

LETTER FROM A FEDERAL RESERVE AGENT.

"A certain matter has come up in the last few days in connection with the handling of Federal Reserve notes which, while unimportant, has occasioned, it seems to me, so much unnecessary work that some change ought to be made in the procedure.

The Board's circular letter No. 974 allowed Federal reserve banks to ship unfit Federal reserve notes of another Federal reserve bank direct to the Treasury Department for redemption.

The New Orleans branch of the Federal Reserve Bank of Atlanta shipped \$450.00 of this bank's currency to the Treasury Department for redemption and called upon the Federal Reserve Bank of Boston to reimburse it to that amount, which they did, upon advice from the Treasury Department that the above amount of bills had been destroyed.

The Treasury Department advised me, as the Federal Reserve Agent of this bank, that the bills had been destroyed and I, in turn, reimbursed the bank for this \$450.00. As my department carries no till money, it was necessary for me to get two officers from the bank to join with me to go down to our main vaults, open up my cash vault, take out a \$10,000 gold certificate and have the bank give me in exchange \$9,550 which I am now carrying in my cash.

Apart from the inconvenience of carrying petty cash of this character, you can see what this transaction will mean to my department if it comes every day or at frequent intervals, as is very possible if the other Federal reserve banks follow similar methods of handling these notes. In other redemption transactions as, for instance, where a member bank sends in unfit Federal reserve notes to the Treasury Department, these are charged by the Treasurer to the Redemption Fund of the Federal reserve agent and the bank is reimbursed. If a method of this sort could be carried out in connection with the redemption of unfit bills coming from Federal reserve banks, this matter would be simplified and, I believe, save the Federal reserve agents a great deal of extra work in the performance of their duties."

THE BOARD'S REPLY.

In further reference to your letter of July 20th, the Board is of the opinion that the difficulties incident to the shipment of small amounts of your unfit notes from the New Orleans branch of the Federal Reserve Bank of Atlanta to the Treasury Department at Washington may properly be met in any one of three ways.

First: As you know the only legal justification for shipment of unfit Federal reserve notes of the Federal Reserve Bank of Boston from the New Orleans branch to Boston for redemption is that the New Orleans branch acts under power of attorney as agent of the Boston Bank in making the shipment in the name of and for the account of the Boston Bank. The New Orleans branch could not, under the terms of the law, make this shipment for its own account, so that if, when the Boston Bank authorizes the New Orleans branch to make shipments of this character, it should specify that no shipment be made in a sum less than one thousand dollars, the New Orleans branch would be bound by these instructions, This would necessarily eliminate the possibility of requiring you, as Federal Reserve Agent, to make transfers of small amounts to your bank.

Second: Another way in which the difficulties you mention may be avoided is by making a settlement or adjustment of accounts through the books of the Gold Settlement Fund rather than making cash transfers from the Federal Reserve Agents' vault to that of the bank. As you are aware, the Federal reserve agents and the Federal reserve banks may make transfers of any amount through the Gold Settlement Fund so that even if New Orleans should make a shipment of less than \$1,000, you may properly direct the Federal Reserve Board to transfer the sum involved, however small, to the account of the Federal Reserve Bank of Boston on the books of the Gold Settlement Fund (in even hundreds).

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Board's Reply.

Third: Both the Federal Reserve Agent and the Federal Reserve Bank of Boston, in order to avoid transfers of small amounts of cash in Boston, may, if they so desire, authorize the Treasurer to make adjustments on the books of the Gold Redemption Fund so that if the New Orleans branch, for instance, should ship to Washington for redemption, a small amount of Federal reserve notes of the Boston Bank, the Treasurer will immediately charge the Gold Redemption Fund of the Agent with the amount of the shipment and credit the Gold Redemption Fund of the Federal Reserve Bank with the same amount. This method has already been authorized by four of the Federal reserve banks and it is operating very satisfactorily.

It is suggested that these are the only three ways in which the situation you describe may be satisfactorily settled without in any way violating the provisions of the law.

August 10, 1917.