

FEDERAL RESERVE BANK OF DALLAS
DALLAS, TEXAS 75222

Circular No. 70-48
February 25, 1970

To All Member Banks
in the Eleventh Federal Reserve District:

RESERVES OF MEMBER BANKS

REGULATION D

Officers' Checks as Deposits

There is attached an interpretation by the Board of Governors of the Federal Reserve System concerning officers' checks issued by member banks in repayment of "Federal Funds" transactions.

The change will become effective April 2, 1970.

Requests for additional copies of this circular and any questions relative thereto should be addressed to the Accounting Department of this Bank.

Yours very truly,

P. E. Coldwell

President

TITLE 12--BANKS AND BANKING

CHAPTER II--FEDERAL RESERVE SYSTEM

SUBCHAPTER A--BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

PART 204--RESERVES OF MEMBER BANKS

[Reg. D]

Officers' Checks as Deposits

Effective April 2, 1970, § 204.113 is added to read as follows:

§ 204.113 Officers' checks in repayment of "Federal funds" transactions included as "gross demand deposits".

(a) The Board has reviewed its ruling (1928 Federal Reserve Bulletin page 656) that a check issued by a member bank in repayment of a Federal funds transaction may be excluded from its deposit liabilities.

(b) Such ruling is in effect an exemption from the provisions of § 204.1(g) of Regulation D, which requires all officers' checks issued by a member bank to be included in its gross demand deposits for reserve purposes. Nonetheless, a member bank is permitted by § 204.2(b) of Regulation D to deduct all "cash items in process of collection" from its gross demand deposits, in computing its reserve requirements. Permitting the issuing bank to exclude from its deposit liabilities a check issued by it and also permitting the receiving bank to deduct the item from its deposit liabilities is inconsistent with the basis of the provision for cash-item deductions - to avoid situations in which two member banks maintain reserves against the same funds.

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(c) The Board considers that it should bring its regulations and interpretations in this area into harmony. Withdrawal of the 1928 ruling would eliminate the incongruity between such ruling and the provisions of § 204.1(g). Most Federal funds transactions are presently handled through entries on the books of the Reserve Banks (and do not involve the issuance of a check), and all such transactions can be handled in that manner. Consequently, withdrawal of the 1928 ruling would have little impact. Also, adopting such course of action seems clearly preferable to modifying § 204.2(b) to prohibit the deduction from gross demand deposits of a certain class of cash items - namely, those received in repayment of a Federal funds transaction.

(d) Accordingly, the 1928 ruling is withdrawn. Hereafter, as provided in § 204.1(g) of Regulation D, "The term 'gross demand deposits' means the sum of all demand deposits, including . . . all outstanding certified and officers' checks". (Emphasis added.)

(Interprets and applies 12 U.S.C. 461 and 465.)

By order of the Board of Governors, February 17, 1970.

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Deputy Secretary.

[SEAL]