155	—	—	French	Comptoir National d'Escompte Banque de l'Indochine	France, Australia, Belgium, India, Madagascar, Tunisia, Monaco, New Caledonia, French Oceania, South Africa
3	Belgian-American Banking Corporation, N.Y.	87	Belgian-American Bank and Trust Company, N.Y.	35	—	Banque de la Société Générale de Belgique	Belgium, Germany

but represents the outpost in the money market of New York for the First National Bank of Boston and its system of branches in Latin America, where the bank has traditionally played an important role in United States trade and investments.

Three local banking corporations are organized in New York as subsidiaries of foreign institutions, as shown in Table 3. The Belgian American Banking Corporation, a subsidiary of the Banque de la Société Générale de Belgique, holds in turn the stock of a local affiliate, the Belgian American Bank and Trust Company, N.Y. The French-American Banking Corporation is owned by the Comptoir National d'Escompte de Paris and the Banque de l'Indochine. Both banks participate in the international business of their parent institutions and serve, in effect, as their outposts in the New York market. J. Henry Schroder Banking Corporation, controlled by private interests in London, holds stock, in turn, in Schroder Trust Co., New York, and conducts its business along lines similar to those followed by British merchant bankers.

In addition to these subsidiaries, twenty-six foreign banks operate in New York through agencies, including six British, six Japanese, five Canadian and two Swiss banks; banks of seven other nationalities are thus represented. Finally, forty-one foreign banks maintain representative offices in the city, among which nine from the United Kingdom, six from Japan, five from Italy, four from the Netherlands, three from Switzerland, three from Israel, two from the Congo and one each from eleven other countries, including the representative offices of six central banks (Table 4).

The practices of banks operating in the international field, the relations among themselves, and their position vis-à-vis official organs are the object of an informal Foreign Exchange Committee. This group, of ten members, includes representatives from all classes of banks — the large metropolitan, local private, out-of-town, and foreign institutions, as well as from the investment bankers' community with which the banks maintain close relations. This Committee reviews problems which may be submitted by the banks and serves as channel of consultation with the Federal Reserve Bank of New York in matters pertaining to the System or to operations of and requests from the United States Treasury.

A special position, above all domestic and foreign institutions, is occupied by the Federal Reserve Bank of New York. Its activities are more restricted than those maintained in the international field

OFFICES OF FOREIGN BANKS IN NEW YORK

TABLE 4

Agencies		Representative Offices
Bank of Montreal The Bank of Nova Scotia The Canadian Bank of Commerce The Royal Bank of Canada The Toronto-Dominion Bank          Société Générale pour Commerce et Industrie	Belgium	Banque de Bruxelles, S.A.
	Canada	
	China	Central Trust of China
	Colombia	Banco Commercial Antioqueno
	Congo	Banque Belge d'Afrique, S.C.R.L.
	Ecuador	Banco Central del Ecuador
	France	
	Indonesia	Bank Indonesia
	Iran	Bank Melli Iran
	Israel	Bank Leumi le-Israel B.M. Israel Discount Bank, Ltd. Mercantile Bank of Israel, Ltd.
Italy	Banca Nazionale del Lavoro Credito Italiano Banca Commerciale Italiana Banco di Roma Banco di Sicilia	



(Cont. TABLE 4)

Agencies		Representative Offices
The Bank of Tokyo, Ltd. The Dai-Ichi Bank, Ltd. The Fuji Bank Limited The Mitsubishi Bank, Ltd. The Mitsui Bank, Ltd. The Sumitomo Bank, Ltd.	Japan	The Daiwa Bank, Ltd. The Industrial Bank of Japan, Ltd. The Nippon Kangyo Bank, Ltd. The Sanwa Bank, Ltd. The Bank of Japan The Tokai Bank Ltd.
	Korea	The Bank of Korea
Banco Nacional de Mexico, S.A.	Mexico	
Nederlandsche Handel-Maatschappij, N.V.	Netherlands	Hollandsche Bank Unie, N.V. Nationale Handelsbank, N.V. Amsterdamsche Bank, N.V. De Twentsche Bank, N.V.
	Norway	Norges Bank
Philippine National Bank	Philippines	
	Poland	Bank Polska Kasa Opieki, Ltd.
Banco de Ponce	Puerto Rico	
	South Africa	Netherlands Bank of South Africa, Ltd.
Swiss Banking Corporation Swiss Credit Bank	Switzerland	Commercial Bank in Zurich Discount Bank (Overseas), Ltd. Union Bank of Switzerland
Barclays Bank D.C.O. The Chartered Bank of India, Australia and China The Hongkong and Shanghai Banking Corporation The Standard Bank of South Africa, Limited Bank of London and South Africa, Limited Thos. Cook and Son (Bankers), Ltd.	United Kingdom	Barclays Bank, Ltd. Lloyds Bank, Ltd. Mercantile Bank, Ltd. Midland Bank, Ltd. National Provincial Bank, Ltd. Bank of West Africa, Ltd. Westminster Bank, Ltd. Westminster Foreign Bank, Ltd. Ulster Bank, Ltd.

