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AND FISCAL AGENT

FEDERAL RESERVE BOARD

WASHINGTON

X-345.

ADDRESS REPLY TO  
FEDERAL RESERVE BOARD

August 24, 1917.

Dear Sir:

The Board is of the opinion that it is important that Federal reserve banks should, at this time, keep themselves in as strong a position as possible, without declining to meet legitimate demands made upon them in their own districts. The statements of August 17th show that the reserves of the banks range from 68.3% to 91.1%. The view of the Board is that for the present the Federal reserve banks should endeavor to maintain a reserve position against note issues and deposits combined of between 75% and 85%, and that whenever this reserve should fall below 70% in any case, the Federal reserve bank should dispose of some of its bills to other banks which are in a stronger position.

The Board has concluded, therefore, that the proper policy for a Federal reserve bank to pursue at this time would be for it to discontinue any participation in open market transactions outside of its own district whenever its reserve falls below 75% of its deposit and note liability. This policy, of course, is subject to modification as conditions change, and the object of this letter is merely to outline a proper course of action for the next few weeks. The Board will advise the banks whenever any change in this policy appears to be expedient.

Very truly yours,

Governor.