

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 6652]
[December 11, 1970]

COUNTING OF CURRENCY AND COIN AS RESERVES

Interpretation of Regulation D, Effective January 7, 1971

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

Following is the text of a statement issued December 9 by the Board of Governors of the Federal Reserve System:

The Board of Governors of the Federal Reserve System today issued an interpretation spelling out the circumstances under which a member bank may count currency and coin as part of its required reserves.

The interpretation specifies that a member bank may count as part of its reserves only that currency and coin to which it has a full and unrestricted right to use to meet depositors' claims. Currency or coin held by a bank under agreements, undertakings or arrangements with customers that effectively deny to the bank the unrestricted use of the currency or coin cannot be counted as reserves within the meaning of the Federal Reserve Act since it is not available, legally or practically, to meet depositors' claims.

In clarifying provisions of the Board's Regulation D governing the reserves of member banks, the interpretation does not affect the legality of arrangements between a bank and its customers regarding currency and coin. It merely prevents member banks from counting such currency or coin as part of their reserves.

In issuing this interpretation, the Board withdrew a proposed regulatory amendment that would have prevented member banks from counting as part of their required reserves any silver coin they held for its bullion or numismatic value.

Printed below is the text of the interpretation of Regulation D referred to in the above statement. Additional copies of this circular will be furnished upon request.

ALFRED HAYES,
President.

[Reg. D]

PART 204—RESERVES OF MEMBER BANKS

Currency and Coin

1. Effective January 7, 1971, § 204.116 is added to read as follows:

§ 204.116 *Currency or coin held principally for its numismatic or bullion value.*

(a) The Board of Governors has considered the status under Regulation D for purposes of reserve computations of currency and coins held by member banks principally for their numismatic or bullion value.

(b) It appears that a number of banks have been counting as part of their reserve requirements silver coins which the banks have acquired and segregated

from coins available to meet customers' demands. In some cases, the coins are held by the bank for its own account with the expectation of earning a premium over face value because of the greater numismatic or bullion value of the coins. In other cases, the coins are held by the bank for the account of its customers, under a written or oral agreement, whereby the customer retains the right to, or an option on, such coins.

(c) When a member bank acquires currency or coin that it has the full and unrestricted right to use at any time to meet depositors' claims, such currency or coin may be counted as reserves for purposes of

(OVER)

satisfying the bank's reserve requirements. The fact that a bank may choose to segregate part of such currency or coin does not of itself disqualify the currency or coin from counting as reserves.

(d) A bank does not have "the full and unrestricted right" within the meaning of the preceding paragraph if the bank is prevented, legally or practically, by virtue of customer agreements, undertakings or arrangements, from using the currency or coin at any time to meet customers' demands. Such customer agreements, undertakings or arrangements may relate to the specific currency or coins transferred to the bank or to currency or coin that the bank is or may be obligated to acquire to replace the specific currency or coins so transferred.

(e) Examples of agreements, undertakings, or arrangements between a bank and its customer that have come to the Board's attention under which the bank does not have the full and unrestricted right to use silver coins at any time to meet customers' demands are:

(1) The bank holds the coins subject to a repurchase agreement or an option by the customer or his assignee (a borrowing by the bank of the coins).

(2) Coins are deposited by the customer and the bank promises to resell to the customer a similar amount of coins (in effect a borrowing by the bank of the coins).

(3) The coins deposited by the customer are to be segregated and returned to the customer upon his request or after a certain period of time (a bailment).

(4) The bank issues a certificate of deposit, the consideration for which is coins, and the bank simultaneously enters into an agreement to redeem the certificate by payment of the coins, either the identical coins deposited by the customer or similar coins (a special deposit).

(5) Coins are transferred to the bank as collateral for a loan.

(f) An agreement between the bank and its customer that the currency or coin is to be regarded as "owned" by the bank for purposes of reserve requirements is not determinative. Whether currency or coin may be counted as reserves depends on the underlying nature of the transaction in the light of the principle and example set forth herein.

(g) This interpretation is not intended to affect the legality of agreements, undertakings, or arrangements between the bank and its customers regarding currency or coin.

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

2. On June 3, 1970, the Board published for comment a proposed amendment to Regulation D to prevent member banks from counting as part of their required reserves any coin they hold principally for its bullion or numismatic value (Federal Register of June 9, 1970, 35 F.R. 8892). That proposal is withdrawn.