

FEDERAL RESERVE BANK  
OF NEW YORK

[ Circular No. 5217 ]  
[ August 27, 1962 ]

RESERVES OF MEMBER BANKS  
Revision of Regulation D and Operating Circular No. 2

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

Effective July 28, 1962, the Board of Governors of the Federal Reserve System revised its Regulation D, Reserves of Member Banks, a copy of which is enclosed. The regulation, including its Supplement, has been amended to conform to the change in law, effective July 28, 1962, abolishing the central reserve city classification. Other changes included in the revision are as follows:

(1) Section 204.2(a)(2) has been amended by setting forth the factors considered by the Board in acting upon applications by individual member banks located in reserve cities for permission to maintain the lower reserves applicable to member banks not located in reserve cities ("country banks"). This change was the subject of a notice of proposed rule making published in the Federal Register of March 7, 1961, and was adopted by the Board after consideration of relevant views and arguments received from interested persons.

(2) Sections 204.1(i), 204.2(a)(1), 204.3(a), and 204.5 have been amended by making certain minor clarifying changes.

Also enclosed is a copy of this Bank's Operating Circular No. 2, Revised effective July 28, 1962, entitled "Reserves of Member Banks." In addition to editorial changes, the circular has been revised to conform to the changes in Regulation D.

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

ALFRED HAYES,  
*President.*

**BOARD OF GOVERNORS  
of the  
FEDERAL RESERVE SYSTEM**

---

**RESERVES OF MEMBER BANKS**



**REGULATION D  
(12 CFR PART 204)**

**As Revised Effective July 28, 1962**



## **INQUIRIES REGARDING THIS REGULATION**

**Any inquiry relating to this regulation should be addressed to the Federal Reserve Bank of the district in which the inquiry arises.**

---

### **STATUTORY AUTHORITY**

This regulation is issued under authority of provisions of section 19 of the Federal Reserve Act (38 Stat. 270, as amended; 12 U.S.C. 461, 462, 462a-1, 462b, 464, 465) which, together with related provisions of law, are published in the Appendix hereto.

# CONTENTS

(This text corresponds to the Code of Federal Regulations, Title 12,  
Chapter II, Part 204, cited as 12 CFR PART 204)

	Page
SEC. 204.1. DEFINITIONS .....	1
(a) Demand deposits .....	1
(b) Time deposits .....	1
(c) Time certificates of deposit.....	1
(d) Time deposits, open account.....	1
(e) Savings deposits .....	2
(f) Gross demand deposits.....	2
(g) Cash items in process of collection.....	2
(h) Net demand deposits.....	3
(i) Currency and coin.....	3
SEC. 204.2. COMPUTATION OF RESERVES.....	3
(a) Amounts of reserves to be maintained.....	3
(b) Deductions allowed in computing reserves.....	4
(c) Availability of cash items as reserve.....	4
(d) Reserves against trust funds.....	4
(e) Continuance of "time deposit" status.....	5
SEC. 204.3. DEFICIENCIES IN RESERVES.....	5
(a) Computation of deficiencies.....	5
(b) Penalties .....	6
(c) Notice to directors of banks deficient in reserves.....	6
(d) Continued deficiencies .....	6
APPENDIX ...	7



# REGULATION D

(12 CFR PART 204)

As Revised Effective July 28, 1962

## RESERVES OF MEMBER BANKS

### SECTION 204.1—DEFINITIONS

(a) **Demand deposits.**—The term “demand deposits” includes all deposits except “time deposits” as defined below.

(b) **Time deposits.**—The term “time deposits” means “time certificates of deposits,” “time deposits, open account” and “savings deposits,” as defined below.

(c) **Time certificates of deposit.**—The term “time certificate of deposit” means a deposit evidenced by a negotiable or nonnegotiable instrument which provides on its face that the amount of such deposit is payable to bearer or to any specified person or to his order—

(1) On a certain date, specified in the instrument, not less than 30 days after the date of deposit, or

(2) At the expiration of a certain specified time not less than 30 days after the date of the instrument, or

(3) Upon notice in writing which is actually required to be given not less than 30 days before the date of repayment,<sup>1</sup> and

(4) In all cases only upon presentation and surrender of the instrument.

