

FEDERAL RESERVE BOARD

WASHINGTON

X-3381
April 11, 1922.

SUBJECT: Report of Treasury Currency Committee.

Dear Sir:

On March 29th, the Treasury Currency Committee conferred with representatives of several of the Federal Reserve Banks. There is enclosed, herewith, for your information, a copy of a summary report of the conference, and you are advised that the conclusions reached by the conference have the approval of the Treasury Department and the Federal Reserve Board.

In connection with the recommendation of the conference with respect to the Federal Reserve Banks estimating their future requirements for new paper currency, each Federal Reserve Bank is requested to telegraph the Board on April 29, 1922, and on the last business day of each month thereafter, the estimated amount of each denomination of new paper currency which it will require during the ensuing month. Estimates of the requirements of each branch bank should also be telegraphed, separately, to the Board and not combined with those of the head office.

The Federal Reserve Banks are requested to confirm by letter the telegrams above referred to and to include in the letter tentative estimates of the requirements of the head office and branch banks, separately, for new paper currency for the ensuing three months.

Very truly yours,

(Enclosure)

G o v e r n o r .

TO THE GOVERNORS OF
ALL FEDERAL RESERVE BANKS.

Summary Report of Conference with Respect
to Paper Currency Supply and Distribution

Held in the Office of the Commis-
sioner of the Public Debt on March
29, 1922.

Those attending were:

The currency committee, consisting of:
Messrs. Broughton and Elliott, Office of the
Commissioner of the Public Debt.
Mr. Pearce, Cashier,
Messrs. Eddy and Buell, of the Federal Reserve Board.

Representatives from Federal Reserve Banks, as follows:
Messrs. Gilbert and Higgins, New York.
Mr. Chase, Boston.
Mr. Netterstrom, Chicago.

The conference dealt chiefly with the following points:

- (1) the currency printing program and distribution of new currency;
- (2) a standard of fitness for circulated notes.

1. The currency program and distribution of new currency. Mr. Broughton briefly called attention to the report submitted about a year and a half ago by a committee of the Federal Reserve Banks, to the situation existing a year ago when the Department estimates were compiled, and the situation existing last fall at the time of the Governors' conference, and to the present situation; all with respect to currency supply and the current printing program so far as relates to the Treasury. He spoke of the committee appointed to supervise the supply and distribution of new currency, composed of Treasury and Federal Reserve Board representatives, stating that due to decreased demands for currency and the attention of Mr. Eddy and Mr. Pearce the currency committee, as such, up to date had not been an active factor in the situation. He referred to instructions recently given by the Secretary to the Treasurer of the United States regarding kinds and denominations of currency in which payment should be made, stating that the restoration of silver certificates to circulation would in time supply practically all the 1's and 2's required, and that as a result United States notes for the most part must in future be issued in denominations higher than \$2. He spoke of the necessity for saving and the possibility of arriving at a definite basis for currency supply, involved with which would be the determination of a standard of fitness for circulated notes.

A general discussion followed. No adverse factors in the procedure established in August 1920 for the distribution of new currency through the Federal Reserve Banks were developed. Recent instructions

to the Treasurer authorizing him to make direct returns on currency presented to him for redemption were referred to as a possible factor in breaking down the existing system should banks generally so proceed. It was pointed out, however, that direct transactions were so few and in such small amounts that the general situation could not be affected.

It was the consensus of opinion that it would be entirely practicable for Federal Reserve Banks to anticipate their denominational requirements of new notes definitely for a one month's period and approximately for a three months' period, such estimates to be available for the information of the Treasury and the Federal Reserve Board.

2. Standard of fitness for circulated notes. Mr. Elliott, chairman of a special Treasury committee, reported the results of an inquiry recently completed. He presented a definition of circulated paper currency fit for further circulation, as formulated by the special committee, as follows:

"Paper currency tendered for redemption in order to be classed as fit for further circulation must be fairly clean so that its class, denomination and genuineness can be determined without difficulty, and must contain a sufficient amount of 'life' or 'sizing' to permit its being handled with facility. It should not contain heavy creases which break the fibre of the paper and indicate that disintegration has begun. A fit note when held by one end in one hand and pressed into a slightly concave shape lengthwise should sustain itself substantially on a line with the hand. It should not present a limp or rag like appearance. If a note has retained a fair amount of the original strength or 'sizing', it is fit unless it is so badly soiled as to be offensive, or is torn, perforated or otherwise mutilated. Mere creasing or wrinkling that has not broken nor seriously weakened the note does not make it unfit. So-called 'dog ears' or bent corners do not render notes unfit."

And he further presented statements showing the actual number of fit notes found by the committee in test examinations of currency in process of redemption, the standard of fitness being in accordance with the above definition. Copies of these statements are attached hereto as exhibits "A" and "B". The actual notes were presented for the inspection of the conference, and other notes not previously inspected were presented for examination by the conference.

