

QUESTIONS SUBMITTED BY GOVERNOR AIKEN OF THE BOSTON FEDERAL
RESERVE BANK. WITH ANSWERS.

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1. Section 16, Federal Reserve Notes.

(a) Is it mandatory that the Federal Reserve Board shall establish a rate of interest to be charged upon Federal reserve notes issued, or is it optional?

Answer: It is optional.

(b) When such notes have been returned to Federal Reserve bank through which issued are they necessarily at once to be delivered to the Federal reserve agent for cancellation?

Answer: No. The bank could keep them in its cash.

2. Can Federal Reserve notes be issued to the Federal reserve bank except on application from member banks for rediscount and for notes as the proceeds of such rediscounts?

Answer: The reserve banks upon authority from the Federal Reserve Board can take out reserve notes, provided they deposit the commercial paper necessary as collateral on their own volition, without any prior application from member banks.

3. On November 16th, will the Boston Bank be in a position to supply Federal reserve notes to its members?

Answer: If Bank applies for them they will be ready for delivery.

4. Can Federal reserve notes be put out by Federal reserve banks to protect their gold?

Answer: Yes. When once the Federal reserve bank has deposited the collateral and taken out the notes, it may pay out the notes for any purpose, just as any other money.

5. (a) When Federal reserve notes are called for by the Federal reserve bank, are the securities to be turned over to the Federal reserve agent?

Answer: Assuming by securities that collateral is meant, yes.

- (b) Must the gold reserve behind the Federal reserve notes be turned over to the Federal reserve agent?

Answer: No. This gold reserve is precisely like any reserve against deposits, so far as its control is concerned.

- (c) Must the collateral and the gold reserve be segregated and put under the joint control of the Federal reserve agent and the Governor of the bank?

Answer: As above stated, the collateral is under the control of the Federal reserve agent. The gold reserve is entirely under the control of the bank.

6. Will the Federal reserve agent have in his immediate charge unissued Federal reserve notes, or will the entire supply be carried in the Sub-treasury and turned over to each bank only as called for upon order of the Comptroller?

Answer: A plan is now being prepared under which a supply of Federal reserve notes will be kept by the Federal reserve agent, as far as possible, acting as a representative of the Federal Reserve Board.

7. Assuming that Federal reserve notes are to be issued at the opening, what will the reserve bank of Boston do if it receives on deposit a Federal reserve note, for example, of the Dallas Federal reserve bank?

Answer: It shall send this note at once to the Dallas bank for credit or redemption. Such a note could not be paid out by the Boston bank except upon a penalty of 10%.

8. Will the Federal reserve notes when delivered to the Federal reserve agent be ready for issuance or do they require the counter signature of an officer of the issuing bank?

Answer: These notes are Government obligations and when delivered will require no counter signature.

DISCOUNTS.

1. Has the Federal Reserve Board decided upon a policy which it will recommend to each reserve bank in determining the discount rate at the date of opening and thereafter?

Answer: See circular and regulations concerning commercial paper shortly to be issued.

2. Will there be several rates of discount, covering classification of paper and length of maturity?

Answer: There may be a different rate for different classes of paper and possibly for different lengths of maturity.

3. Has the Federal Reserve Board any policy to suggest in regard to paper eligible for rediscount other than that laid down in a general way in the report of the Committee on Rediscounts, adopted at the convention in Washington, October 21, 1914, which give the widest discretion to individual reserve banks?

Answer: See circular and regulations on commercial paper about to be issued.

4. Asks whether provisions of Section 4 as to administering the bank without discrimination means anything more than the duty now imposed on the directors of any bank to deal fairly and impartially with all its customers, etc.

Answer: The above statement is a correct statement of the law.

5. Does the provision in Section 14, paragraph d, providing that rates of discount established by the Federal reserve banks shall be subject to review and determination by the Reserve Board make it necessary that the Reserve Board shall approve all rates before they are given out to the public?

Answer: Yes.

6. Section 3 provides that each Federal reserve bank shall establish branch banks. Does this make it obligatory upon the Federal reserve bank of Boston to establish branches, and, if so, when.

Answer: It will be the duty of the directors of the Federal reserve banks carefully to investigate as to the necessity for branches in its district. The Board has reasonable discretion as to such necessity and only when satisfied as to the necessity is there any obligation imposed upon the Board to establish such branches.

It is thought the question of establishing branches need not be considered at this time.

November 13, 1914.