(d) **Time deposits, open account.**—The term “time deposit, open account” means a deposit, other than a “time certificate of deposit” or a “savings deposit,” with respect to which there is in force a written contract with the depositor that neither the whole nor any part of such deposit may be withdrawn, by check or otherwise, prior to the date of maturity which shall be not less than 30 days after the date of the deposit,<sup>2</sup> or prior to the expiration of the period of notice which must be given by the depositor in writing not less than 30 days in advance of withdrawal.<sup>3</sup>

<sup>1</sup> A deposit with respect to which the bank merely reserves the right to require notice of not less than 30 days before any withdrawal is made is not a “time certificate of deposit.”

<sup>2</sup> Deposits such as Christmas club accounts and vacation club accounts, which are made under written contracts providing that no withdrawal shall be made until a certain number of periodic deposits have been made during a period of not less than three months constitute “time deposits, open account” even though some of the deposits are made within 30 days from the end of such period.

<sup>3</sup> A deposit with respect to which the bank merely reserves the right to require notice of not less than 30 days before any withdrawal is made is not a “time deposit, open account.”

(e) **Savings deposits.**—The term “savings deposit” means a deposit—

(1) Which consists of funds deposited to the credit of one or more individuals, or of a corporation, association, or other organization operated primarily for religious, philanthropic, charitable, educational, fraternal, or other similar purposes and not operated for profit;<sup>4</sup> or in which the entire beneficial interest is held by one or more individuals or by such a corporation, association, or other organization; and

(2) With respect to which the depositor is required, or may at any time be required, by the bank to give notice in writing of an intended withdrawal not less than 30 days before such withdrawal is made.

(f) **Gross demand deposits.**—The term “gross demand deposits” means the sum of all demand deposits, including demand deposits made by other banks, the United States, States, counties, school districts and other governmental subdivisions and municipalities, and all outstanding certified and officers’ checks (including checks issued by the bank in payment of dividends), and letters of credit and travelers’ checks sold for cash.

(g) **Cash items in process of collection.**—The term “cash items in process of collection” means:

(1) Checks in process of collection, drawn on a bank, private bank, or any other banking institution, which are payable immediately upon presentation in the United States, including checks with a Federal Reserve bank in process of collection and checks on hand which will be presented for payment or forwarded for collection on the following business day;

(2) Government checks and warrants drawn on the Treasurer of the United States which are in process of collection;

(3) Such other items in process of collection, payable immediately upon presentation in the United States, as are customarily cleared or collected by banks as cash items.

Items handled as noncash collections may not be treated as “cash items in process of collection” within the meaning of this part.

---

<sup>4</sup>Deposits in joint accounts of two or more individuals may be classified as savings deposits if they meet the other requirements of the above definition, but deposits of a partnership operated for profit may not be so classified. Deposits to the credit of an individual of funds in which any beneficial interest is held by a corporation, partnership, association or other organization operated for profit or not operated primarily for religious, philanthropic, charitable, educational, fraternal or other similar purposes may not be classified as savings deposits.

(h) **Net demand deposits.**—The term “net demand deposits” means gross demand deposits as defined in paragraph (f) of this section less the deductions allowed under the provisions of § 204.2 (b).

(i) **Currency and coin.**—The term “currency and coin” means United States currency and coin owned and held by a member bank, including currency and coin in transit to or from a Federal Reserve bank.

#### SECTION 204.2—COMPUTATION OF RESERVES

(a) **Amounts of reserves to be maintained.**—(1) Every member bank shall maintain on deposit with the Federal Reserve bank of its district an actual net balance equal to 3 per cent of its time deposits, plus 7 per cent of its net demand deposits if it is not located in a reserve city or 10 per cent of its net demand deposits if it is located in a reserve city, or such different percentages of its time deposits and net demand deposits as the Board of Governors of the Federal Reserve System, pursuant to and within the limitations contained in section 19 of the Federal Reserve Act,<sup>5</sup> may prescribe from time to time in § 204.5 (the Supplement to this part); *Provided*, That a member bank’s currency and coin shall be counted as reserves in determining compliance with such requirements to such extent as the Board of Governors of the Federal Reserve System, pursuant to section 19 of the Federal Reserve Act, may permit from time to time in § 204.5.

