

FEDERAL RESERVE BOARD

X-4351

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WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

June 12, 1925.

SUBJECT: Right of member bank in computing its reserve to deduct balances due from foreign branches of domestic banks from balances due to other banks.

Dear Sir:

The Federal Reserve Board has recently been requested to rule on the question whether balances due from foreign branches of banks located in this country can be treated as a part of the item "due from banks" to be deducted from the item "due to banks" in computing reserves of member banks under Section 19 of the Federal Reserve Act.

The Board has heretofore ruled that balances due from foreign banks could not be deducted by a member bank in computing its reserve. In accord with this position the Board now rules that a balance due from a foreign branch of a domestic bank may not be deducted from balances due to banks by a member bank in computing its reserve when the balance due from the foreign branch is payable in foreign currency. The Board believes that the phrase "the net difference of amounts due to and from other banks" contained in Section 19 of the Act has reference only to balances payable in dollars and does not include balances payable in foreign currency. If, however, the balance due from a foreign branch of a domestic bank is payable in dollars instead of in foreign currency, such balance may properly be deducted by a member bank from balances due to other banks. The foreign branch of a domestic bank and the domestic bank itself constitute but one legal entity and a balance payable in dollars due from any part of that legal entity regardless of where located is believed to be a proper deduction from balances due to other banks in computing reserves under the provisions of Section 19.

The Board also considered another question very closely related to that just discussed, namely whether a member bank in calculating its own reserve requirements may deduct balances due from its own foreign branch. The Board has frequently held that a bank and its branches constitute but one legal entity and since Section 19 refers to balances due to and from other banks the Board rules that balances due from a foreign branch of a member bank to its home office are not properly deductible from balances due to other banks in computing the reserves of the member bank.

The Board's rulings may be set out in brief form as follows:

1. Balances payable in foreign currency due from a foreign branch of a domestic bank may not be deducted by a member bank in computing its reserve from balances due to other banks.

2. Balances payable in dollars due from a foreign branch of a domestic bank may be deducted by a member bank in computing its reserve from balances due to other banks.
3. Balances payable either in dollars or in foreign currency due to a member bank from its own foreign branch may not be deducted from balances due to other banks by the member bank in computing its reserve.

By order of the Federal Reserve Board.

Walter L. Eddy,
Secretary.

TO THE GOVERNORS OF ALL F. R. BANKS EXCEPT KANSAS CITY.