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AND FISCAL AGENT

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

-496-

January 17, 1916.

Mr.
Chairman, Board of Directors,
Federal Reserve Bank of
S I R :

Under the provisions of the Federal Reserve Act Federal Reserve notes may be issued against 100% of commercial paper, with the reserve in the bank of 40% in gold. Subsequently the bank may reduce its liability on the issued notes by depositing 100% of gold, or lawful money, with the Federal Reserve Agent, at the same time releasing the 40% gold reserve which the bank has held against the notes as well as getting back the paper it has put up as collateral. The operation of this feature of the law might conceivably result in the anomalous situation of Federal Reserve notes being secured by 100% of, let us say, silver certificates, which the Federal Reserve Board does not believe was ever contemplated under the Act. Therefore, the Federal Reserve Board has determined that a reasonable construction of the Act demands that at least 40% of gold must be held either by the bank, or, in the alternative, by the Federal Reserve Agent, against all outstanding Federal Reserve notes. If the Bank, wishes, therefore, to reduce its liability for outstanding notes by depositing gold or lawful money with the Federal Reserve Agent, at least 40% of such deposit must be in gold. You are accordingly instructed to require that hereafter a minimum of not less than 40% of such deposits be made in gold or gold certificates.

It is, of course, understood that in the first year's operations of the Federal Reserve Banks practically all deposits with the Reserve Agents have been in gold alone. The Board is anxious to have that practice continued and nothing in the above letter of instructions is intended to alter that practice, but simply to fix a precise minimum in future.

Yours respectfully,

Governor.

 Secretary.