(2) Notwithstanding the provisions of subparagraph (1) of this paragraph, a member bank located in a reserve city may hold and maintain the reserve balances which are in effect for member banks not located in reserve cities if, upon application to the Board of Governors, the Board grants permission for the holding and maintaining of such lower reserve balances after consideration of all factors relating to the character of such bank’s business, including, but not limited to, the amount of such member bank’s total assets, the amount of its total deposits, the amount of its total demand deposits, the amount of its demand deposits owing to banks, the nature of its depositors and borrowers, the rate of activity of its demand deposits, its geographical location within the city, and its competitive position with relation to other banks in the city. Any such permission shall be subject to revocation by the Board at any time in

---

<sup>5</sup> Any such different percentages prescribed by the Board may not be less than 3 per cent of time deposits, 7 per cent of net demand deposits of banks not located in reserve cities, or 10 per cent of net demand deposits of banks located in reserve cities, nor more than 6 per cent of time deposits, 14 per cent of net demand deposits of banks not located in reserve cities, or 22 per cent of net demand deposits of banks located in reserve cities.

the light of changed circumstances, and all such grants of permission may be subject to annual review by the Board.

(3) For the purposes of this part, a member bank shall be considered to be in a reserve city if the head office or any branch thereof is located in a reserve city.

(b) **Deductions allowed in computing reserves.**—In determining the reserve balances required under the terms of this part, member banks may deduct from the amount of their gross demand deposits the amounts of balances subject to immediate withdrawal due from other banks and cash items in process of collection as defined in § 204.1(g). Balances “due from other banks” do not include balances due from Federal Reserve banks, balances (payable in dollars or otherwise) due from foreign banks or branches thereof wherever located, or balances due from foreign branches of domestic banks. The word “banks” in the term “due from other banks” refers to incorporated banks and does not include private banks or bankers.<sup>6</sup>

(c) **Availability of cash items as reserve.**—Cash items forwarded to a Federal Reserve bank for collection and credit cannot be counted as part of the minimum reserve balance to be carried by a member bank with its Federal Reserve bank until the expiration of such time as may be specified in the appropriate time schedule referred to in part 210 of this chapter. If a member bank draw against items before such time, the draft will be charged against its reserve balance if such balance be sufficient in amount to pay it; but any resulting impairment of reserve balances will be subject to the penalties provided by law and by this part: *Provided, however,* That the Federal Reserve bank may, in its discretion, refuse at any time to permit the withdrawal or other use of credit given in its reserve account for any item for which the Federal Reserve bank has not received payment in actually and finally collected funds.

(d) **Reserves against trust funds.**—A member bank exercising trust powers need not maintain reserves against trust funds which it keeps properly segregated as trust funds and apart from its general assets or which it deposits in another institution to the credit of itself as trustee or other fiduciary. If, however, such funds are mingled with the general assets of the bank, as permitted to national banks under authority of section 11(k) of the Federal Reserve Act

---

<sup>6</sup> A member bank exercising fiduciary powers may not include in balances “due from other banks” amounts of trust funds deposited with other banks and due to it as trustee or other fiduciary. If trust funds are deposited by the trust department of a member bank in its commercial or savings department and are then redeposited in another bank subject to immediate withdrawal they may be included by the member bank in balances “due from other banks,” subject to the provisions of § 204.2 (b).

(40 Stat. 969; 12 U.S.C. 248(k)), a deposit liability thereby arises against which reserves must be maintained.

(e) **Continuance of "time deposits" status.**—A deposit which at the time of deposit was a "deposit evidenced by a time certificate of deposit," "time deposit, open account," or "savings deposit" continues to be a "time deposit" until maturity or the expiration of the period of notice of withdrawal, although it has become payable within 30 days. After the date of maturity of any time deposit, such deposit is a demand deposit. After the expiration of the period of notice given with respect to the repayment of any savings deposit or other time deposit, such deposit is a demand deposit, except that, if the owner of such deposit advise the bank in writing that the deposit will not be withdrawn pursuant to such notice or that the deposit will thereafter again be subject to the contract or requirements applicable to such deposit, the deposit will again constitute a savings deposit or other time deposit, as the case may be, after the date upon which such advice is received by the bank.

#### SECTION 204.3—DEFICIENCIES IN RESERVES

(a) **Computation of deficiencies.**—(1) Deficiencies in reserve balances of member banks in reserve cities shall be computed on the basis of average daily net deposit balances and average daily currency and coin covering weekly periods.<sup>7</sup> Deficiencies in reserve balances of other member banks shall be computed on the basis of average daily net deposit balances and average daily currency and coin covering biweekly periods.

(2) In computing such deficiencies the required reserve balance of each member bank at the close of business each day shall be based upon its net deposit balances and currency and coin at the opening of business on the same day; and the weekly and biweekly periods referred to in paragraph (1) hereof shall end at the close of business on days to be fixed by the Federal Reserve banks with the approval of the Board of Governors of the Federal Reserve System. When, however, the reserve computation period ends with a nonbusiness day, or two or more consecutive nonbusiness days, of the member bank or its Federal Reserve bank, such nonbusiness day or days may, at the option of the member bank, and whether or not it had a reserve deficiency in such computation period, be included in the next reserve computation period.

