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November 30, 1959

RESERVES OF MEMBER BANKS

To Member Banks in the
Eighth Federal Reserve District:

For your information, there is quoted below the text of a statement released to the press today by the Board of Governors of the Federal Reserve System regarding amendment to Regulation D - Reserves of Member Banks:

"The Board of Governors of the Federal Reserve System today amended its Regulation D so that member banks having large holdings of vault cash in relation to their deposits will be permitted to count a part of this cash in meeting their reserve requirements.

"Effective December 1, 1959, so-called "Country" banks (that is, banks not classified as reserve city or central reserve city banks) having vault cash in excess of 4 per cent of their net demand deposits will be permitted to count the excess as part of their required reserves. Also, effective December 3, banks classified as reserve city and central reserve city banks will similarly be permitted to count vault cash in excess of 2 per cent of their net demand deposits.

"On the basis of average vault cash holdings for the past 12 months, it appears that almost half of the 6250 member banks will be in a position to count a part of their vault cash in meeting their required reserves. As a result, total member bank reserve balances at the Federal Reserve Banks may be lower than would otherwise be required by as much as \$230 million, of which \$160 million would be at country banks and \$70 million at reserve city banks. Total vault cash held by member banks has averaged about \$2.2 billion.

(over)

"This Federal Reserve action was taken under the terms of an Act of Congress in 1959 designed in part to remedy inequities that have arisen because many banks, particularly small country banks, find it necessary for operating purposes to hold relatively larger amounts of vault cash than other banks do. No change in the System's general monetary or credit policy is involved. The beginning of December is a logical time for this action inasmuch as the Federal Reserve System needs to make additional reserves available to the banking system each year at this season in order to meet the seasonal requirements of the economy.

"At the same time, the Board adopted several amendments to technical provisions of Regulation D, including an amendment (effective December 31, 1959) whereby the reserve computation period for country banks will be biweekly instead of semimonthly."

Revised Regulation D will be printed and sent to you at a later date.

Delos C. Johns
President