by other central banks, and also than those which the Bank carried out before the reorganization of the Federal Reserve System in the mid-thirties. In the twenties and early thirties the Bank exercised direct initiative in the international field and cooperated actively with foreign central banks. Among its important activities in that period may be noted the extension of stabilization credits to the Bank of England and other central banks; transactions in commercial paper in foreign markets, the opening of accounts abroad and the maintenance of foreign-exchange balances with other central banks. The Banking Act of 1933 placed all foreign and international operation relations of the Bank under the "special supervision" of the Board of Governors, and since then any special or non-recurrent operations have been subject to approval by the Board.

The Federal Reserve Bank of New York continues to play, nevertheless, a key role in the market as the correspondent of foreign central banks and the fiscal agent of the United States Treasury, in transactions between United States and foreign or international monetary authorities. The Foreign Department of the Bank, as part of its functions in handling foreign accounts and providing banking services to foreign central banks, is the organ which maintains contacts with the foreign departments of banks and market firms. Together with the international divisions of the Research Department, it gathers current information, and provides advice for the guidance of United States governmental organs, banking institutions and the public in general in the conduct of their foreign financial activities.

#### The Depository Facilities

As the center of the dollar area, New York has become the depository of assets held by foreign governments and central banks as part of their monetary reserves, and by other financial institutions and business firms as part of their operating funds. These holdings take four forms, namely: gold; bank deposits; government securities; and other miscellaneous assets, including bankers' acceptances.

There is no private market for gold in the United States, and all transactions are subject to licence by the United States Treasury. Foreign and international monetary authorities may effect gold transactions with the United States and among themselves, and

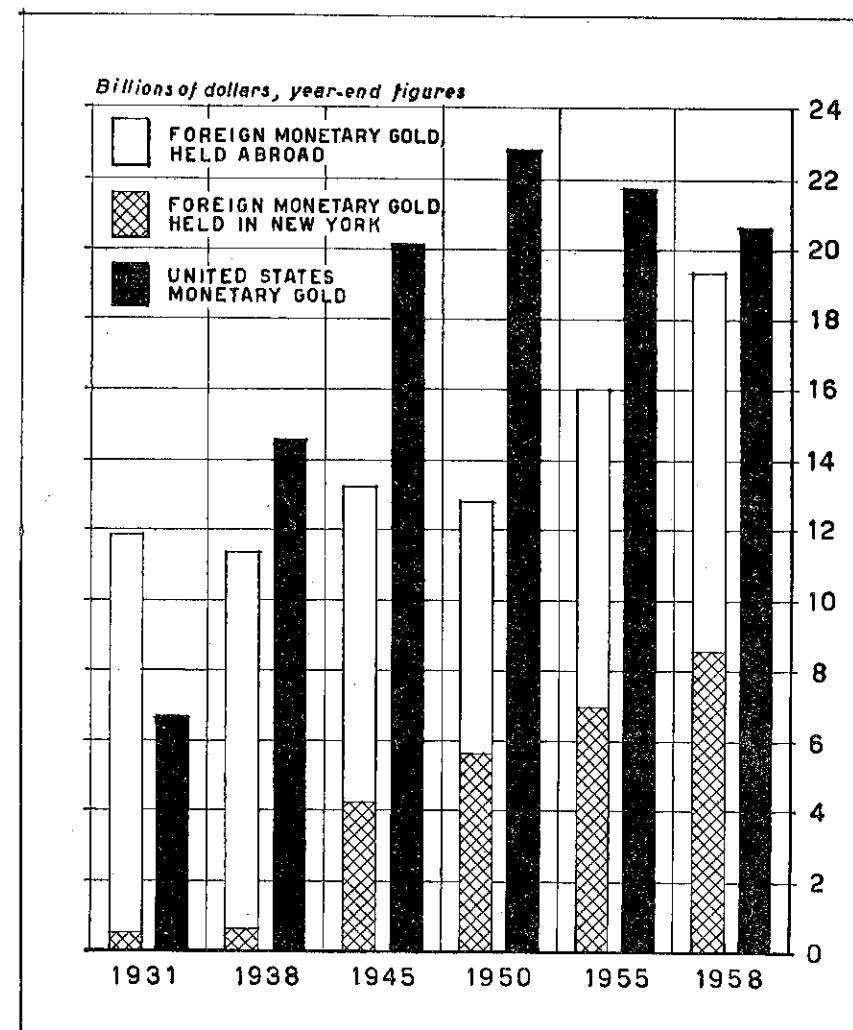
hold gold in the United States through the intermediary of the Federal Reserve Bank of New York. The Bank acts as agent for the United States Stabilization Fund, which purchases gold from, or sells gold to, foreign central banks, governments and international organizations in settlement of legitimate monetary transactions. The Bank also may hold gold, under license from the United States Treasury, in "earmarked" or custody accounts for foreign central banks, governments and international organizations. As a rule, gold bars are physically segregated in vault cells assigned to each account, and earmarked gold may be freely exported under the terms of the Treasury license. Finally, the Bank extends its facilities for transferring gold from one to another foreign account, under arrangements made by foreign monetary authorities through the International Monetary Fund or among themselves.

