FEDERAL RESERVE BOARD

WASHINGTON

X-6337

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

June 25, 1929.

SUBJECT: Classification of Certain Items in Computing Reserves of Member Banks.

Dear Sir:

The Federal Reserve Board has been requested by the Federal Reserve Bank of San Francisco to pass upon the question whether cash items for which credit has been given by a member bank to its depositor and which have been forwarded to out-of-town banks for collection, but which have not been charged to the account of such out-of-town correspondent banks, may be classified in computing reserves as amounts due from banks and accordingly deducted from amounts due to banks. Attention has been called to the fact that the Federal Reserve Board's Regulation D permits the classification as amounts due from banks of items placed in the mail and charged to the account of correspondent banks, whereas the instructions accompanying the Board's form of condition report of State member banks, Form 105(a), provide that amounts "due from banks and trust companies" should include "uncollected items payable on presentation which have been forwarded to banks for credit or collection and remittance" and no requirement is made that the items be charged to the account of correspondent banks. The question presented, therefore, is whether in order to be classified as amounts due from banks it is sufficient that such items be merely placed in the mail or whether they must also be charged to the account of correspondent banks.

Under the technical requirements of Regulation D as written, items which have not been charged to the account of correspondent banks may not be classified as due from bank balances. There seems to be no practical reason, however, for the requirement in the Regulation that items be charged to the account of correspondent banks. The Regulation provides that items with a Federal reserve bank in process of collection may be classified as amounts due from banks and there is no requirement that such items be charged to the account of any other bank. (They could not properly be charged to the account of Federal reserve banks because of the deferred credit arrangement and also because credits due from Federal reserve banks are not to be included as amounts due from other

banks in computing reserves.) It seems nevertheless somewhat inconsistent to require that items be charged to the account of correspondent banks where sent direct to them, whereas no such charge is required when the items are routed through a Federal reserve bank.

There are two courses open to the Federal Reserve Board: It may stand upon the technical requirement of the Regulation and hold that these items which have been forwarded to out-of-town banks for collection but which have not been charged to their account, may not be classified as amounts due from banks; or, governed by the practical situation, it may in effect waive this requirement of Regulation D as to these items and permit their classification as amounts due from banks even though not charged to the account of the correspondent banks. The Federal Reserve Board is disposed to adopt the latter course, and also, when the matter of revising the Board's Regulations is next taken up, to eliminate the words "and charged to the account of correspondent banks" now appearing in Section III(b) (2) of Regulation D. Before taking any action in this matter, however, the Board wishes to have the benefit of your views on the questions presented.

Very truly yours,

E. M. McClelland,
Assistant Secretary.

TO GOVERNORS OF ALL F. R. BANKS.