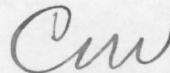


August 14, 1939.

Memorandum for Mr. Eccles:

Attached for your information is a copy of a memorandum from Mr. Van Fossen regarding expenses incurred by Federal Reserve banks for the Treasury Department and other governmental departments and agencies. The text of the memorandum sets forth succinctly the situation as to each class of activity. The last sheet is a tabulation showing total expenses incurred; amounts reimbursed; and the deficiency. From this you will observe that in the aggregate the Federal Reserve banks fall approximately \$1,000,000 per annum short of full reimbursement.

If after examining the material attached there are any questions in your mind which should be investigated further, we shall be glad to go into them more fully.



Secretary.

CM yd

August 11, 1939

Mr. Morrill

Fiscal Agency expenses

Mr. Van Fossen

Reference is made to your telephone request on August 9 for information regarding fiscal agency expenses of Federal Reserve banks, particularly with respect to what expenses are reimbursable and what expenses are not reimbursable.

In general, the Federal Reserve banks now receive full reimbursement for expenses incurred by them for the various Government departments and agencies except the Treasury Department. The expenses for which the Federal Reserve banks receive reimbursement include both "direct" expenses, i.e., salaries of employees and other expenses incurred directly in the Fiscal Agency function, and "indirect" expenses or "service charges", i.e., expenses incurred for the Fiscal Agency function in units such as Protection, Mail, Filing, Auditing, etc. The Federal Reserve banks also receive reimbursement for the cost of maintaining space assigned directly to the Fiscal Agency function up to a maximum of \$2.00 a square foot. Reimbursement is received for vault space at the uniform rate of \$1.50 a cubic foot per annum.

With respect to the Treasury Department, the operations performed by the Federal Reserve banks may be divided into the following classes:

1. Operations performed in connection with U. S. Government issues.
2. Ordinary depository operations.
3. Handling work relief checks.
4. Other operations.

United States Government issues. The Federal Reserve banks receive reimbursement from the Treasury Department for the same items of expense as from other Government departments and agencies when such expenses are incurred in performing operations incident to U. S. Government securities issued during the current or immediately preceding fiscal year. In other words, the Federal Reserve banks receive reimbursement for expenses incurred when a new issue of securities is offered by the Treasury Department and they also receive reimbursement for any expenses incurred in connection with this issue until the end of the following fiscal year. After that time, any expenses incurred by the Federal Reserve banks, such as in making exchanges and redemptions, are not reimbursable.

At the present time, more than 200 employees of the Federal Reserve banks are engaged in performing work incident to the issuance and redemption of United States Savings Bonds. The cost of issuing these bonds is reimbursable but the cost of redeeming the bonds is not

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reimbursable unless they were issued during the current or immediately preceding fiscal year. Sales of United States Savings Bonds are increasing and it follows that the redemptions will increase from year to year. Unless a change is made in the present arrangement, the Federal Reserve banks will absorb more expense each year in connection with the redemption of United States Savings Bonds.

The matter of obtaining reimbursement for expenses incurred in redeeming "uncurrent" U. S. Savings Bonds has been taken up with the Treasury Department and in a letter to the Reserve banks dated July 8, 1939, the Department advised that "...the possibility of obtaining authority from Congress to reimburse the Federal Reserve banks for such expenses is under consideration". During the fiscal year ended June 30, 1939, the Reserve banks incurred \$495,000 expense in connection with United States Savings Bonds, of which \$432,000 was reimbursable.

Other Treasury issues were handled by the Federal Reserve banks at a cost of \$765,000 during the fiscal year ended June 30, 1939. Of this amount \$458,000 was reimbursable and \$307,000, incurred in connection with "uncurrent issues", was not reimbursable. The Federal Reserve banks, of course, perform exactly the same work in making exchanges and redemptions of "uncurrent" issues as they do for "current" issues. Frequently, both "current" and "uncurrent" bonds are received from member banks in the same shipment and it is very difficult to determine how much expense is incurred in handling those that are "current" and how much is incurred in handling those that are "uncurrent". The distinction between "current issues" and "uncurrent issues" is purely arbitrary and is not based on any division or separation of the operations at the Federal Reserve banks. Except for legislative restrictions, there seems to be no real reason why the Federal Reserve banks should not be reimbursed for expenses incurred by them in connection with both "current issues" and "uncurrent issues".

Prior to July 1, 1938, the Treasury Department had an indefinite appropriation from which it could reimburse the Reserve banks for expenses in connection with Government issues, the only limitation being that it was applicable only to "current issues". Beginning July 1, 1938, Congress has limited the amount that can be spent under the indefinite appropriation and for all practical purposes the Department now has an annual appropriation, the amount of which is fixed by Congress and if exceeded, a deficiency appropriation is necessary. This has further complicated the matter of reimbursement and will quite likely result in the Reserve banks absorbing more expense than heretofore.

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The Federal Reserve banks are also now absorbing the cost of redeeming Adjusted Service Bonds. During the fiscal year ended June 30, 1939 the Reserve banks absorbed \$111,000 expense in this connection. Prior to July 1, 1938 such expenses were reimbursable.