These conveniences have developed the general practice that international gold transactions in New York are effected through movements out or into earmarked accounts, with only marginal net exports or imports of the metal. As the need for dollars caused large shipments of gold from the rest of the world to the United States in certain periods, in 1936-38 and 1946-48, the successive repurchases of gold by foreign countries from the United States resulted in growing foreign stocks of gold being held in New York, as shown in Chart 1. As a result, the proportion of gold held in New York by foreign and international authorities, as compared with gold in monetary stocks abroad (excluding the U.S.S.R.), has risen over the years, from being insignificant in the thirties to 44 per cent at the end of 1958. In the past year, the sale of \$2.3 billion of gold from the United States stock to foreign monetary authorities resulted in an increase of \$2.2 billion of gold under earmark in the Bank for foreign account. These facilities, by providing a ready convertibility of gold into dollars, and vice versa, have been an important factor in attracting and holding foreign funds in the New York market.

Apart from gold, the Federal Reserve Bank of New York — on behalf of all Federal Reserve Banks — holds dollar accounts for foreigners (banks and official institutions), which are part of the regularly reported liabilities held by banks in the United States for foreigners. At the end of 1958 the Bank reported foreign deposit liabilities in the amount of \$272 million, United States government securities held for foreign accounts amounting to \$3,695

UNITED STATES AND FOREIGN GOLD STOCKS  
FOREIGN GOLD EARMARKED IN NEW YORK

CHART 1



million, and miscellaneous securities aggregating \$480 million (including \$68 million of bankers' acceptances and the balance in foreign and international bonds).

It may be noted that each foreign central bank or government follows its own policy with respect to the distribution of its reserves between gold and dollar assets. Certain authorities (like those of

England and some other European countries) have shown a tendency to convert accruals of dollars into gold, while others (such as the Canadian and some Latin American central banks) have preferred to hold their dollar accruals in the form of deposits (including time deposits) or United States Government securities. Central banks also have been active buyers of bankers' acceptances, which they like because of their liquidity, the relatively higher yield, and the traditional prestige; their acquisitions, however, have frequently been limited by the inadequate supply in the market. By and large, central banks generally keep dollar balances in deposit accounts within customary margins, converting or investing balances in excess of the higher margins, and replenishing their accounts through the sale of gold or the liquidation of securities when drawn down below the lower point.

In addition, the Federal Reserve Bank of New York, for its own account only, holds gold and dollar assets on behalf of the International Monetary Fund, the International Bank for Reconstruction and Development, the International Finance Corporation and other international organizations. At the end of 1958 the various organizations had outstanding dollar claims in the United States amounting to \$1.5 billion; these included, however, \$200 million held by the International Bank in time deposits with commercial banks.

Foreign monetary authorities place their instructions for the purchase and sale of United States Government securities or of acceptances with the Foreign Department of the Federal Reserve Bank of New York. These transactions are effected by the Securities Department of the Bank, which is thereby in a position to coordinate purchases and sales for account of foreign correspondents with the operations it carries out as agent for the Open Market Committee of the System. The department, as a rule, carries out the instructions of the foreign correspondents by placing orders with brokers or dealers in the market, although it may sell or buy the securities from the Bank's own portfolio at current market prices. Foreign central banks of course, also place their own orders with commercial banks or directly in the market — in which cases the Bank may be kept informed of the transactions. These arrangements are intended to enable the Bank to fulfill its responsibilities as correspondent for foreign banks consistently with its functions as principal organ of the monetary authority of the United States.

