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 AND FISCAL AGENT

ADDRESS REPLY TO
 FEDERAL RESERVE BOARD

February 25, 1916.

S i r :

On January 25, 1916, the Federal Reserve Board, at the request of the Secretary of the Treasury and in accordance with the provisions of Section 16 of the Federal Reserve Act, requested each Federal Reserve Agent to transmit to the Treasurer of the United States an amount in gold equal to five per cent of all outstanding Federal reserve notes which are covered by a deposit of gold or lawful money.

The establishment of a redemption fund by the various Federal Reserve Agents became necessary because of the fact that only four of the twelve Federal reserve banks at that time had outstanding notes covered by commercial paper and only those four were required to maintain any credit balance in the gold redemption fund.

In those cases when both the agent and the bank have funds to their credit in the redemption fund, the Treasurer legally has the right to redeem notes either out of the account of the Agent or of the bank, but upon request of the Federal Reserve Board he made all redemptions, whether of fit or unfit notes, out of the Agent's account, delivering the unfit notes to the Comptroller of the Currency for destruction and returning the fit ones direct to the Agent. This request of the Board was made partly to insure similar treatment of all fit notes presented to the Treasurer for redemption, and partly to aid in retiring Federal reserve notes by returning them to the Agent rather than to the bank for further circulation.

In view of the fact, however, that various Federal Reserve Agents have formally asked the Board that fit notes be returned to the Bank instead of to the Agent, on the ground that such Agent has not the facilities for handling periodic shipments of small amounts of notes, the Board has now formally requested the Treasurer to redeem all fit notes out of the redemption fund of the bank, provided such bank has a credit balance in that fund. If it has no such balance, fit notes will be redeemed out of the Agent's account and will be returned to the Agent. Fit notes redeemed out of the Bank's account will, of course, be returned to the bank. All unfit notes, as contemplated by the plan dated January 18, 1916,

will be redeemed out of the Agent's account and, acting under the power of attorney given to him by such Agent, the Treasurer will deliver such notes to the Comptroller of the Currency for destruction.

Any bank which has no money on deposit with the Treasurer and which desires its fit notes returned to it rather than to the Agent may make a voluntary deposit for the purpose of meeting the redemption of those fit notes which are received by the Treasurer for that purpose.

Respectfully,

Secretary.