

FEDERAL RESERVE BOARD  
WASHINGTON

June 19, 1915.

My dear Governor:

The following inquiry has been submitted to this office for an opinion:

"With reference to Section 19 of the Federal Reserve Act, I am requested to invite your attention to the following differences in language and the query as to the holding of reserves:

The last paragraph of Subsection "a" authorizes reserves to be held 'in the vaults of the member bank or in the Federal reserve bank, or in both, at the option of the member bank.'

The last paragraph in subsection "b" provides that the reserve shall be held 'in its vaults or in the Federal reserve bank, or in both, at the option of the member bank.'

The next to the last paragraph, under Subsection "a" provides that the reserves may be held 'in its own vaults or in the Federal Reserve bank or in national banks in reserve or central reserve cities.'

The next to the last paragraph in Subsection "b" provides that the reserves may be held 'in its own vaults or in the Federal reserve bank or in national banks in central reserve cities.'

The next to the last paragraph in Subsection "c" provides that the balance of said reserve shall be held 'in its own vaults or in the Federal reserve bank at its option.'

QUERY. Do the paragraphs which omit the phrase 'or in both' or a similar phrase, restrict the banks to holding the reserves mentioned in such paragraphs in only one of the depositories mentioned, or may they hold such reserves partly in one and partly in another at their option?"

Considering Section 19 as a whole, it appears that one of its purposes is to arrange for a gradual transfer to the Federal reserve banks of that part of a member bank's reserve which consists of balances due from approved

reserve agents. A period of three years is allowed for this transfer. It will be observed that during this period member banks are required to carry a definite proportion of their total reserve in their own vaults and a definite proportion with the Federal reserve bank of their district, and that the balance may be carried either in their own vaults or with an approved reserve agent or with the Federal reserve bank.

Aside from the fact that in the last paragraph the language "or in both" is used, while in those paragraphs under consideration no similar language is employed, there is nothing in the Act to indicate that member banks were expected to make an election whether the whole balance not required to be carried in their own vaults or with the Federal reserve bank should be deposited in one of the three depositaries named.

Section 2 provides in terms that-

"The organization of reserve districts and Federal reserve cities shall not be construed as changing the present status of reserve cities and central reserve cities, except in so far as this Act changes the amount of reserves that may be carried with approved reserve agents located therein".

Inasmuch as balances due from approved reserve agents in reserve or central reserve cities could be counted as reserve prior to the passage of the Federal Reserve Act, and since the status of the reserve and central reserve cities is not changed except in so far as the amount which may be carried is reduced, it seems clear that Congress intended to permit banks to continue to count as part of their legal reserve any balance due from an approved reserve agent after deducting from the total reserve required that part which the Act requires such banks to carry either in their own vaults or with the Federal reserve bank and that it did not intend that balances due from approved reserve agents should be counted as reserve by a member bank, only in the event that the total reserve of such member bank less the amount required to be carried in its own vaults and with its Federal reserve bank, should be carried in reserve or central reserve cities. Such a construction would change the status of reserve and central reserve cities in that it would permit balances due from approved reserve agents located in such cities to be counted as reserve only under cer-

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tain conditions which did not pertain prior to the passage of the Federal Reserve Act.

I am, therefore, of the opinion that it is not necessary for such banks to carry the whole of this balance in their own vaults, with the Federal reserve bank, or with an approved reserve agent in a reserve or central reserve city, but may count as part of its reserve excess reserve carried in its own vaults, balances due from approved reserve agents, and balances due from Federal reserve banks, PROVIDED, of course, the requisite amounts are carried in their own vaults and with Federal reserve banks.

Respectfully,

M. C. ELLIOTT,

Counsel.

Hon. Charles S. Hamlin,  
Governor.

7/1/15.