<sup>7</sup> However, deficiencies in reserve balances of member banks in reserve cities which have been authorized by the Board of Governors, under the provisions of § 204.2(a)(2), to hold and maintain the reserve balances in effect for member banks not in reserve cities will be computed on the basis provided for such latter member banks.

(b) **Penalties.**—(1) Penalties for such deficiencies will be assessed monthly on the basis of average daily deficiencies during each of the reserve computation periods ending in the preceding calendar month.

(2) Such penalties will be assessed at a rate of 2 per cent per annum above the Federal Reserve bank rate applicable to discounts of 90 day commercial paper for member banks, in effect on the first day of the calendar month in which the deficiencies occurred.

(c) **Notice to directors of banks deficient in reserves.**—Whenever it shall appear that a member bank is not paying due regard to the maintenance of its reserves, the Federal Reserve bank shall address a letter to each director of such bank calling attention to the situation and advising him of the requirements of the law and of this part regarding the maintenance of reserves.

(d) **Continued deficiencies.**—If, after the notice provided for in paragraph (c) of this section has been given, it shall appear that the member bank is continuing its failure to pay due regard to the maintenance of its reserves, the Federal Reserve bank shall report such fact to the Board of Governors of the Federal Reserve System with a recommendation as to whether or not the Board should:

(1) In the case of a national bank, direct the Comptroller of the Currency to bring suit to forfeit the charter of such national bank pursuant to section 2 of the Federal Reserve Act (38 Stat. 252; 12 U.S.C. 501a); or

(2) In the case of a State member bank, institute proceedings to require such bank to surrender its stock in the Federal Reserve bank and to forfeit all rights and privileges of membership pursuant to section 9 of the Federal Reserve Act (46 Stat. 251; 12 U.S.C. 327); or

(3) In either case, take such other action as the Federal Reserve bank may recommend or the Board of Governors of the Federal Reserve System may consider advisable.

(SECTION 204.5—SUPPLEMENT, containing reserve percentages and use of vault cash in meeting reserve requirements, is printed separately.)

## APPENDIX

### STATUTORY PROVISIONS

Section 19 of the Federal Reserve Act (38 Stat. 270, as amended; 12 U.S.C. 461, 462, 462a-1, 462b, 464, 465) provides in part as follows:

The Board of Governors of the Federal Reserve System is authorized, for the purposes of this section, to define the terms "demand deposits," "gross demand deposits," "deposits payable on demand," "time deposits," "savings deposits," and "trust fund," to determine what shall be deemed to be a payment of interest, and to prescribe such rules and regulations as it may deem necessary to effectuate the purposes of this section and prevent evasions thereof: *Provided*, That, within the meaning of the provisions of this section regarding the reserves required of member banks, the term "time deposits" shall include "savings deposits."

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:

(a) If not in a reserve city, as now or hereafter defined, it shall hold and maintain with the Federal Reserve bank of its district an actual net balance equal to not less than seven per centum of the aggregate amount of its demand deposits and three per centum of its time deposits.

(b) If in a reserve city, as now or hereafter defined, it shall hold and maintain with the Federal Reserve bank of its district an actual net balance equal to not less than ten per centum of the aggregate amount of its demand deposits and three per centum of its time deposits.

Notwithstanding the other provisions of this section (1) the Board of Governors, under such regulations as it may prescribe, may permit member banks to count all or part of their currency and coin as reserves required under this section; and (2) a member bank in a reserve city may hold and maintain the reserve balances which are in effect under this section for member banks described in paragraph (a), if permission for the holding and maintaining of such lower reserve balances is granted by the Board of Governors of the Federal Reserve System, either in individual cases or under regulations of the Board, on such basis as the Board may deem reasonable and appro-

priate in view of the character of business transacted by the member bank.

Notwithstanding the other provisions of this section, the Board of Governors of the Federal Reserve System, upon the affirmative vote of not less than four of its members, in order to prevent injurious credit expansion or contraction, may by regulation change the requirements as to reserves to be maintained against demand or time deposits or both (1) by member banks in reserve cities, (2) by member banks not in reserve cities, or (3) by all member banks; but the amount of the reserves required to be maintained by any such member bank as a result of any such change shall not be less than the amount of the reserves required by law to be maintained by such bank nor more than twice such amount, except that in the case of member banks in reserve cities the maximum amount of reserves which may be required to be maintained against demand deposits shall be 22 per centum.

