

FEDERAL RESERVE BANK  
OF NEW YORK

[ Circular No. 6494 ]  
February 24, 1970 ]

Interpretation of Regulation D

To All Member Banks, and Others Concerned,  
in the Second Federal Reserve District:

Printed below is the text of an interpretation of Regulation D, adopted by the Board of Governors of the Federal Reserve System on February 17. The interpretation, which becomes effective April 2, 1970, withdraws a 1928 Board ruling that a check issued by a member bank in repayment of a Federal funds transaction may be excluded from its deposit liabilities.

The interpretation will be published shortly in the *Federal Register* and in the March 1970 issue of the *Federal Reserve Bulletin* but is being sent to you now so that you might have prompt notice of its content.

ALFRED HAYES,  
President.

[Reg. D]

PART 204—RESERVES OF MEMBER BANKS

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.

(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.)