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AND FISCAL AGENT  
ADDRESS REPLY TO  
FEDERAL RESERVE BOARD

June 22, 1917.

Dear Sir:

The bill recently passed by Congress amending the Federal Reserve Act has today been approved by the President and has become a law. A revised draft of the Federal Reserve Act as amended has been prepared and will be forwarded to all Federal Reserve Banks and member banks as soon as received from the printer. New regulations by the Board are in the course of preparation and will be forwarded to you in the very near future for distribution among your member banks. In the meantime, your attention is directed to Section 10 of the Act in question which amends Section 19 of the Federal Reserve Act and provides in part as follows:

"Sec. 19. Demand deposits within the meaning of this Act shall comprise all deposits payable within thirty days, and time deposits shall comprise all deposits payable after thirty days, all savings accounts and certificates of deposit which are subject to not less than thirty days' notice before payment, and all postal savings deposits.

"Every bank, banking association, or trust company which is or which becomes a member of any Federal reserve bank shall establish and maintain reserve balances with its Federal reserve bank as follows:

"(a) If not in a reserve or central reserve city, as now or hereafter defined, it shall hold and maintain with the Federal reserve bank of its district an actual net balance equal to not less than seven per centum of the aggregate amount of its demand deposits and three per centum of its time deposits.

"(b) If in a reserve city, as now or hereafter defined it shall hold and maintain with the Federal reserve bank of its district an actual net balance equal to not less than ten per centum of the aggregate amount of its demand deposits and three per centum of its time deposits.

"(c) If in a central reserve city, as now or hereafter defined, it shall hold and maintain with the Federal reserve bank of its district an actual net balance equal to not less than thirteen per centum of the aggregate amount of its demand deposits and three per centum of its time deposits.

Compliance with this Section will make it necessary, in most cases, for member banks to increase their balances with the Federal Reserve Banks. It is, of course, desirable that these deposits should be made promptly, but with as little disturbance to financial conditions as possible, and to accomplish this the cooperation of all member banks is necessary.

Federal Reserve Banks in Central Reserve Cities should request their member banks located in such cities to increase their balances with their Federal Reserve Bank in an amount sufficient to comply with the new requirement of the Act, not later than June 27th.

In view of the fact that it is to be assumed that Reserve City banks and country banks will be obliged to draw heavily upon their Central Reserve City and Reserve City correspondents in order to meet demands to be made on account of the instalments becoming due upon subscriptions to the Liberty Loan, country banks and Reserve City banks should be requested immediately to build up their balances with their respective Federal Reserve Banks by remitting cash from their own vaults as far as they can do so without impairing their ability to care for local needs.

The Board considers it inadvisable to increase at this time the pressure on Reserve and Central Reserve cities by encouraging heavy withdrawals from those cities by correspondent banks desiring to make transfers to the Federal Reserve Banks to meet the new reserve requirements.

While the new law becomes technically effective from this date it is, of course, understood that a reasonable time must be allowed for making the necessary transfer of reserve to meet the requirements of the Act.

If, therefore, member banks continue to maintain with the Federal Reserve Banks the percentage of reserve required hitherto, the Federal Reserve Banks may, until July 15th, reasonably refrain from imposing penalties against member banks on account of deficiency in reserve carried with them. That is to say, failure to transfer the additional amount required by the new Act need not be penalized until after July 15th.

It is suggested to Federal Reserve Banks that it might be advisable for them, in order to facilitate and expedite the transfer of cash from vaults of member banks to the vaults of Federal Re-

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serve Banks, to show liberality, as far as permitted by law, in refunding to member banks the shipping expenses of currency sent to Federal Reserve Banks before June 30th and in dealing with remittances of gold coin to be exchanged for Federal reserve notes. A similar policy is suggested in dealing with State banks desiring to establish balances with Federal Reserve Banks in advance of becoming either full members or members of the clearing system.

It must be evident to all banks that it is to their own interest to strengthen as far as possible the reserve and lending power of their Federal Reserve Banks, the facilities of which are likely to be used extensively in connection with the shifting of funds incident to the payments to be made on account of Liberty bond subscriptions. Every bank, member and nonmember, should, therefore, do its utmost to strengthen the gold reserve of the Federal Reserve Banks by promptly transferring such vault money as can be spared and by exchanging gold certificates and gold for Federal reserve notes, thereby helping to carry out the policy adopted for the public welfare of encouraging, for purposes of general circulation, the use of Federal reserve notes rather than of gold certificates.

It is hoped that banks in Federal Reserve Cities will make a special effort to cooperate with the Central Reserve Cities in at once transferring to their respective Federal Reserve Banks such amount of vault money as they can conveniently spare. In case of demand they can always replenish their currency supply by calling upon their respective Federal Reserve Banks.

Respectfully,

Governor.