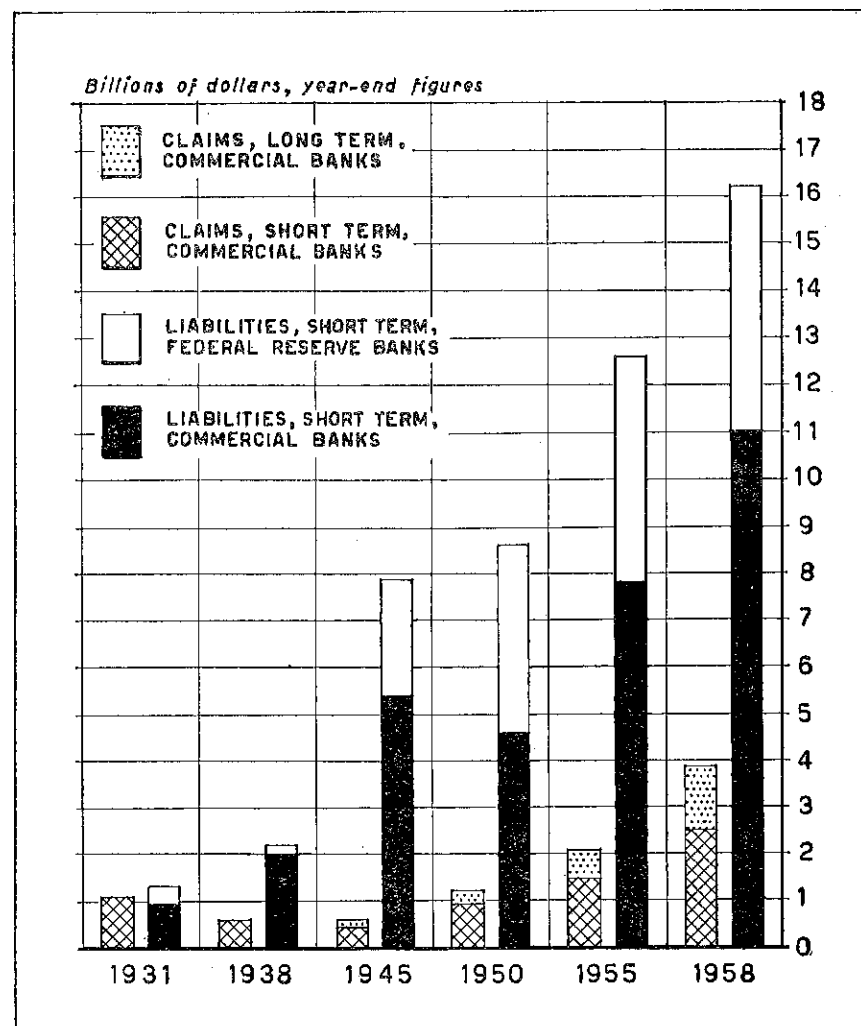
Even though most central banks hold the bulk of their dollar reserves in gold and securities at the Federal Reserve Bank of New York, many of them maintain their principal deposit accounts in the market. Moreover, practically all keep working balances with commercial banks, in accordance with their needs for current operations and also for the purpose of establishing and strengthening their country's credit with the New York financial community. However, by far the greater part of the foreign accounts in the New York market pertain to foreign commercial banks, other financial institutions (such as insurance companies), and business organizations, both public and private. Their balances originate from current trade, investment and credit transactions, and provide means for payments, serve as business reserves, and are used as collateral in obtaining credits.

At the end of 1958, the aggregate short-term liabilities to foreigners (deposits, United States Government obligations and miscellaneous items with maturities of less than one year) reported by all banks in the United States amounted to \$16.2 billion — of which, \$3.9 billion was in the accounts held by all Federal Reserve Banks for foreign central banks and \$1.3 billion in the accounts of the Federal Reserve Bank of New York for international organizations. The remainder — \$11.0 billion — was held in foreign accounts of commercial banks in the United States. The proportion of foreign liabilities reported annually by banks in the New York District of the Federal Reserve System represented in past years 90 per cent of the total reported for the nation; for foreign accounts in general and excluding the accounts held by the System, the proportion would be smaller. On this basis, it may be estimated that between 80 and 90 per cent of the liabilities reported by United States commercial banks — or about \$9.5 billion —, is carried on the books of New York banks, with by far the greater part on the books of the leading metropolitan banks. The remainder (\$1.5 billion) is divided between banks in San Francisco — a minor second to New York as international money market — and other banks in the rest of the country.

At the end of 1958, commercial banks in the United States held in custody for foreigners \$2.5 billion of United States Government securities, but their foreign deposits amounted to \$8.5 billion, representing about four-fifths of their aggregate foreign liabilities. The larger part of these funds is held in demand deposits, although

## FOREIGN CLAIMS AND LIABILITIES OF UNITED STATES BANKS

CHART II



time deposits are used as temporary investment for balances held under special arrangements or balances in excess of current requirements. Over three-fourths of the deposits are held by commercial banks for accounts of foreign banks and official institutions, an indication of the growth of foreign correspondent relations, and of the connections established by the leading United States — or New York — banks with foreign banks and governments.

Since the early thirties, when liabilities to foreigners were smaller than claims on foreigners, the commercial banks of the United States have been in a position of net debtors to the rest of the world, as shown in Chart II. In 1938, following the large inflow of foreign funds and the contraction of credits, foreign liabilities at commercial banks were about three times outstanding claims on foreigners. The excess of liabilities rose from around \$1.5 billion in 1938 to \$3.8 billion in 1945, as a result of net payments by the United States to the rest of the world during the war. Liabilities to foreigners (other than international) remained unchanged, while claims rose gradually in the period between 1945 and 1950, with a resulting contraction of the excess liabilities to \$3.3 billion.

