

**FEDERAL RESERVE BANK
OF NEW YORK**

[Circular No. 4885]
May 4, 1960

RESERVES OF MEMBER BANKS

Revision of Operating Circular No. 2

*To All Member Banks of the
Second Federal Reserve District:*

Enclosed is a copy of our Operating Circular No. 2, Revised effective May 19, 1960. The circular has been revised to provide for daily, instead of weekly, reporting by all member banks of deposits and of currency and coin (vault cash).

The daily reports will provide important assistance to the Federal Reserve System in the conduct of its operations. At present, part of the data on bank reserves and the money supply that are used to help guide Federal Reserve operations in the money market are based upon estimated figures. These estimates frequently prove to be quite wide of the mark, complicating the System's efforts to maintain appropriate conditions in the national money market. The new daily reports will provide the System with accurate information, enabling it to respond more effectively to changing money market conditions.

The major changes in Operating Circular No. 2 are as follows:

Paragraph 5 now sets forth the daily reporting requirements for all member banks and contains a description of the report form. It provides that all member banks of the District, including those located in the territory assigned to the Buffalo Branch, should file reports directly with the Head Office.

Paragraphs 6 and 7 now provide that this Bank, at the end of each reserve computation period (weekly for central reserve and reserve city banks and biweekly for country banks), will prepare a report for each member bank showing the computation of average required reserve and allowable vault cash, based on the daily reports submitted by the member bank.

Paragraph 8 now states that a member bank should report promptly any discrepancy it cannot resolve between its own records and reports by this Bank.

Paragraph 9 now provides that we will furnish, upon request, copies of the daily reporting form and of worksheets designed to assist member banks to determine their reserve positions daily.

Additional copies of the revised operating circular will be furnished upon request.

ALFRED HAYES,
President.

**FEDERAL RESERVE BANK
OF NEW YORK**

[Operating Circular No. 2
Revised effective May 19, 1960]

RESERVES OF MEMBER BANKS

*To All Member Banks of the
Second Federal Reserve District:*

This circular contains general information regarding the reserve requirements of member banks, the method of determining required reserves, the making of certain reports relating to reserves, and penalties for deficiencies in reserves.

Statutory requirements

1. Section 19 of the Federal Reserve Act (hereinafter referred to as the "Act") requires every member bank to maintain reserve balances with its Federal Reserve Bank equal to stated percentages of its demand and time deposits; and authorizes the Board of Governors of the Federal Reserve System, by regulation, to define certain terms used in the Act, to change the requirements as to reserves within certain stated limits, and to prescribe penalties for deficient reserves.

Regulation D

2. Pursuant to section 19 of the Act, the Board of Governors has issued its Regulation D, to which reference should be made for complete details on reserve requirements and for the penalties prescribed for deficiencies in reserves. A Supplement to Regulation D sets forth the reserve requirements applicable at any given time and the amount of currency and coin permitted to be counted in partial compliance with reserve requirements.

Establishment and maintenance of reserve balances

3. Reserve balances may be established and maintained by credits for deposits of currency and coin, of checks and other cash items, and of noncash items, and for advances and discounts, transfers of funds, dividends paid on our capital stock, and other payments made to and received and accepted by us for the account of a member bank. For the timing of such credits, our circulars relating to the different types of transactions should be consulted. Subject to the imposition of

penalties for deficiencies in reserves, member banks are authorized by section 19 of the Act to check against and withdraw reserve balances for the purpose of meeting existing liabilities.

Determination of required reserves

4. Required reserves for any given day are computed on the basis of net demand deposits and time deposits as shown by the books of a member bank at the beginning of business on such day, and a member bank should calculate its required reserves (as well as currency and coin allowable as reserves) as of that time.

Daily reports by member banks of deposits and currency and coin

5. Each member bank in the Second Federal Reserve District is required to file with this Bank, on a form furnished by us, a daily report of its net demand deposits, time deposits, and currency and coin. The report form, "Report of Deposits and Vault Cash," when properly folded and sealed, will serve as a postage-prepaid envelope addressed to this Bank. All member banks of the District, including those located in the territory assigned to the Buffalo Branch, should file reports directly with the Head Office.

Central reserve and reserve city banks

6. Each central reserve and reserve city member bank has a weekly reserve computation period ending every Wednesday. As soon as possible after we receive the last daily report for any such period, this Bank will prepare and send to each such bank a report on revised Form R.B. 13 showing the computation of that bank's average required reserve and allowable vault cash for the period, based on the daily reports submitted by the member bank.

Country banks

7. Each member bank other than a central reserve or reserve city member bank has a biweekly reserve computation period ending every second Wednesday (the first such Wednesday having been January 13, 1960). As soon as possible after we receive the last daily report for any such period, this Bank will prepare and send to each such bank a report on revised Form R.B. 13 showing the computation of that bank's average required reserve and allowable vault cash for the period, based on the daily reports submitted by the member bank.

Reconciliation of reports

8. If a member bank discovers any discrepancy it cannot resolve between its own records and any report by this Bank on Form R.B. 13, the discrepancy should be reported promptly to our Accounting Division.

Form R.B. 24

9. Form R.B. 24 is a worksheet designed to assist member banks to determine their reserve positions daily. Form R.B. 24 should not be filed with this Bank. Copies of the worksheet and the daily reporting form, "Report of Deposits and Vault Cash," will be furnished upon request addressed to our Accounting Division.

Treatment of paid United States Savings Bonds and Armed Forces Leave Bonds

10. In preparing the daily "Report of Deposits and Vault Cash," a member bank qualified to make payment of United States Savings Bonds and Armed Forces Leave Bonds should treat paid bonds as follows:

(a) If the bank follows a practice of forwarding paid bonds to this Bank on the day it makes payment or on the following business day, it should treat such bonds as cash items in process of collection during the period prior to receipt of settlement from us, and should include the amount of such bonds in Column 4 of the daily report.

(b) If the bank follows a practice of holding paid bonds beyond the business day following the day of payment, it should treat such bonds as cash items not in process of collection until the day they are forwarded to this Bank, and should then treat them as cash items in process of collection until receipt of settlement from this Bank. Cash items not in process of collection should not be reported on the daily report.

Penalties for deficiencies in reserves

11. Pursuant to instructions of the Board of Governors of the Federal Reserve System, the penalty for a deficiency in reserves required to be maintained by a member bank during any reserve computation period may be waived in the discretion of this Bank when the deficiency is offset by excess reserves during the immediately following reserve computation period, provided that such deficiency does not exceed two per cent of the member bank's required reserves.

12. Although penalties for deficiencies in reserves are assessed on daily average deficiencies over weekly or biweekly periods, and such penalties may be waived in certain cases, member banks should con-

tinue to make reasonable efforts to hold and maintain their prescribed reserves from day to day, making allowance for unforeseen fluctuations in deposits and reserves.

Revision of this circular

13. The right is reserved to withdraw, add to, or amend at any time any of the provisions of this circular.

Effect of this circular on previous circular

14. This circular supersedes our Operating Circular No. 2, Revised February 10, 1960.

ALFRED HAYES,
President.