and fiscal agents; to receive and maintain the legal reserves of member banks; upon indorsement of member banks to discount notes, drafts and bills of exchange arising out of actual commercial transactions but not 'notes, drafts or bills covering merely investments or issued for the purposes of carrying or trading in stocks, bonds or other investment securities, except bonds and notes of the government of the United States'; to make advances to member banks on their promissory notes for not more than 15 days at rates to be established by the federal reserve banks subject to the review and determination of the Federal Reserve Board, provided such promissory notes are secured by eligible paper, or by bonds, or notes of the United States; to receive federal reserve notes upon deposit of eligible paper, or gold, or gold certificates, provided a gold reserve of not less than 40 per cent of such notes is maintained.

Open-Market Operations

"Federal reserve banks may also, under rules and regulations prescribed by the Federal Reserve Board, engage in 'open-market operations,' that is to say, purchase and sell in the open market at home or abroad cable transfers and bankers' acceptances and bills of exchange of the kinds and maturities eligible for rediscount. They may deal in gold coin and bullion at home and abroad; buy and sell, at home and abroad, bonds and notes of the United States and bills, notes, revenue bonds and warrants with a maturity from date of purchase of not exceeding six months, issued by any state, county, district, political subdivision or municipality in the United States, such purchases to be made in accordance with regulations prescribed by the Federal Reserve Board. They may purchase from member banks and sell bills of exchange arising out of commercial transactions and may 'establish from time to time, subject to review and determination by the Federal Reserve Board, rates of discount to be charged by the federal reserve bank for each class of paper, which shall be fixed with a view of accommodating commerce and business.' They may establish accounts with other federal reserve banks with the consent and upon the order and direction of the Federal Reserve Board and, under regulations to be prescribed by said board, may open accounts and establish agencies in foreign countries for the purpose of purchasing, selling, and collecting bills of exchange. They may purchase and sell in the open market either from or to domestic banks, firms, corporations or individuals, acceptances of federal intermediate credit banks and of national agricultural credit corporations whenever the Federal Reserve Board shall declare that the public interest so requires.

Credit

"The foregoing provisions enable the federal reserve banks, without waiting for applications from their member banks for loans or rediscounts, to adjust the general credit situation by purchasing and selling in the open market the class of securities that they are permitted to deal in. The power 'to establish from time to time, subject to review and determination by the Federal Reserve Board, rates of discount to be charged by the federal reserve bank' appears in the act with the open-market powers. The two powers are correlative and enable the federal reserve banks to make their rediscount rates effective. The sale of securities does not lessen the total amount of credit available but, by necessitating payment to the federal reserve banks, increases available credit in their hands 'with a view of accommodating commerce and business' as provided by the act." (Raichle v. Federal Reserve Bank of New York, 34 F (2d) 910.)

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