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ADDRESS REPLY TO  
FEDERAL RESERVE BOARD

March 24, 1916.

S i r :

In answer to several inquiries regarding proper entries to be made on Forms 34 and FRA-5, in case of redemption of Federal reserve notes, either "fit" or "unfit", received from a Federal reserve bank, a Federal reserve agent, or in the ordinary course of business, the following entries are suggested as satisfactorily representing the transactions in question:

1. When cancelled Federal reserve notes are forwarded by the bank to the Treasurer of the United States for redemption, the bank should increase on Form 34, "Mutilated currency forwarded for redemption" (Item BONE) and decrease "Federal reserve notes on hand" (Item BEET), no entries, however to be made on FRA-5.

(a) When advice is had from the Treasurer of the United States to the effect that such notes have been received (notices being sent simultaneously to the bank and the Agent), the bank should increase either "Gold settlement fund" (BABE) or "Gold redemption fund" (BELT), depending on what arrangement is made between the Agent and the bank and with the Treasurer of the United States,

and should decrease at the same time "Mutilated currency forwarded for redemption" (BONE).

(b) In case gold or lawful money is returned to the bank by the Agent on account of Federal reserve notes redeemed, the bank's cash reserve (gold or lawful money) should be increased instead of the items specified in paragraph (a).

In the memorandum account on the liability side of Form 34, the following changes should also be made: Decrease "Federal reserve notes outstanding" (Item DEER); also "Gold and lawful money" (Item DOPE).

This will result in reducing the amount of Federal reserve notes outstanding as well as the amount of gold or lawful money deposited with the Federal reserve agent, but will leave the bank's net liability on Federal reserve notes outstanding unchanged.

Upon receipt of notice from the Treasurer of the United States, the Agent should increase on Form FRA-5, "Federal reserve notes returned to Comptroller of Currency for destruction" and should decrease "Federal reserve notes outstanding", "Provision for redemption of Federal reserve notes", and "Credit balance in gold redemption fund", except when gold or lawful money is returned by the Agent to the bank, in which case "Gold on hand" or "Lawful money on hand" should be decreased instead of "Credit balance in gold re-

demption fund". Whenever a transfer of credits is made from the Agent's credit balance with the Federal Reserve Board to the bank's account in the gold settlement fund in connection with the redemption of Federal reserve notes, appropriate entries should be made on Form FRA-5.

II. When notice is had by the Federal reserve agent from the Treasurer of the United States that "unfit" Federal reserve notes, received from some source other than the bank, have been redeemed by him and charged to the Agent's gold redemption fund, the following changes should be made on Forms 34 and FRA-5:

In the memorandum account on the liability side of Form 34, the bank should decrease "Federal reserve notes outstanding" (Item DEER) and "Gold and lawful money with Federal reserve agent for the retirement of outstanding Federal reserve notes" (Item DOPE). This will result in reducing the amount of each of these two items, but will leave the bank's net liability on Federal reserve notes outstanding unchanged.

The Federal reserve agent should increase on Form FRA-5 "Federal reserve notes returned to Comptroller of Currency for destruction" and should decrease "Federal reserve notes outstanding", "Credit balance in gold redemption fund", and "Provision for redemption of Federal reserve notes".

III. In case "fit" Federal reserve notes are redeemed by the Treasurer of the United States, they will be charged to the bank's gold redemption fund and returned to the bank of issue, in which case the Federal reserve bank should increase "Federal reserve notes on hand" (Item BEET) and decrease "Due from Treasurer of United States, gold redemption fund" (Item BELT). No entries should be made by the Agent on Form FRA-5.

IV. When cancelled Federal reserve notes are returned by the Agent to the Comptroller of the Currency for destruction, the Agent should increase "Federal reserve notes returned to Comptroller of Currency for destruction" and decrease "Federal reserve notes on hand". No entries should be made by the bank on Form 34.

Where reference is made to changes on Form 34, it is understood, of course, that appropriate entries shall be made in general ledger accounts, balances of which only are shown on Form 34.

It is thought that the above suggestions, while by no means exhaustive of the subject, will be found sufficiently detailed to insure uniformity of treatment by all Federal reserve banks of all the various transactions connected with the redemption and destruction of Federal reserve notes.

The appended chart, prepared by Mr. H. M. Jefferson of the Federal Reserve Bank of New York, may be found useful in this connection.

Respectfully,

Governor.