The growth of liabilities has proceeded comparatively faster than the expansion of claims since 1950, largely as an indirect result of the extension of foreign assistance from the United States Government. Between 1950 and 1955 the growth in the former exceeded the rise in the latter by \$2.3 billion, and in the past three years by \$1.3 billion. At the end of 1958 liabilities to foreigners reported by commercial banks in the United States exceeded their claims on foreigners by \$7.0 billion. Despite the expanding tendency of foreign lending by United States banks in recent years, foreign funds continue to provide net resources to the New York banks. In particular, foreign deposits represent an important source of income for the foreign departments, which make the excess of the funds available to their respective banks for use in domestic business.

#### The Provision of Credit

Banks engaging in international business in New York and other places in the United States extend short and long term, dollar and foreign currency credits to their foreign correspondents and customers. At the end of 1958 the aggregate amount of claims on foreigners by banks in the United States amounted to \$3.9 billion, of which \$1.4 billion in long term (namely, loans with an original maturity of more than one year) and \$2.5 billion in short-term (or with a maximum maturity of one year). Practically their entire lending is done in dollars, only \$150 million in short term claims being payable in foreign currencies (largely, sterling deposits). In

1954 commercial banks in the New York District of the Federal Reserve System held 75 per cent of the foreign claims reported by all banks in the United States, and a similar proportion is likely to exist nowadays. On this basis, it may be estimated that some \$3.0 billion of foreign claims are held by banks in New York, on the whole a lower proportion than their relative holdings of foreign deposits. In other words, the depository functions of the New York banks, with respect to banks in other centers of the United States, are of comparatively greater importance than their lending operations.

United States banks in general, and New York banks in particular, finance foreign and international trade principally through the issuance of letters of credit. The purchase of foreign merchandise, particularly staple commodities (such as coffee, sugar, rubber, etc.) is generally financed through the issuance of import letters of credit on behalf of domestic importers. Sight rather than time credits are usually established for this purpose, although the refinancing of payments may be arranged on acceptance or loan basis. Financing on sight letters of credit is provided for exports on behalf of foreign banks and well-known customers; refinancing in this case is for a more limited time and, when provided, may be on advance or overdraft basis. Bank balances or other collateral is frequently required for the issuance of letters of credit. Exports of products and goods under economic assistance programs are handled in large part by United States banks under letters of credits for foreign banks or foreign governments, with the guarantee of a United States government agency.

The use of dollar acceptances in foreign trade has grown again since 1950, after a long period of inactivity, with the growth being concentrated in export rather than in import financing; altogether, however, this form of financing has failed to replace letters of credit or loans as a means of foreign trade financing. The Federal Reserve Bank of New York maintains a policy of buying bankers' acceptances for its own and foreign accounts, but the extent of its operations in this respect has been limited.

While the financing of individual trade transactions on sight or short term basis is the most important international activity of New York banks, they do provide other type of financing for various or general purposes. These include lines of credit granted to foreign customers and banks for advances in the form of over-

draft; these are generally used for facilitating movements of funds and meeting temporary requirements of credits. In granting these lines of credits, the New York banks usually expect or require the foreign customer or correspondent to maintain minimum deposit balances bearing some relation to the extension of credit. Also, New York banks participate with the Export-Import Bank in arrangements for private sales abroad of industrial equipment and other products from United States industries and with the Commodity Credit Corporations in financing foreign dollar sales of agricultural commodities, particularly cotton.

An important part of the banking business in New York since the end of the war has been related to loans to foreign governments and their agencies. Such loans have usually been made on a revolving basis of two or more years. Frequently the loans have been fully covered by the pledge of gold, United States government securities, or time deposits, even though in some cases only partial or no collateral has been required. These loans have been used on certain occasions to provide assistance for strengthening monetary reserves (for instance, to France, Belgium, the Netherlands and Norway). In other cases they have been related to the financing of current purchases in the United States or the refinancing of past credits (for instance, in the cases of Argentina, Brazil, and Colombia), with provision for their liquidation over a longer period of time or refinancing through Export-Import Bank credits. Some of these loans have been covered by guarantees from the Export-Import Bank or the International Bank, although in recent years commercial banks have participated in financing operations side by side with these institutions, without their guarantees. Since 1958 commercial banks have extended some of this financing by underwriting medium-term tranches of bond issues placed by the borrowing countries or their agencies in the United States market (as, for instance, in the case of issues by Japan and by the Cassa del Mezzogiorno in Italy).

A significant and interesting experience in recent years has been the participation of New York (and other) banks in stabilization agreements between the International Monetary Fund and some of its members. Under these arrangements, the banks make available credit lines additional to the drawings approved by the Fund on a standby basis. These facilities have the purpose of assisting the foreign exchange authorities to counteract speculative

pressures on the exchange rates of their currencies, as well as to facilitate the maintenance of current imports while measures designed to reduce inflationary pressures are taking effect. Such arrangements have been made in particular with Latin American countries (Peru, Chile, Argentina).

