

OFFICE CORRESPONDENCE

X-3775

July 7, 1923.

TO The Federal Reserve Board
FROM Edgar W. Freeman-Assistant Counsel.

SUBJECT: Further discussion as to
Havana Agencies.

An informal meeting was held on July 6, attended by Governor Crissinger, Mr. Hamlin, Mr. Eddy, Mr. Bullen from Boston, Mr. Adelson of Atlanta, and myself, at which a number of points were discussed concerning the proposed operation of the two agencies in Havana under the Board's resolution of June 27. This memorandum contains a brief outline of what took place at the meeting and is merely for the information of the Board members who were not present.

The first question discussed was whether or not under the Board's resolution Boston was required to pay for all bills purchased by it in Federal Reserve notes of Atlanta. Mr. Adelson apparently was of the opinion that so long as Atlanta notes were available for use Boston would have to use them in the purchase of bills. Mr. Hamlin referred to the concluding sentence in paragraph 3 of the resolution and advised Mr. Adelson that this clearly contemplated the right of Boston to use any form of currency it saw fit, except Federal Reserve notes, in the purchase of bills. In this connection, Mr. Bullen stated that Boston did not plan to increase the supply of other currency in Cuba, but would make use primarily of Atlanta notes in purchasing bills.

The question of the exchange of fit for unfit Atlanta notes was discussed at considerable length. Mr. Bullen argued that the primary purpose of the establishment of these agencies in Cuba was the purchase and sale of bills as provided in Section 14 (e), and that while it was also contemplated that Cuba should be supplied with clean currency, the new money should come in only through the purchase and sale operations provided for by the resolution. Mr. Adelson contended, on the other hand, that the Atlanta agency might exchange fit Atlanta notes for unfit Atlanta notes, whether or not the paying out of new notes was connected with a purchase or sale transaction; in other words, that the Atlanta agency could function purely as an agency to supply new notes in place of old notes. It was the opinion of the Board members present that, even conceding that there was no objection under the terms of the law to Mr. Adelson's proposition, the resolution contemplated that new currency should be furnished in Cuba solely through the banking operations to be carried on by the Boston agency. It was argued that if the Atlanta agency could call in its unfit notes and replace them by new notes without limitation, this would prevent the Boston bank from transacting the bulk of its anticipated business, that is, the sale of cable transfers, and the Boston bank would accordingly be deprived of its normal profit. Mr. Hamlin stated his view that under the Board's resolution it is contemplated that Atlanta should engage in the business of furnishing its notes and maintaining its circulation, that Boston should engage in the business of buying and selling bills, and that Atlanta should not encroach upon Boston's business by supplying new notes free of charge and without reference to Boston's operations. It was brought out that while any bank in the United States might deposit money in the Atlanta

head office, or its Jacksonville or New Orleans branches, and receive new Atlanta notes in the United States, it could not, upon such a deposit, properly receive new Atlanta notes in Havana, except through a transaction with the Boston Bank, because this would amount to a cable transfer which, under the terms of the resolution, only the Boston bank may negotiate.

Some discussion was had as to whether or not the Atlanta bank might increase the circulation of Atlanta notes in Cuba without limitation, as for example, by purchasing all the other currency which circulates in Cuba and replacing it by its own notes, or by sending its own notes to Cuba against deposits received by its head office or branches in the United States. The Board members stated emphatically that the Atlanta agency could not do this under the resolution, because it was contemplated that Atlanta should merely maintain its circulation, subject to reasonable increase, but that such increase should result only from the purchase and selling operations of the Boston agency.

Mr. Adelson further argued on behalf of the Atlanta bank that the Atlanta agency alone should maintain a currency department in Havana. His proposition was that all money which the Boston agency might receive in exchange for bills sold should be turned over to the Atlanta agency, where it would be counted and sorted and, for all Atlanta notes and other currency, Boston would receive credit through the Gold Settlement Fund. With respect to notes of other Federal Reserve Banks, the Atlanta agency would pack and ship them to the several Federal Reserve Banks or to Washington for redemption for the account of the Boston agency. Mr. Bullen stated that the Boston bank would not agree to this proposition, but that on the contrary the Boston bank expected that its agency would have a currency department of its own and itself handle all money received in payment for bills sold. He agreed, however, that if Atlanta desired, the Boston agency would be willing to turn over to the Atlanta agency all Atlanta notes received by the Boston agency in payment for bills. It was the sense of the Board members that the Boston agency should maintain its own currency department to handle money received in payment for bills. Mr. Adelson seemed very much disappointed at this expression of the Board's opinion, stating his understanding of the agreement to be that the Atlanta agency would alone maintain a currency department and would have entire charge of the handling of all moneys received by either agency. He stated very strongly that if Atlanta did not have the sole currency department, the Atlanta agency would entirely lose its identity and would be no more than an automaton merely to hand out new Atlanta notes whenever the Boston agency required them. Mr. Adelson anticipated that the Atlanta bank would have practically no business in buying or selling bills originating in its own Federal Reserve District, and for this reason, he urged that the Atlanta agency have sole charge of all currency operations.

It does appear that under the resolution, as thus interpreted, the Atlanta agency will have little more than a mechanical existence and its functions will be largely limited to paying out its own notes in connection

with operations carried on by the Boston agency and, as Mr. Adelson intimated, there is a possibility that the Atlanta bank may not care to proceed with the arrangements under these terms.

Mr. Bullen stated that he would submit to the Board early next week the Boston plan of operation and forward a copy to Mr. Adelson. The latter plans to discuss the situation with the directors of the Atlanta bank and make a report later. It does not appear, therefore, that any immediate action is required on the Board's part. This memorandum may, however, be helpful as a reference in further constructions of the Board's resolution, as indicating the attitude of the Board and of the Boston and Atlanta representatives.

Respectfully,

(signed) Edgar W. Freeman

Assistant Counsel.