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ADDRESS REPLY TO
 FEDERAL RESERVE BOARD

May 26, 1916.

Mr. D. C. Wills,
 Federal Reserve Agent,
 Cleveland, Ohio.

My dear Mr. Wills:

The point raised in your letter of May 12th, reading
 as follows:

"Will the country bank keeping a single account
 be permitted to count the full balance in that account
 without deduction, as reserve, provided it carries on
 the books of the Federal Reserve Bank a net collected
 balance equal to its minimum reserve requirement?"

is a matter which we have not as yet dealt with. It is really
 a matter for the Comptroller of the Currency to decide and we
 have not wished to urge a change in the Comptroller's ruling.
 As far as the Federal Reserve Board is concerned, it can only
 deal with the minimum reserve requirements in the Reserve Bank.
 The optional reserve and the reserves in the member banks' own
 vaults is a matter between the member bank and the Comptroller.
 If the Comptroller continues to allow member banks to count
 a reserve items which have been put in the mail for collection
 that is his lookout. If he allows banks to more than offset
 items due to other banks, with items due from other banks, but
 not collected, that is beyond the control of the Federal Re-
 serve Board.

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My own view, furthermore, is that while we must be conservative we must take our steps one at a time, and that it would be a great mistake, simultaneously with the adoption of the clearing plan, to cause the adoption of a harsh ruling by the Comptroller as to how member banks' records of reserves are to be interpreted. This is a statement which we are not "shouting from the housetop", nor one which we would include in any circular, but I believe that it has an important bearing in the successful working out of the clearing plan.

Since dictating the above I find this matter stated rather well in the circular of the San Francisco Bank to its member banks, one paragraph of which reads as follows:

"While the proceeds may not be counted as required reserve deposits (i.e., the amount required by the Federal Reserve Act to be carried unconditionally on deposit with Federal Reserve Bank), yet, because credited by Federal Reserve Bank, they may be counted as part of the optional reserves (i.e., the amount to be carried either in member bank's own vaults, with Federal Reserve Bank or with other approved reserve agents)."

Yours very truly,

Vice Governor.