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(CONFIDENTIAL.)

June 7, 1917.

Dear Sir:

The Board has received your letter of June sixth, informing it that you are negotiating arrangements with the Bank of England by which about \$50,000,000 in gold will be earmarked and held by that institution for your account, in order to effect payment of a loan of \$50,000,000 made by New York banks to banks in London, which matures June 20th.

The Board understands that the Bank of England will agree to assume the cost and risk of shipment of the gold when you require it, and that it will assume full responsibility for the safeguarding of this gold. You write to inquire if the Board would raise objection to counting this gold, to the extent of \$50,000,000, as part of the reserve of the Federal Reserve Banks participating in the transaction.

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The Board fully discussed this matter and I am instructed to advise you that it would not raise any objection to transactions of this character, under the present circumstances, so long as the amount involved remains within the limit of ten per cent of the aggregate gold holdings of the participating Federal Reserve Banks, authority being given in any event to the extent of \$50,000,000.

It is obvious that transactions of this kind could not be engaged in except within a reasonable percentage of the aggregate gold holdings of the Federal Reserve Banks. The Board believes that the member banks might justly object if more than such reasonable amount of their reserves should be kept in foreign lands, out of easy reach of the Federal Reserve Banks. On the other hand, it is evident that demands for gold in most cases will be made on Federal Reserve Banks for the purpose of shipping it abroad in settlement of foreign balances. Gold kept in London would in such circumstances prove an economic means of satisfying such demands.

Within reasonable limits, the Board feels satisfied, therefore, that there could not be any objection raised to keeping a certain amount of the Federal Reserve Banks' gold reserve in the custody of foreign agencies of Federal Reserve Banks.

When peace is restored the matter should, however, be taken up again, from the point of view of securing, if possible, in-

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ternational agreements more fully safeguarding against difficulties arising from international complications. Under present conditions, which call for mutual assistance and cooperation between allied countries, this aspect of the case may temporarily be disregarded.

In the near future the United States will have to make substantial payments in Europe in connection with the contemplated operations of the Army and Navy and the gold in the hands of the Bank of England may prove a welcome protection in this connection.

The Board feels, therefore, that it should, for the time being, grant your request - reserving, however, the right at a later date to review the entire question.

Before the definite conclusions of this transaction, the Board expects that your arrangements with the other Federal Reserve Banks will be submitted for final approval, and pending this, it might be useful to give some thought to the question how this earmarked gold will be carried in the statements of the Federal Reserve Banks, it being the opinion of the Board that it will have to be frankly shown in the statement.

Respectfully,

P. M. WARBURG
Vice Governor.

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