

FEDERAL RESERVE BOARD

WASHINGTON

February 26, 1921.CONFIDENTIAL

X-3056

Subject: Credit by Treasury in case of Loss of
Half U. S. Currency forwarded for Redemption.

Dear Sir:

There is enclosed herewith for your information copy of a letter dated February 12, 1921, from the Assistant Secretary of the Treasury to the Comptroller of the Treasury, with reference to the Treasury giving credit to Federal Reserve Banks in case either the lower or upper halves of canceled United States paper money shipped to Washington for redemption by Federal Reserve Banks under confidential instructions of the Secretary of the Treasury, dated August 20, 1920, should be lost in transit, together with a copy of the Comptroller's ruling. The Comptroller has been asked to withhold this decision from publication and it is requested that your Bank treat this correspondence as confidential.

Very truly yours,

Enclosure.

R. G. Emerson,
Assistant to Governor.

TO CHAIRMEN OF ALL FEDERAL RESERVE BANKS.

COPY

February 19, 1921.

The Honorable
The Secretary of the Treasury.

Sir:

I have your letter of February 12, 1921, requesting to be advised with respect to the inquiry of a Federal Reserve Bank whether under the procedure of redemption of currency by those banks and its shipment in halves by different registered mails, the lower halves going by one and the upper halves by another, if either halves should be lost would credit be given upon receipt and verification of the other halves.

The regulations prescribe that manifest should be prepared of the shipments upon which is stated the contents of the pouch giving the lot number, package numbers, denominations, amount of items and total amount. The original manifest of the upper halves is required to be sent to the Treasurer of the United States and the original of the manifest of the lower halves is required to be sent to the Secretary of the Treasury, Division of Loans and Currency. These originals are sent separately from the pouches. I should therefore consider that upon receipt of either half, together with a manifest showing the shipment of the other half there would be authority to give credit for both halves. The presumption must be that the halving of the notes and the other cancellation mark, two punched holes, are sufficient to prevent the use or passing of any of the halves as currency. The primary evidence, of course, of the redemption is the note but the shipment in halves being a matter of protection, if loss should occur of the one or the other the very purpose of the shipment of halves is put to the test and we must assume is effective. The facts necessarily will always have to be considered in connection with giving credit for any loss claimed and when this is sufficiently established I consider you would be authorized to allow the credits on what may be termed the secondary evidence, that is to say, shipping manifests of the lost halves.

It appears to be suggested that a question might also arise of both halves being lost. Such a case has not been known and I do not think it necessary at this time to express any view on what might be the authority in such a case.

Respectfully,

(Signed) W. W. Warwick

Comptroller

COPY

TREASURY DEPARTMENT

WASHINGTON

February 12, 1921.

The Comptroller
of the Treasury.

Sir:

The Governor of the Federal Reserve Board is in receipt of the following telegram from a Federal Reserve Bank:

"Referring to confidential instructions from the Secretary of the Treasury in respect to exchanges, replacement and redemption of United States paper currency, bearing date of August 30, 1920, no provision is made for the loss of a shipment of either lowers or uppers of canceled paper currency shipped for redemption. In the case of loss of shipment of either uppers or lowers will the department credit, upon receipt and verification, the other halves? Think we should have a letter from the department plainly indicating their position in this connection otherwise we should insure each shipment."

Upon the discontinuance of the Subtreasuries, the Secretary charged the Federal Reserve Banks with the currency transactions previously functioned at the Subtreasuries, and requires such banks with respect to unfit United States currency received to make appropriate assortment thereof and cancel and forward to the Treasurer. To effect cancellation, the notes are cut in half longitudinally and two one-half inch holes punched in each half. The lowers are forwarded by registered mail to the Division of Loans and Currency and by later registered mail the uppers are forwarded to the Treasurer of the United States.

This procedure with respect to cancellation and shipments of canceled currency is in essential features the same as previously was prescribed with respect to cancellation and shipments by Assistant Treasurers of the United States.

After receipt of canceled United States currency in the Division of Loans and Currency and in the Office of the Treasurer of the United States, and after examination thereof, the corresponding halves of the shipment are delivered for destruction; and upon certification of examination and destruction, filed with the Auditor, appropriate credit is given the Treasurer of the United States on account of the redemption. The system has been in effect as between

Subtreasuries and the Department for more than ten years without a loss in shipment occurring. It is conceivable, however, that through accidents or theft, losses with respect to shipments from Federal Reserve Banks will occur. Federal Reserve Banks are not a part of the Treasury of the United States as were the Subtreasuries and it seems appropriate to give the banks assurance of the Treasury's position in case of the loss or destruction of a shipment.

Under the conditions imposed by the Treasurer of the United States, with the approval of the Secretary, with respect to the redemption of mutilated currency, it would seem impossible that a canceled half note, if presented, would be honored. It is almost inconceivable that both uppers and lowers of a shipment should both be lost or destroyed. If the question were one of administration only, I feel the Secretary would be entirely justified in passing full credit in the event of the loss or destruction of the uppers or lowers upon receipt of corresponding lowers or uppers and acceptable proof as to the cancellation and shipment of the lost or destroyed half notes and the circumstances of their loss or destruction. But, of course, the matter is not one wholly of administration, for in the end the appropriate credit to be given must be determined by the Auditor.

In these circumstances, I wish you would advise me in the premises, that appropriate reply may be sent the Governor of the Federal Reserve Board for transmission to the Federal Reserve Banks, and for their information. A copy of the confidential currency instructions of August 30, 1920, is enclosed for your information.

Respectfully,

(Signed) S. P. Gilbert, Jr.

Assistant Secretary of the Treasury.