\* \* \* \* \*

The required balance carried by a member bank with a Federal Reserve bank may, under the regulations and subject to such penalties as may be prescribed by the Board of Governors of the Federal Reserve System, be checked against and withdrawn by such member bank for the purpose of meeting existing liabilities.

In estimating the reserve balances required by this Act, member banks may deduct from the amount of their gross demand deposits the amounts of balances due from other banks (except Federal Reserve banks and foreign banks) and cash items in process of collection payable immediately upon presentation in the United States, within the meaning of these terms as defined by the Board of Governors of the Federal Reserve System.

\* \* \* \* \*

Notwithstanding the provisions of the First Liberty Bond Act, as amended, the Second Liberty Bond Act, as amended, and the Third Liberty Bond Act, as amended, member banks shall be required to maintain the same reserves against deposits of public moneys by the United States as they are required by this section to maintain against other deposits: *Provided*, That until six months after the cessation of hostilities in the present war as determined by proclamation of the President or concurrent resolution of the Congress no deposit payable to the United States by any member bank arising solely as the result of subscriptions made by or through

such member bank for United States Government securities issued under authority of the Second Liberty Bond Act, as amended, shall be subject to the reserve requirements of this section.

[“Cessation of hostilities” was proclaimed by the President on December 31, 1946; and, accordingly, the proviso in the above paragraph expired six months after that date.]

Section 11 of the Federal Reserve Act (38 Stat 262, as amended; 12 U.S.C. 248) provides in part as follows:

The Board of Governors of the Federal Reserve System shall be authorized and empowered: \* \* \* (c) To suspend for a period not exceeding thirty days, and from time to time to renew such suspension for periods not exceeding fifteen days, any reserve requirements specified in this Act: *Provided*, That it shall establish a graduated tax upon the amounts by which the reserve requirements of this Act may be permitted to fall below the level hereinafter specified \* \* \*



## SUPPLEMENT TO REGULATION D

### Section 204.5—Supplement

ISSUED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Effective as to all member banks at the opening of business on  
July 28, 1962

(a) **Reserve percentages.**—Pursuant to the provisions of section 19 of the Federal Reserve Act and § 204.2(a), but subject to paragraph (b) of this section, the Board of Governors of the Federal Reserve System hereby prescribes the following reserve balances which each member bank of the Federal Reserve System is required to maintain on deposit with the Federal Reserve bank of its district:

(1) If not in a reserve city—

(i) 5 per cent of its time deposits, plus

(ii) 12 per cent of its net demand deposits.

(2) If in a reserve city (except as to any bank located in such a city which is permitted by the Board of Governors of the Federal Reserve System, pursuant to § 204.2(a) (2), to maintain the reserves specified in subparagraph (1) of this paragraph)—

(i) 5 per cent of its time deposits, plus

(ii) 16½ per cent of its net demand deposits.

(b) **Counting of currency and coin.**—The amount of a member bank's currency and coin shall be counted as reserves in determining compliance with the reserve requirements of paragraph (a) of this section.



**FEDERAL RESERVE BANK  
OF NEW YORK**

[ **Operating Circular No. 2**  
**Revised effective July 28, 1962** ]

**RESERVES OF MEMBER BANKS**

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

This circular contains 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 permit member banks to count all or part of their currency and coin as required reserves, 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 prescribes the amount of a member bank's currency and coin that may be counted as reserves in determining compliance with such 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 counted 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.

#### *Reserve city banks*

6. Each 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 Form RB 13 showing the computation of that bank's average required reserves and vault cash for the period, based on the daily reports submitted by the member bank.

#### *Country banks*

7. Each member bank other than a reserve city member bank has a biweekly reserve computation period ending every second Wednesday (the last such Wednesday having been July 25, 1962). 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 Form RB 13A showing the computation of that bank's average required reserves and vault cash for the period, based on the daily

reports submitted by the member bank. The report also shows the average reserves maintained with us and the excess or deficient reserves for the period.

#### *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 RB 13 or Form RB 13A, the discrepancy should be reported promptly to our Accounting Division.

#### *Form RB 24*

9. Form RB 24 is a worksheet designed to assist member banks to determine their reserve positions daily. Form RB 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 2 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 continue to make reasonable efforts to hold and maintain their required 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 May 19, 1960.

ALFRED HAYES,  
*President.*