CONFIDENTIAL
For officials of
Treasury Department, Federal Reserve Board, and
Federal Reserve Banks.

X-3393

CURRENCY DISTRIBUTION AND PAYMENT POLICY FOR FEDERAL RESERVE BANKS

The committee on currency supply and distribution, with membership representing the Treasury and the Federal Reserve Board, at a meeting in the Office of the Commissioner of the Public Debt, in March, 1922, with representation from Federal Reserve Banks present in accordance with a minute adopted by the conference of Governors of the Federal Reserve Banks held in Washington in October, 1921, adopted three specific recommendations. The Secretary of the Treasury and the Federal Reserve Board have considered these recommendations and, after a further conference with the committee and after further study of the whole currency situation, have agreed upon the following program which it is believed will further the effective, sound, and economical distribution of currency through the Federal Reserve Banks. In order, however, that the execution of the program will attain its maximum good, it is necessary that each Federal Reserve Bank agree to adopt and uniformly carry out the procedure or policies outlined herein. They are:

1. STANDARDS OF FITNESS OF CURRENCY.

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.

(a) The standard of fitness defined above shall apply to all forms and denominations of circulating currency.

(b) Test examinations of each kind and each denomination of paper currency presented for redemption by each Federal Reserve Bank will be made under the general supervision of the Treasury and Federal Reserve Board Currency Committee, and the results of such examinations will be reported at the end of each month to the Federal Reserve Board for the information and guidance of Federal Reserve Banks.

II. METHODS OF DISTRIBUTION

In order that the standards of fitness in the circulation outstanding in the several Federal Reserve Districts shall be as nearly uniform as possible, and in order that there may be a uniform policy in all districts as to the different kinds of currency to be put into circulation, new currency should be distributed through the Federal Reserve Banks and not direct from the Treasury except for purely local needs.

III. ORDER OF PAYMENT OF DIFFERENT KINDS OF CURRENCY

Federal Reserve Banks, in making payments of currency, should distribute currency in the following order of preference:

(a) 5's and over*

(1) National bank notes
(2) Federal Reserve Bank notes
(3) Silver Certificates
(4) U. S. Notes (Legal Tenders)
(5) Federal Reserve notes
(6) Gold Certificates

(b) 1's and 2's

(1) Federal Reserve Bank notes
(2) Silver Certificates
(3) U. S. Notes (Legal Tenders)

*Note:- Since the maximum denomination of national bank notes, silver certificates and legal tenders is $1,000,payments in denominations higher than that amount must be made in Federal Reserve notes and Gold certificates, in the order named.

IV. NATIONAL BANK NOTES

While it is believed that national bank circulation ultimately will be eliminated entirely, it is felt that this may be accomplished only through Congressional action and not otherwise.

Meanwhile,Federal Reserve Banks should not discriminate against the national bank currency, whether fit or unfit, either in respect to its receipt for deposit or in respect to its shipment to the Treasury for redemption. The standard of fitness prescribed in paragraph I. must apply equally to national bank currency and all other forms of currency.

V. SILVER CERTIFICATES.

It has been estimated that the normal requirements for the $1 and $2 denominations of currency approximate $400,000,000. It is believed that so far as is legally possible United States currency of these denominations should consist of silver certificates, any excess of demand over supply being filled by the issue of United States notes (legal tenders) rather than any other form of currency.

VI. UNITED STATES NOTES (Legal Tenders)

It is believed that this form of currency may be eliminated at some appropriate time in the future but that until eliminated it should be the policy of the Treasury to confine the printing and circulation of United States notes to the denominations of $1, $2, $5, and $10, with preference for the $1 and $2 denominations, as may be required.

VII. FEDERAL RESERVE BANK NOTES

In view of the fact that the present program of the Treasury contemplates a retirement, within the near future, of all Pittman Act certificates against which Federal Reserve Bank notes are issued, all Federal Reserve Banks should pay out any such bank notes on hand in order to use them up and have them permanently retired during the period when the Treasury is paying off the certificates.

Neither the Federal Reserve Banks nor the Federal Reserve Board should place any more orders for the printing of Federal Reserve Bank notes.

VIII. PRINTING PROGRAM (Federal Reserve Notes)

(a) Standing agreement - Each Federal Reserve Bank should advise the Federal ReserveBoard of the amounts of Federal Reserve notes in each denomination that it desires to have in its reserve stock of unissued notes, specifying how much of each denomination is to be held in Washington. Orders for printing of Federal Reserve notes should be automatic, so that any deficiency in the agreed Washington stock of any denomination should be tantamount to an order to print sufficient amounts to bring that stock up to the agreed minimum.

(b) Manufacturing program for 1922. In order, however, to facilitate the manufacturing program of the Bureau of Engraving and Printing, each Federal Reserve Bank should, before June 1, 1922, estimate and advise the Federal ReserveBoard of the amounts of each denomination of Federal Reserve notes that it will requisition from Washington during the remainder of the calendar year. With such estimates at hand, the Federal Reserve Board will place orders to have printed for each bank each month the proper proportion of the amounts of each denomination which the bank estimates it will withdraw from the Washington reserve stock during the balance of the year. If at any time during the remainder of the year, a Federal Reserve Bank finds it necessary to increase or decrease its estimates it should so advise the Board by telegram on the last business day of any month, stating the amount of each denomination which it expects to withdraw from the Washington reserve stock during the remaining months of the year. The Board will then adjust printing orders accordingly. Although this program may result in a temporary increase in the reserve stock of some of the banks over and above the fixed minimum figure, it will accomplish an orderly operation of the printing process for the balance of the year, and will leave each Federal Reserve Bank with its agreed minimum reserve stock of notes at the end of the calendar year. (This plan supersedes the Federal Reserve Board's letter X-3381 of April 11, 1922).

IX. DISTRIBUTION OF UNITED STATES CURRENCY BY TREASURY DEPARTMENT

United States currency - Each Federal Reserve Bank will advise the Federal Reserve Board (for head office and each branch separately) of the amounts of $1 and$2 bills estimated to be sufficient for one month's reserve supply and will now place orders with the Board (for head office and each branch separately) to create cash reserves of these amounts. Hereafter, each bank will telegraph to the Federal Reserve Board on the last business day of each month the amount of each denomination of $1 and $2 notes (United States currency) estimated as sufficient to maintain reserve stocks at the head office and branches at the fixed figures. Monthly orders to the Federal Reserve Board for United States currency from the Treasury must be confined solely to the $1 and $2 denominations, and must not include requisitions for higher denominations, but if at any time the Treasury finds it necessary under the law to issue United States notes or other kinds of United States currency in denominations above $1 and $2, such notes will be apportioned among the twelve Federal Reserve Banks, which will accept them and pay them out as contemplated in paragraph III.

(Signed) W. S. BROUGHTON,
Chairman.

" WALTER L. EDDY

" W. E. BUELL

" C. S. PEARCE

CURRENCY COMMITTEE.

April 26, 1922.

APPROVED:

(Signed) A. W. MELLON,
Secretary of the Treasury.

APPROVED:
Federal Reserve Board
(Signed) W. P. G. HARDING,
Govbrnor.