Special types of financing provided by the New York banks to foreigners include loans for the building or purchase of ships on a mortgage basis. National banks, which (unlike state-chartered banks and trust companies) may not extend certain types of guarantees to third parties on behalf of their customers, have in some instances made use of lines of credit for achieving indirectly this purpose. Advances or loans in foreign currencies may be extended to subsidiaries abroad of United States corporations; in most cases these loans are made by overseas branches, which use local funds for this purpose. The New York banks may hold balances in foreign banks payable in dollars, such as with Mexican banks, or payable in foreign currencies, such as with British and Canadian banks.

The statistics on foreign claims include those items which banks in the United States may hold for collection on behalf of correspondent banks and their own customers. Generally, banks grant advances against foreign bills, but the figure of bank claims overstates the outstanding amount of bank credit to the extent that banks merely serve as collection agents. At the end of 1958 the amount held for collection was over \$400 million.

The Federal Reserve Bank of New York confines its foreign lending to advances on gold collateral to foreign central banks or monetary authorities, which the Bank extends for its own account and on behalf of other Federal Reserve Banks. These advances are made for the purpose of assisting foreign countries in meeting seasonal and other dollar shortages of a temporary nature. They have usually been made for initial periods of three months, with three renewals customarily allowed, although in a few cases such loans have been carried for longer periods. Four loan arrangements, involving a total of \$43 million, were in existence at the end of 1958, with outstanding claims of \$18 million.

Although outstanding short term credits to foreigners — the commercial banks' typical means of trade financing — have significantly expanded in recent years, they still are much less important than in the thirties. In 1931 and 1938, when short term claims

were reported at \$1.1 billion and \$600 million respectively, their ratios to the annual merchandise exports of the United States were about 50 and 20 per cent. Between the end of the war in 1945 and 1950, when short term claims reached again the 1931 level of over one billion, their ratio to exports remained between 6 and 9 per cent. Since then, the expanding trend of foreign trade financing by banks in the United States, and particularly New York, has brought this ratio in 1958 to around 16 per cent of the annual merchandise exports from this country.

The change since the early thirties is in part a consequence of the greater participation of government agencies in trade and trade financing, and in part an outcome of the development of banking systems and financing facilities in other parts of the world. To some extent, however, the decline in trade financing by banks may be related to a faster turnover of credits, a reflection of shorter maturities in operations and of a faster movement of goods in world trade. In this sense, the proportion of trade financed by banks may not have contracted to the extent indicated by the changes in outstanding claims and annual trade figures.

With respect to regional distribution of balances and trade, Europe holds over one half of the foreign liabilities, while its share in foreign claims of United States banks and in the foreign trade of the United States is less than one-third, as shown in Table 5. On the other hand, Latin America, with approximately the same amount of trade with the United States, holds 16 per cent of the liabilities and owes half of the claims. Similarly, among foreign countries, Canada occupies the leading position in trade with the United States (22 per cent), as well as holder of dollar funds (13 per cent), while its debt to United States banks amounts to 10 per cent of the total. The largest debtor to United States banks, Brazil (15 per cent of the total), has only about one per cent of the dollar balances and carries 4 per cent of the trade of the United States.

It may be noted that the twelve leading creditor countries are *net* creditors, each maintaining balances in the United States in excess of their liabilities. On the other hand, among the leading twelve debtors, six are *net* creditors on balance, their claims on United States banks exceeding their liabilities. This group of six leading creditors-debtors includes five of the six leading countries in United States trade, Canada, Venezuela, United Kingdom, Japan and Mexico, each with a volume of imports-exports during 1958

## FOREIGN CREDITORS AND DEBTORS AND THEIR TRADE WITH THE UNITED STATES

(Dollar balances as of December 31, 1958; Trade Figures for the year 1958)

(in millions of dollars)

TABLE 5

Creditor Countries	U.S. Liabilities	U.S. Total Claims	U.S. Exports	U.S. Imports	Debtor Countries	U.S. Long Term Claims	U.S. Short Term Claims	U.S. Total Claims	U.S. Liabilities	U.S. Exports	U.S. Imports
Europe . . . . .	7,712	1,101	4,580	3,331	Western Hemisphere . . . . .	757	1,342	2,099	4,412	7,712	6,708
Western Hemisphere . . . . .	4,412	2,099	7,712	6,708	Europe . . . . .	405	696	1,101	7,712	4,580	3,331
Asia . . . . .	2,216	530	2,638	1,984	Asia . . . . .	95	435	530	2,216	2,638	1,984
All others . . . . .	280	175	859	766	All others . . . . .	106	69	175	280	859	766
<i>Total Foreign International</i>	14,620	3,905	15,789	12,789	<i>Total Foreign International</i>	1,363	2,542	3,905	14,620	15,789	12,789
	1,544	—	—	—		—	—	—	1,544	—	—
Canada . . . . .	2,011	342	3,418	2,676	Brazil . . . . .	269	148	417	138	593	564
Germany . . . . .	1,755	88	733	630	Mexico . . . . .	107	293	400	418	886	455
Italy . . . . .	1,122	60	487	273	Canada . . . . .	99	243	342	2,011	3,418	2,676
Japan . . . . .	939	192	834	666	Cuba . . . . .	92	166	258	286	546	524
United Kingdom . . . . .	875	213	838	864	United Kingdom . . . . .	89	124	213	875	838	864
Switzerland . . . . .	853	44	319	156	Japan . . . . .	13	179	192	939	834	666
France . . . . .	532	123	427	300	Venezuela . . . . .	50	142	192	494	1,355	889
Venezuela . . . . .	494	192	1,355	889	Norway . . . . .	128	22	150	130	70	74
Mexico . . . . .	418	400	886	455	France . . . . .	21	102	123	532	427	300
Austria . . . . .	411	33	58	41	Belgium . . . . .	30	65	95	115	330	269
Netherlands . . . . .	339	82	442	188	Philippines . . . . .	16	67	83	181	292	272
Sweden . . . . .	303	48	196	125	Colombia . . . . .	30	51	81	169	185	331