It was the consensus of the conference that copies of the findings should be reported to all Federal Reserve Banks, and that the Federal Reserve Banks themselves would establish and maintain a uniform standard of fitness if such test examinations are made

periodically by the Treasury and reported to all Federal Reserve Banks.

3. Conclusions. The conference unanimously reached the following conclusions with recommendation to the Secretary of the Treasury and the Federal Reserve Board that they be adopted and given official sanction; (1) that the standard of fitness of paper currency for further circulation be defined as follows:

"Paper currency tendered for redemption in order to be classed as fit for further circulation must be fairly clean so that its class, denomination and genuineness can be determined without difficulty, and must contain a sufficient amount of 'life' or 'sizing' to permit its being handled with facility. It should not contain heavy creases which break the fiber of the paper and indicate that disintegration has begun. A fit note when held by one end in one hand and pressed into a slightly concave shape lengthwise should sustain itself substantially on a line with the hand. It should not present a limp or rag like appearance. If a note has retained a fair amount of the original strength or 'sizing', it is fit unless it is so badly soiled as to be offensive, or is torn, perforated or otherwise mutilated. Mere creasing or wrinkling that has not broken nor seriously weakened the note does not make it unfit. So-called 'dog ears' or bent corners do not render notes unfit."

(2) that the Treasury from time to time, in accordance with such standard, make test examinations of each kind and each denomination of paper currency presented for redemption by each Federal Reserve Bank, and that the result of such examination be reported at the end of each month to the Federal Reserve Board for the information and guidance of Federal Reserve Banks;

(3) that Federal Reserve Banks be requested at the end of each month to estimate their denominational requirements of new paper currency for the ensuing month, and that at the same time they be requested to submit a tentative estimate for the ensuing three months; such reports when received by the Federal Reserve Board, insofar as they relate to currency supplied by the Treasury, to be transmitted to the Commissioner of the Public Debt, as Chairman of the Currency Committee.

A SPECIAL EXAMINATION OF \$1 UNITED STATES NOTES AND SILVER CERTIFICATES
FROM FEDERAL RESERVE BANKS SHOWED PERCENTAGES OF FIT NOTES AS FOLLOWS:

	United States Notes	Silver Certif- icates
Boston	25	7
New York	32	29
Philadelphia	33	21
Cleveland	3	17
Richmond	8	not examined
Atlanta	3	19
Chicago	24	not examined
Minneapolis	not examined	31
Kansas City	not examined	18
Saint Louis	33	27
Dallas	3	not examined
Average for all banks	18	21

RESULT AS SHOWN BY EXAMINATION OF CURRENCY RECEIVED

X-3331a

FROM FEDERAL RESERVE BANKS BY THE NATIONAL BANK REDEMPTION AGENCY

Bank from which: received	Class	Denomi- nations	No. of notes examined	Per cent of fit	Average per cent of fit
Boston	:N.B. Notes:	10	400	12	12
	:F.R. "	20	400	5	5
New York	:N.B. Notes:	5	400	14	
	:N.B. "	10	400	37	
	:N.B. "	20	400	20	27
	:F.R. "	5	400	26	
	:F.R. "	10	400	38	32
Philadelphia	:N.B. Notes:	5	400	22	22
	:F.R. "	5	400	27	
	:F.R. "	10	400	35	31
Cleveland	:F.R. Notes:	5	400	6	
	:F.R. "	10	400	23	14
Richmond	:N.B. Notes:	5	300	0	
	:N.B. "	10	300	14	
	:N.B. "	20	300	5	6
	:F.R. "	5	400	24	24
Atlanta	:N.B. Notes:	5	400	15	
	:N.B. "	10	400	25	
	:N.B. "	20	400	24	21
	:F.R. "	10	400	24	24
Chicago	:N.B. Notes:	5	400	0	
	:N.B. "	10	400	8	
	:N.B. "	20	400	10	6
	:F.R. "	10	400	20	20
Saint Louis	:N.B. Notes:	5	400	14	14
	:F.R. "	20	400	10	10
Minneapolis	:N.B. Notes:	10	400	37	37
	:F.R. "	10	400	22	22
Kansas City	:N.B. Notes:	20	400	10	10
	:F.R. "	10	400	3	3
Dallas	:N.B. Notes:	10	400	11	11
	:F.R. "	20	400	17	17
San Francisco	:N.B. Notes:	5	400	46	
	:N.B. "	10	300	34	
	:N.B. "	20	400	48	
	:N.B. "	50	100	34	40
	:F.R. "	5	400	51	
	:F.R. "	10	400	61	
	:F.R. "	20	400	71	61