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ADDRESS REPLY TO
FEDERAL RESERVE BOARD

June 19, 1919.

X-1586

Personal and Confidential

Subject: Transfer of certain Sub-Treasury Functions
to Federal Reserve Banks.

Dear Sir:

There is enclosed herewith for your personal and confidential information, a memorandum which is now being considered by a committee recently appointed by the Secretary of the Treasury to report upon the advisability of recommending the transfer of certain sub-treasury functions to the Federal Reserve Banks.

The Board is advised that the committee is desirous of having the benefit of your views, and it will therefore be appreciated if you will forward to this office at your earliest convenience such criticisms, suggestions and comments as you may care to make.

Very truly yours,

Enclosure.

Governor.

Letter to Chairmen and Governors of all F.R. Banks.

PERSONAL AND CONFIDENTIAL

Subject: Memorandum presented to Special Committee Suggesting the Transfer of Certain Sub-Treasury Functions to Federal Reserve Banks.

"The following suggestions relative to work to be performed by the Federal Reserve Banks in the event that the Subtreasuries should be discontinued, are respectfully presented for your consideration:

1. It is suggested that all work now performed by the Subtreasuries be transferred to, and be performed by, the Federal Reserve Banks, and that this work be done by the Federal Reserve Banks, not as Fiscal Agents of the United States, but as a depositary function. It is suggested that the trust funds of the United States be transferred to the three Coinage Mints, the Assay Office at New York, and the Treasury of the United States at Washington, D.C.

2. The special features in connection with this transfer that deserve attention, are as follows:

- (a) Storage and Custody of the Trust Funds.
- (b) Distribution of Subsidiary and Minor Coins.
- (c) Exchange of Subsidiary and Minor Coins.
- (d) Exchange of Currency.

Storage and Custody of the Trust Funds.

It is believed that the custody and control of trust funds should be absolutely kept within the control of the Treasury Department and under the supervision of one of its designated officers or employees. The transfer of the Gold coin and Standard Silver Dollars now in the custody of the Subtreasuries to the three Coinage Mints and the Treasury at Washington, would have the advantage of insuring the distribution of such funds to points in the United States where it could be convenient for ready use and at the same time the transfer could be effected without additional cost to the Government as to custody. If the trust funds were transferred to the Federal Reserve Banks and vaults in such banks were set apart for the use of the Treasury Department, it would be necessary at all times to have a representative of the Treasurer of the United States in charge of such funds which would be an element of cost not necessary if such funds were transferred to the Coinage Mints, the Assay Office at New York and the Treasury at Washington. Also, the necessity for having a wide distribution of the trust funds held by the Government, is not apparent and if there is no necessity for such procedure, it is not understood how justification can be made for the additional cost that would be necessary, as well as the fact that the matter might be of more or less inconvenience to the Federal Reserve Banks.

The question of the issuance of Gold Certificates payable to the order of a specified payee, is not believed as important at the present time as it was before the authorization of the issuance of Federal reserve notes in the larger denominations. Again, if necessary, arrangements may be made whereby Federal Reserve Banks could be authorized to accept deposits of Gold and issue

therefor documents in the nature of interim receipts which would be honored by the Superintendents of the Coinage Mints, or the Assay Office at New York, or the Treasurer at Washington, for the issuance of Gold Certificates payable to the order of a specified payee. Again, the Federal Reserve Banks might be made the custodians of the stock of unissued Gold certificates payable to order, and upon receipt of deposits of Gold coin or demand Gold certificates, issue such certificates payable to order of definite payees and at the same time make payment to the Treasurer of the United States through transfers of an equivalent amount in the Gold Settlement Fund.

Distribution of Subsidiary and Minor Coins.

There seems to be no good reason why the Federal Reserve Banks cannot take over the work of the distribution of the subsidiary and minor coins in the same manner as such distribution is now effected by the Subtreasuries.

The holdings by the Federal Reserve Banks of subsidiary and minor coin would not reach any volume sufficiently large as to cause concern. In the event, however, that such holdings should be found too large for current distribution needs, transfers could be made to the Mints.

The subsidiary Silver coin would be counted as reserve money and for this reason would not be a tax on the reserve percentage of the Federal Reserve Banks.

It is the present practice for the Government to pay transportation charges on subsidiary silver and minor coins from the Mints to the different Subtreasuries or between Subtreasuries, and banks desiring these coins which are located in other cities, must pay the transportation charges from the various Subtreasuries. In other words, shipments of subsidiary and minor coins from the Subtreasuries and Mints direct to consignees, are at the expense of such consignees. At one time, the Government paid transportation charges on such coins to the consignees through annual appropriations made by Congress, but the discontinuance of such appropriation made necessary the collection of charges from consignees.

Exchange of Subsidiary and Minor Coins.

The redemption of subsidiary and minor coins now being performed by the Subtreasuries could be transferred to the Federal Reserve Banks and considered as exchanges rather than redemptions inasmuch as the operation in effect is simply the getting of one kind of money in exchange for another kind. Should at any time the holdings of minor and subsidiary coin by the Federal Reserve Banks assume proportions too large for any use, such holdings may be transferred to the Coinage Mints, as above stated.

Exchange of Currency.

No reason is apparent as to why the exchanges of currency cannot be as well handled by the Federal Reserve Banks as by the Subtreasuries. Such currency as may be received by the Federal Reserve Banks in performing this function, that is unfit for use, may be transferred to the Treasury at Washington and accounting arrangements made whereby the amounts of such currency in transit as is available or considered as reserve money, can still be counted by the Federal

Reserve Banks as a part of its available assets.

It is the present custom of the Subtreasuries in making shipments of unfit currency to this office, to cancel the same before shipment and to forward the uppers and lowers on different days. No reason is apparent why such procedure may not be followed by the Federal Reserve Banks when acting in a similar capacity.

Payment of Checks over the Counter .

If the Subtreasuries are discontinued, it is submitted that it will be necessary for the Federal Reserve Banks to make payments to the public creditors of checks presented to them over the counter. It is not believed that this function will be any great addition of work to the Federal Reserve Banks, but it appears to be essential that the public creditors have definite points, as at present, where they can secure payment for checks issued under the authority of Government Disbursing Officers. Also, it will be necessary that Disbursing Officers of the United States have a definite place where they can present their checks over the counter and get in return therefor currency of requisite denominations that will enable them to use for payroll and other purposes.

Costs.

Inasmuch as the entire cost of the Subtreasury system, exclusive of salaries paid to the Assistant Treasurers of the United States, is somewhat less than \$500,000 per annum, it is not believed that the Federal Reserve Banks would demand of the Government reimbursement for the transfer of the above mentioned functions to be performed by them instead of the Subtreasuries. However, this matter is presented for your consideration.

Fiscal Agents.

The matter was thoroughly discussed as to whether or not the above mentioned functions should be performed by the Federal Reserve Banks as Fiscal Agents of the United States, or as to whether it would be better for such functions to be performed as depositaries with special provision in the Act which discontinues, or may discontinue, the Subtreasuries, to the effect that all of the above mentioned functions shall be performed by the Federal Reserve Banks under the control of the Treasurer of the United States, such control to be exercised under the general supervision of the Secretary of the Treasury in the same manner as the latter office now exercises general control over the acts of the Treasurer in relation to the business now performed by the Subtreasuries."