Ordinary depositary operations. The ordinary depositary operations performed by the Federal Reserve banks consist of the cashing of Government checks, paying Government coupons, and maintaining the Treasurer's General Account. Expenses incurred in this connection amounted to about \$500,000 during the fiscal year ended June 30, 1939, none of which was reimbursable. The Treasury Department has always taken the position that the Federal Reserve banks should perform the above-mentioned depositary operations without charge in view of the Department's balance with them.

Work Relief Checks. The Federal Reserve banks receive reimbursement for handling Work Relief Checks, except that no charge is made for space.

Other Operations. Other operations performed by the Federal Reserve banks for the Treasury Department for which reimbursement is not received comprise the following:

Work incident to obtaining, analyzing, and reporting data relative to foreign exchange transactions, in accordance with the President's Executive Orders. (Expense was reimbursable until March 1, 1938.)

Work incident to the certification of foreign exchange rates in accordance with the provisions of the Tariff Act of 1930.

Work incident to the purchasing of foreign exchange for various Government agencies.

Work incident to the custody of securities held in safekeeping for various Government agencies by direction of the Secretary of the Treasury.

Work incident to the execution of purchase and sale orders for Government securities for the account of the Treasury Department.

The nonreimbursable expenses of the above units amounted to about \$50,000 for the fiscal year ending June 30, 1939. The cost of operations performed by the Federal Reserve Bank of New York in connection with the operation of the Stabilization Fund is reimbursable as is

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the cost of work performed by that bank for the Insolvent National Banks Division of the Office of the Comptroller of the Currency in connection with the liquidation of securities of failed National banks.

There is attached a statement showing the amount of fiscal agency expenses incurred by the Federal Reserve banks during the fiscal year ending June 30, 1939 for the Treasury Department and each of the other Government departments and agencies showing the amount reimbursed and the amount not reimbursed.

Attachment.

**FISCAL AGENCY, CUSTODIANSHIP, AND DEPOSITARY EXPENSES OF FEDERAL
RESERVE BANKS FOR THE FISCAL YEAR ENDED JUNE 30, 1939**

U. S. TREASURY DEPARTMENT

	<u>Total</u> <u>expense</u>	<u>Amount</u> <u>reimbursed</u>	<u>Amount not</u> <u>reimbursed*</u>
<u>U. S. Government Issues</u>			
Treasury Issues	\$764,644	\$457,392	\$307,252
U. S. Savings Bonds	495,156	431,933	63,223
Adjusted Service Bonds	113,302	2,538	110,764
Total U. S. Government Issues	<u>1,373,102</u>	<u>891,863</u>	<u>481,239</u>
<u>Depositary Operations</u>			
Government Checks	229,788	—	229,788
Work Relief Checks	525,788	525,786	2
Government Coupons	97,214	—	97,214
Treasurer's General Account	73,799	—	73,799
Space - depositary operations	106,969	—	106,969
Total depositary operations	<u>1,033,558</u>	<u>525,786</u>	<u>507,772</u>
<u>Other Operations</u>			
Foreign Exchange	25,811	—	25,811
Certification of Foreign Exchange Rates and Purchasing Foreign Exchange	9,984	—	9,984
Foreign Exchange - Gold and Silver Acts	89,610	86,744	2,866
Safekeeping - Government Officials	9,356	—	9,356
Purchase and Sale of Securities	8,417	—	8,417
Comptroller of the Currency - Insolvent National Banks	21,014	21,014	—
Space - "other" operations	13,425	5,784	7,641
Total - other operations	<u>177,617</u>	<u>113,542</u>	<u>64,075</u>

OTHER U. S. GOVERNMENT AGENCIES

<u>Federal Loan Agency</u>			
Reconstruction Finance Corporation	1,603,382	1,573,327	30,055
Federal Home Loan Banks and Home Owners Loan Corporation	115,200	114,147	1,053
Federal Housing Administration	21	21	—
<u>Federal Works Agency</u>			
United States Housing Authority	21,684	21,522	162
Public Works Administration	13,157	12,851	306
<u>Agriculture Department</u>			
Federal Farm Mortgage Corporation	42,920	42,300	620
Federal Land Banks	42,949	42,331	618
Federal Intermediate Credit Banks	3,564	3,487	77
Commodity Credit Corporation	1,100,941	1,092,242	8,699
Federal Crop Insurance Corporation	99	99	—
Joint Stock Land Banks	1,257	1,257	—
<u>Other Agencies</u>			
Federal Deposit Insurance Corporation	8,610	6,835	1,775
Total, Fiscal Agency, Custodian- ship, and Depositary function	<u>5,538,061</u>	<u>4,441,610</u>	<u>1,096,451</u>

*Amounts shown as not reimbursed in the case of the Reconstruction Finance Corp. and other Government agencies, not including the Treasury Department, represent almost entirely excess space costs, i.e., space costs in excess of maximum of \$2.00 a square foot or in excess of lowest rate charged commercial tenants.