of between \$1.3 and \$6 billion. The only exceptions in this group are France (leading in debtor-creditor position, but not in trade) and Germany (leading in trade, but not in debtor-creditor position). These figures indicate a wider distribution of foreign lending operations, as compared with the collection of foreign funds by United States banks. They give some indication of the role which the New York banks play in redistributing dollar funds provided by the rest of the world, and in the interrelation between their financial operations and the direction of United States trade.

### The Acceptance and Exchange Markets

The two principal intermediary facilities in an international money market are related to the creation and handling of acceptances, through which much of the foreign trade is financed and international credit provided; and to the purchase, sale and holding of foreign exchange, through which the net balance in international finance transactions is settled. Neither of these two types of facilities has developed in the United States — in volume of business and diversity of operations — to the extent prevailing in other leading money markets of the world, nor in proportion to the importance of the dollar in international trade and financial transactions. In both markets New York has emerged as the leading center in the United States. Although there is a limited acceptance or exchange business in other centers (such as Boston, Philadelphia, Chicago, San Francisco and New Orleans), the New York market makes its facilities available to, and attracts business from banks and traders throughout the country.

*The Acceptance Market* - As indicated elsewhere, the development of an acceptance market was one of the primary objectives of the Federal Reserve System, and in the twenties an active market was established. Between 1931 and 1945, however, business in acceptances dwindled, and the number of participating banks and dealers declined. Since the early fifties, when a revival of business could be noticed, only six dealers have been handling this business, and only one (the Discount Corporation) has specialized in acceptances, the others being engaged in various phases of securities business. Although about one hundred banks are reportedly engaged

in acceptance business all over the United States, by far the greater part of the accepting is done in New York by institutions among those listed in Tables 1, 2, and 3. Some private or foreign banks, such as Brown Brothers Harriman and Schroder Corporation, are relatively more active than the larger banks in this field.

It is the practice of accepting banks to discount their own bills, and to purchase the bills of other acceptors from correspondents and the open market. Since foreign buyers, particularly central banks, request "two-bank-names" bills, dealers provide a market where banks may sell their own paper and purchase the paper accepted by other banks — and thus meet the requirements of their correspondents by their own endorsement of other banks' acceptances. In acquiring paper for the account of foreign central banks, the Federal Reserve Bank of New York follows the same rules as in purchasing paper for its own account — namely, "three-names" acceptances (endorsed by the accepting bank, another bank, and the dealer), seasoned, primary and eligible, to which it adds its own guarantee of payment at maturity.

Acceptance dealers ordinarily purchase acceptances outright — buying bills from those seeking to dispose of them, and selling to those seeking them, thus making a market for acceptances. They operate with small portfolios, and in view of the active demand, they are usually in a position to sell the bills as soon as purchased. Despite the limited supply and active demand generally prevailing, the narrowness of the market has prevented the emergence of competitive conditions. Rates are customarily fixed, and the dealers' compensation is represented by the spread between the rates at which they buy and the rates at which they sell (currently 1/8 of one per cent).

In 1958, there was outstanding, on the average, \$1.2 billion in acceptances, about 90 per cent of which was related to foreign or international transactions (\$250 million on imports, \$360 million on exports, \$225 million on movement of goods between foreign countries and \$110 million in the form of dollar exchange). Acceptances for dollar exchange are not directly related to trade transactions, but have the purpose of furnishing dollar exchange to foreign countries, where usage of trade or seasonality of imports and exports justify the temporary provision of dollar exchange. The Board of Governors of the Federal Reserve System lists the countries for which member banks may accept bills of exchange (including South



American and certain other countries), and authorize member banks to do so. This type of acceptance, unrelated to trade transactions, easily assumes some of the characteristics of finance bills, which are prohibited. Accordingly, a strict interpretation has been placed upon the proper use of the dollar exchange acceptances, and their outstanding volume has generally been small.

