DEDUCTIONS ALLOWED IN COMPUTING MEMBER BANKS' RESERVES CARRIED WITH FEDERAL RESERVE BANK.

TO THE MEMBER BANK ADDRESSED:

We are in receipt of a letter from the Federal Reserve Board on the above subject under date of January 29, 1919, which reads as follows, and is submitted herewith for your information and guidance.

Yours very truly,
(Signed) R. L. VAN ZANDT,
Governor.

"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 individual 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 purpose of the Act to permit the offsetting items of "cashiers' or treasurers' 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"