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The services of this journal are offered through an inquiry column, which is open to subscribers and the public generally without charge, for detailed information or opinion as to financial or industrial affairs or institutions throughout the Province of British Columbia. Wherever possible the replies to these inquiries will be made through this column. Where inquiries are not of general interest, they will be handled by letter. We think that we can assure our readers that the opinions expressed will be sane and conservative, and that all statements will be as accurate as possible.

A press despatch from Washington, D. C., published during the week told of a warning issued by the Federal Reserve Board against the indiscriminate purchase of British and French finance bills in the United States by member banks. This action created a small flurry in the New York market before its real intent became known.

J. P. Morgan & Co., fiscal agents of the Allies in the United States, in collaboration with the British Treasury, conceived the notion of floating thirty-day to six-month British finance bills in the New York market, secured in part by gold deposits in Ottawa. The occasion of this method is prompted by the difference in interest rates obtaining between London and New York. The official discount rate of the Bank of England is six per cent., and short term bills in the open market in London demand from five and one-quarter to five and one-half per cent. The New York rates for similar dated bills has been something under three per cent., and acceptances command an even lower rate.

Since the tremendous financial upheaval in the United States, consequent on the outbreak of War, interest rates have been very low. Call money in the New York market with only one exception until just recently has not been above three per cent. since the turn of the year 1915. Time money, meaning from three months to nine months or a year, has not been much over three and one-half per cent. since that date, and acceptances which are eligible for discount at the Federal Reserve Bank, due to the fact that they are practically new financial instruments in that market and consequently are not in large supply, ranged at slightly over two per cent. for quite a long period. The continuous plethora of cheap money has resulted in heavy investments in American securities and in large absorption of foreign government bonds.

The note of caution raised persistently on the War question in all its phases has resulted chiefly in the purchase of short dated securities. The chief demand among the banks and financial institutions, even among American securities, is for securities that have a comparatively early maturity, namely, from two years to five years, with very little demand when the maturity is over ten years.

When it came, therefore, to the financing of neutral or Allied governments, the first requisite was a short term security. Consequently the chief bulk of issues placed in the New York market has ranged from one year to five years. The absorbing capacity of the United States is more limited than its money supply, and, due to heavy importations of gold, interest rates have remained as above. Banks like financial strength, but they like earnings better; and they have been forced to seek avenues for putting out money which, normally, would be placed in their own country.

Although for some time previously certain American interests have been purchasing British Exchequer bills in the London market, there was not a decided movement in that direction until the summer, when their purchases began to assume large proportions. During the autumn it was stated that about $200,000,000 of American money had been sent over to London, or, rather, bills of exchange had been purchased for investment in these short term British obligations. There was, however, some diffidence on the part of American banks to have their securities payable in a foreign country and subject to conditions obtaining in that country, although the British Treasury relieved the American purchasers of all taxes in connection therewith.

To remove this diffidence the plan of J. P. Morgan & Co. was adopted, namely, to dispose of these obligations in the United States and have them under the control and in the possession of United States institutions and citizens. The warning of the Federal Reserve Board is directed first against the indiscriminate purchase of these finance bills by banks which are members of the Federal Reserve Bank, and has the effect of serving notice on member banks that in case of financial stress these finance bills will not be eligible for discount at any branch of the Federal Reserve Bank. The Board in its published notice would prefer the sale of American securities still held by British interests, and does not fear for consequences against the continued heavy importations of gold. The Board furthermore give expression to the fear that these finance bills will be subject to continuous renewals and therefore become a non-liquid bank asset.

Subsequent to this notice being published, J. P. Morgan & Co. decided to go on with their arrangements.

The result of their offering will be watched with the greatest interest on both sides of the Atlantic. Certainly their decision to go on augurs well for the favourable reception in the New York market of these British finance bills.