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FEDERAL RESERVE BOARD

Division of Bank Operations File

WASHINGTON

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February 2, 1935.

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Honorable Daniel W. Bell,  
Acting Director of the Bureau of the Budget,  
Washington, D. C.

My dear Mr. Bell:

There is inclosed herewith a letter addressed to the President recommending that, pursuant to the authority conferred upon him by the second paragraph of section 16 of the Federal Reserve Act, he prescribe an additional period of two years after March 3, 1935 during which the Federal Reserve Board may authorize the Federal Reserve banks to pledge direct obligations of the United States as collateral security for outstanding Federal Reserve notes, together with a draft of a proclamation extending such period.

The draft of this proclamation is transmitted to you in accordance with the terms of the Executive Order of August 10, 1933, and it will be appreciated if you will expedite its consideration and transmission with the accompanying letter through the channels prescribed in the Executive Order, to the President for his consideration.

Very truly yours,

H. S. Eccles,  
Governor.

Inclosures.

FOR DIVISION OF BANK OPERATIONS

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# FEDERAL RESERVE BOARD

WASHINGTON

My dear Mr. President:

The second paragraph of section 16 of the Federal Reserve Act empowers the Federal Reserve Board, until March 3, 1935 or until the expiration of such additional period not exceeding two years as the President may prescribe, should it deem it in the public interest, upon the affirmative vote of not less than a majority of its members, to authorize the Federal Reserve banks to offer and the Federal Reserve agents to accept direct obligations of the United States as collateral security for Federal Reserve notes issued to the Federal Reserve banks by the Federal Reserve agents. This provision of paragraph 2 of section 16 was added to the Federal Reserve Act by the Act of February 27, 1932, and as originally enacted authorized the pledging of direct obligations of the United States as collateral security for Federal Reserve notes only until March 3, 1933. The authorization was extended to March 3, 1934 by the Act of February 3, 1933, and the paragraph was amended by the Act of March 6, 1934 so as to extend such time until March 3, 1935, or until the expiration of such additional period not exceeding two years as the President may prescribe.

The extension of the authority conferred by the second paragraph of section 16 of the Federal Reserve Act for the pledging of direct obligations of the United States as collateral security for Federal Reserve notes has enabled the Federal Reserve banks to meet

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The President, The White House -- 2

FEDERAL RESERVE BOARD

WASHINGTON

the demands upon them for currency by paying out Federal Reserve notes in excess of the amount that could otherwise have been supplied.

Direct obligations of the United States have been pledged by the Federal Reserve banks with the Federal Reserve agents since May 1932 and on January 16, 1935, the amount of direct obligations of the United States so pledged was \$193,000,000.

In the opinion of the Federal Reserve Board the authority to use direct obligations of the United States as collateral for Federal Reserve notes has been of material assistance to the Federal Reserve banks in supplying the currency needs of the country and it is recommended that you extend the period during which the Federal Reserve Board may authorize the Federal Reserve banks to offer and the Federal Reserve agents to accept such security as collateral for Federal Reserve notes until March 3, 1937.

For consideration in the event that you should determine to take such action, a draft of a proclamation extending the authority to the Federal Reserve Board and to the Federal Reserve banks in this respect for the period recommended has been prepared and transmitted to the Director of the Budget, accompanied by this letter, in accordance with the terms of the Executive Order of August 10, 1933.

Faithfully yours,

M. S. Eccles,  
Governor.

The President,

The White House.

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EXTENDING FOR TWO YEARS THE PERIOD WITHIN WHICH THE FEDERAL  
RESERVE BOARD MAY AUTHORIZE THE FEDERAL RESERVE BANKS TO  
OFFER AND THE FEDERAL RESERVE AGENTS TO ACCEPT DIRECT OBLIGA-  
TIONS OF THE UNITED STATES AS COLLATERAL SECURITY FOR FEDERAL  
RESERVE NOTES UNDER PARAGRAPH 2 OF SECTION 16 OF THE FEDERAL  
RESERVE ACT AS AMENDED

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BY THE PRESIDENT OF THE UNITED STATES OF AMERICA

A PROCLAMATION

WHEREAS the second paragraph of section 16 of the Federal  
Reserve Act, as amended by the Act of March 6, 1934 (48 Stat.  
398), reads as follows:

"Any Federal Reserve bank may make application to the  
local Federal Reserve agent for such amount of the Federal  
Reserve notes hereinbefore provided for as it may require.  
Such application shall be accompanied with a tender to the  
local Federal Reserve agent of collateral in amount equal  
to the sum of the Federal Reserve notes thus applied for  
and issued pursuant to such application. The collateral  
security thus offered shall be notes, drafts, bills of ex-  
change, or acceptances acquired under the provisions of  
section 13 of this Act, or bills of exchange indorsed by a  
member bank of any Federal Reserve district and purchased  
under the provisions of section 14 of this Act, or bankers'  
acceptances purchased under the provisions of said section  
14, or gold certificates: Provided, however, That until  
March 3, 1935, or until the expiration of such additional  
period not exceeding two years as the President may pre-  
scribe, the Federal Reserve Board may, should it deem it in

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the public interest, upon the affirmative vote of not less than a majority of its members, authorize the Federal Reserve banks to offer, and the Federal Reserve agents to accept, as such collateral security, direct obligations of the United States. On such date or upon the expiration of such period so prescribed by the President, or sooner should the Federal Reserve Board so decide, such authorization shall terminate and such obligations of the United States be retired as security for Federal Reserve notes. In no event shall such collateral security be less than the amount of Federal Reserve notes applied for. The Federal Reserve agent shall each day notify the Federal Reserve Board of all issues and withdrawals of Federal Reserve notes to and by the Federal Reserve bank to which he is accredited. The said Federal Reserve Board may at any time call upon a Federal Reserve bank for additional security to protect the Federal Reserve notes issued to it."

AND WHEREAS I, Franklin D. Roosevelt, President of the United States of America, deem it advisable that the authority of the Federal Reserve Board to authorize the Federal Reserve banks to offer and the Federal Reserve agents to accept direct obligations of the United States as collateral security for Federal Reserve notes issued to the Federal Reserve banks be continued for an additional period after March 3, 1935.

NOW, THEREFORE, I, FRANKLIN D. ROOSEVELT, President of the United States of America, acting under and by virtue of the authority conferred upon me by said section 16 of the Federal Reserve Act, as amended, do hereby proclaim, declare and prescribe an additional period of two years after March 3, 1935, during

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which the Federal Reserve Board may, should it deem it in the public interest, upon the affirmative vote of not less than a majority of its members, authorize the Federal Reserve banks to offer and the Federal Reserve agents to accept direct obligations of the United States as collateral security for Federal Reserve notes issued to the Federal Reserve banks under the provisions of the said section.

IN WITNESS WHEREOF, I have hereunto set my hand and caused the seal of the United States to be affixed.

DONE at the City of Washington this            day of

in the year of our Lord nineteen  
hundred and thirty-five, and of  
the Independence of the United  
States of America the one hundred  
and fifty-ninth.

By the President:

Secretary of State.