Much difficulty has apparently been experienced by some of our member banks in maintaining their reserve requirements with the Federal Reserve Bank, and penalties for deficiency are accruing in many instances as a result of a lack of definite knowledge, not only of the items to be taken into consideration in assembling the totals used as a basis for the calculation, but of just what constitutes the actual reserve balance itself.

First, it should always be borne in mind that the collected balance shown by the daily transcript received from the Federal Reserve Bank constitutes the member bank's legal reserve, and not the balance shown on the books of the member bank as being to its credit in the Federal Reserve Bank. The present law, in respect to reserves, recognizes neither checks in the process of collection (float) nor remittances in transit from member banks to the Federal Reserve Bank, as reserve, and such items are not included in reserve balances until they have actually been collected by the Federal Reserve Bank and are available as part of its cash resources.

Member bank's own drafts on other member banks, with the exceptions noted below, are not eligible for immediate credit on receipt by the Federal Reserve Bank. Any more than miscellaneous checks drawn by individuals on member banks, as the drawee must have the same opportunity of receiving the items and preparing its reserve account to meet the charge as is afforded in the case of handling checks of individuals on any member bank, with the exception that:

(a) Checks on participating member banks in the Reserve City Clearings, which are located in former reserve cities in this district, can be made available for immediate credit on receipt by obtaining permission from the drawee bank to stamp such checks, across their face, "Charge-(name of bank)-in Reserve City Clearings," and enclosing them to us in a letter containing no items which are eligible only for deferred credit.

(b) Bank drafts on any bank in any Federal Reserve City are available for immediate credit on receipt, at market rate for such exchange, when enclosed in a letter containing no items which are eligible only for deferred credit.

To facilitate the calculation of the required reserve, after the proper basis has been determined, we have prepared a special form, showing in detail just what items constitute that portion of a member bank's liabilities which is subject to reserve requirements, and giving, as well, all permissible deductions, while a footnote indicates the exact method to be followed. This form has received the approval of the Comptroller's office, and a copy is enclosed for your inspection. We have special arrangements for printing in quantity, and we will be glad to furnish them, should you desire a supply, at the low price of fifty cents per hundred, plus postage, which represents practically the actual cost of preparation.

While this form is submitted merely as a suggestion, we believe that its daily use, together with a careful study of our form letters 1 and 2, and our Circular 35, covering the operations of the District Clearing House, will result in the elimination of many of the difficulties in connection with the maintenance of your legal reserve on our books.

Yours very truly,

R. L. VAN ZANDT,