

Meeting of Executive Committee on Monday, August 26, 1935.

PRESENT: Mr. Thomas, Vice Chairman
Mr. Hamlin
Mr. Miller
Mr. James

Letter to the Federal reserve agent of a Federal reserve bank, calling attention to the analysis of the report of examination of a State member bank as of June 1, 1935, in which reference was made to an "excess balance" being carried by the member bank with an unincorporated firm of private bankers and in connection with which the question was raised whether the provisions of Section 19 of the Federal Reserve Act, restricting deposits by a member bank with a non-member "State bank or trust company" to a sum not in excess of ten per cent of the member bank's capital and surplus is applicable to a deposit by a member bank with such a firm of private bankers. The letter stated that, in view of the terms of the limitation contained in Section 19, it appears that such limitation is not applicable to a deposit by a member bank with an unincorporated firm of private bankers; that the Board had heretofore considered circumstances having a bearing on this conclusion in connection with other provisions of the Federal Reserve Act, and had reached the conclusion (in a ruling published at page 693 of the Federal Reserve Bulletin for September, 1917) that the Federal reserve banks are not authorized to receive deposits from unincorporated private bankers under the provisions of Section 13 of the Federal Reserve Act and (in a ruling published at page 108 of the Federal Reserve Bulletin for February, 1935) that amounts due to and from private bankers may not be included by member banks in amounts due to and from "other banks" in computing the reserves required to be maintained by member banks under the provisions of Section 19 of the Federal Reserve Act.

The letter stated further that, however, the purpose of the provision referred to is obviously to restrict the amount of deposits of member banks in banking institutions which are not members of the Federal Reserve System and that, therefore, it is felt that the carrying of the balance in question is contrary to the spirit and purpose of the Federal Reserve Act and should be discouraged, even if it is not technically in violation of the letter of the law, and it is suggested that the agent advise the member bank accordingly.

Unanimously approved.