

FEDERAL RESERVE BANK OF CHICAGO

79 WEST MONROE STREET

February 8, 1919.

TO THE MEMBER BANKS OF DISTRICT NUMBER SEVEN:

For your information and guidance, we are pleased to quote below the complete text of a letter received from Hon. W. P. G. Harding, Governor of the Federal Reserve Board:

“January 29, 1919.

X-1370

SUBJECT: Deductions allowed in computing member banks' reserves carried with Federal Reserve Bank.

Sir:

Section 19 of the Federal Reserve Act, which relates to reserve requirements of member banks and which supersedes Section 5191, Revised Statutes, provides in part as follows:

‘Every bank, banking association, or trust company which is or which becomes a member of any Federal Reserve Bank shall establish and maintain reserve balances with its Federal Reserve Bank as follows: * * *

‘In estimating the balances required by this Act, the net difference of amounts due to and from other banks shall be taken as the basis for ascertaining the deposits against which required balances with Federal Reserve Banks shall be determined.’

Under authority of this provision of the Act, it has heretofore been customary to permit banks to treat ‘exchanges for clearing house’ and ‘checks on other banks in the same place’ as part of the balance due from other banks, so that these amounts have been deducted from ‘balances due to other banks, in computing reserve.

The Board’s attention has been called to the fact that in many instances ‘exchanges for clearing house’ greatly exceed the ledger ‘balances due to other banks’ and as a result banks which carry few accounts for other banks are required to maintain a reserve against such exchanges. It has accordingly been suggested that where this condition exists, the member banks should be permitted to deduct ‘exchanges for clearing house’ from individ-

ual deposits. The Board is advised by counsel that this would not be consistent with the letter and spirit of the Act, but that inasmuch as 'exchanges for clearing house' and 'checks on other banks in the same place' are treated as part of the 'balance due from other banks' on the assumption that such items necessarily become a part of such balance in due course of business, it would be consistent with the purposes of the Act to permit the offsetting items of 'cashiers' or 'treasurer's checks outstanding' and 'certified checks outstanding,' which in due course will be presented by and become a part of balances due to other banks, to be treated as part of such balances. The Board has accordingly ruled that in computing reserve, banks may deduct the total of

- (a) Balances due from other banks;
- (b) 'Exchanges for clearing house';
- (c) Checks on other banks in the same place;

from the total of

- (a) Balance due to other banks;
- * (b) Cashiers' checks on own bank outstanding;
- (c) Certified checks outstanding.

In determining the balances that must be maintained with the Federal Reserve Bank this method of computation may be followed.

The Comptroller of the Currency concurs in this ruling and will give the necessary instructions to national bank examiners.

Respectfully,

(Signed) W. P. G. HARDING,
Governor."

*This will include Secretary's or Treasurer's checks in case of institutions where such officers sign.

We are inclosing herewith a form indicating the method of computing reserve carried with the Federal Reserve Bank of Chicago.

Respectfully,

JAMES B. McDOUGAL,
Governor.

**COMPUTATION OF RESERVE TO BE CARRIED WITH THE
FEDERAL RESERVE BANK BY MEMBER BANKS**

DEMAND DEPOSITS

Deposits, other than United States Government deposits, payable within thirty days.....		\$
Balances due to banks, other than Federal Reserve Banks	\$	
Cashier's Checks on own Bank outstanding.....	\$	
Certified Checks outstanding.....	\$	
TOTAL DUE TO BANKS (Items 2, 3 and 4)	\$	
Less:		
Balance due from banks, other than Federal Reserve Bank	\$	
Items with Federal Reserve Bank in process of collection	\$	
Checks on other banks in same place.....	\$	
Exchanges for clearing house.....	\$	
TOTAL DEDUCTIONS (Items 5, 6, 7 and 8)	\$	
Net Balance due to banks*		\$
TOTAL DEMAND DEPOSITS (Items 1 and 9)		\$

TIME DEPOSITS

Savings accounts (subject to not less than thirty days' notice before payment).....		\$
Certificates of deposit (subject to not less than thirty days' notice before payment).....		\$
Other deposits payable only after thirty days.....		\$
Postal Savings deposits.....		\$
TOTAL TIME DEPOSITS (Items 11, 12, 13 and 14)		\$

RESERVE REQUIRED

Banks in Central Reserve Cities, 13 per cent; Reserve Cities, 10 per cent; elsewhere 7 per cent of Demand deposits (Item 10).....		\$
Three per cent of time deposits (Item 15).....		\$
Total reserve to be maintained with Federal Reserve Bank		\$

*Should the aggregate "due from banks" (Items 6, 7 and 8) exceed the aggregate "due to banks" (Items 2, 3 and 4), both items must be omitted from the calculation.