Since 1952 there has been a more active market in acceptances, and the amount of own bills retained by accepting banks has declined from about two-thirds to one-fourth (290 million in 1958). The bulk of acceptances (about 60 per cent in 1958) is held by investors outside the groups of accepting banks; foreign central banks held \$68 million through the Federal Reserve Bank of New York and additional amounts in the market. The participation of the Federal Reserve Bank of New York in acceptance operations has continued to be limited in recent years, as indicated by the small average amount of bills held for its own account during 1958.

*The Foreign Exchange Market* - New York's foreign exchange market is the world center where trade and financial transactions between the United States and the rest of the world are largely concentrated, and the net balance of supply and demand of dollars and foreign currencies is finally settled. Commercial banks, both domestic and foreign, play an important role in this market, with foreign exchange brokers providing intermediary facilities. The bulk of exchange transactions is in the pound sterling and Canadian dollars; other important currencies traded include German marks, Dutch guilders, Swiss, Belgian and French francs, Italian liras, Argentinian pesos and Brazilian cruzeiros. Currencies from other countries are also traded occasionally in substantial amounts, as the need or opportunity arises. Spot and forward transactions for dollar and other currencies are executed in the market, and swaps of spot against forward exchange. Since the widening of the market for foreign currencies, resulting from convertibility, new arbitrage opportunities have emerged on the basis of differentials between forward rates for currencies and short-term interest rates in the New York, London and other principal exchange and money markets.

The foreign departments of the New York banks maintain their own trading rooms, through which they buy or sell exchange for their own accounts or for the accounts of their customers.

Exchange transactions are executed by the bank's traders, among whom may be specialists in various currencies. The New York banks purchase exchange directly from, or sell exchange directly to their own customers and correspondent banks, providing facilities for the conversion of their foreign receipts into dollars and supplying them with the foreign currencies in accordance with their payment needs. They also provide the facilities through which foreign banks, and particularly foreign exchange authorities, may operate in the New York market both as buyers and sellers — by offering dollars for the purchase of their own currencies or by selling their own currencies for dollars, in order to stabilize exchange rates or to offset seasonal or other balance of payments fluctuations.

In transactions among themselves, the New York banks use the intermediary services of brokers, whose primary function is to bring together buyers and sellers in the market and help banks to even out their positions. This arrangement is entirely informal, and exchange brokers are not subject to legal requirements nor, as a rule, do they assume a position in transactions. They operate as intermediaries, relying on their skill and prestige for their business and collecting a commission from the selling bank on their operations. Like acceptance dealers, the number of exchange brokers is very small: there are only eight at present as compared with some fifty brokers in the interwar period, when an active exchange trading existed.

The largest New York banks maintain balances abroad in foreign currencies, in the form of bank deposits or local Treasury bills, in order to facilitate their exchange dealings. Each New York bank tends to concentrate its attention on one (pound sterling or Canadian dollar) or a few currencies, and none among these banks is consistently leading in the foreign exchange market. As a rule, however, United States commercial banks may not carry any sizable net position and, therefore try to sell, or to offset with a "future" sale, any net foreign balances which they may acquire in excess of their normal carry-over. There are not lacking, however, among foreign and private banks in New York, those which play a more active role, participating with their offices or correspondents abroad in arbitrage operations on multiple-rate currencies, handling unusually large transactions, and holding substantial net positions in certain currencies on the expectation of changes in exchange rates.

In view of the limitations upon their exchange business, the New York banks regard this area of operation primarily as a service to their customers and correspondents, rather than as a source of profit. They do not charge commission on exchange transactions, but operate on the basis of a small spread between buying and selling rates. On the whole, their objective is to develop a sufficiently large volume of business to be able to quote competitive rates to their customers — any larger activity involving greater risks is frowned upon.

Contrary to the experience of many foreign central banks, the Federal Reserve Bank of New York plays an inactive role in the exchange market. Apart from supplying dollars against purchases of gold, as fiscal agent for the United States Government, the Bank buys and sells exchange for the United States Treasury and other government agencies, and at the request of foreign central banks or exchange authorities executes their orders through the market. Moreover, the Bank is directed by law to determine and certify, to the Secretary of the Treasury, the exchange rate between the dollar and foreign currencies applicable to the assessment and collection of custom duties on imports into the United States. Finally, like in the foreign field in general, the Foreign Department of the Bank maintains close contacts with banks and brokers active in the exchange market, and is therefore a source of information for the government, the banking community and the public in general, in the United States or abroad.

*Washington, D.C.*

FRANK M. TAMAGNA \*

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\* Dr. Frank M. Tamagna is Professor of Economics and Consulting Economist in Washington, D.C. He was on the staff of the Federal Reserve Bank of New York and of the Board of Governors of the Federal Reserve System from 1940 to 1958. This article is based largely on personal experiences and contacts. The author wishes to acknowledge the benefit of comments received from former associates in the System.