

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

December 9, 1930
St. 6824

SUBJECT: Required reserves of member banks
on Sundays and holidays.

Dear Sir:

For your information, I am enclosing herewith a copy of a letter addressed to Mr. Attebery, Deputy Governor at the Federal Reserve Bank of St. Louis, with regard to the Board's requirement that, for the purpose of assessing penalties on deficient reserves, required reserves of member banks for Sundays and holidays shall be based on deposit liabilities at the close of the preceding business day.

Very truly yours,

E. M. McClelland,
Assistant Secretary.

Enclosure

GOVERNORS OF ALL FEDERAL RESERVE BANKS EXCEPT ST. LOUIS AND
PHILADELPHIA*

(COPY)

December 9, 1930
St. 6823

Dear Mr. Attebery:

This will acknowledge receipt of your letter of November 29, with regard to the requirement of the Board that, for the purpose of assessing penalties on reserve deficiencies, the required reserves of member banks for Sundays and holidays shall be based on deposit liabilities at the close of the preceding business day.

As you know there was considerable agitation on the part of member banks in the larger cities during the past few years for a change in the Board's Regulations which would permit them to determine their required reserves, so far as the assessment of penalties is concerned, on the basis of deposits at the opening of business. This request was considered by the Governors of the Federal reserve banks and by the Board on several occasions but final action thereon was not taken until October 2, 1930 when the Board voted to amend Regulation D so as to accomplish so far as possible the above purpose. In modifying the regulation, however, as stated in my letter of November 17, it was not the purpose of the Board to change the amount of required reserves used in determining penalties on deficiencies.

Some time after the issuance of the new regulation one of the Federal reserve banks asked the Board whether required reserves for Saturdays and days preceding holidays should be repeated for Sundays and holidays, or whether the required reserves for Sundays and holidays should be based on deposits at the close of business on the immediately preceding days. This matter was given careful consideration by the Board, and in order to determine the effect which the repeating of Saturdays' requirements for Sundays would have on required reserves we obtained daily figures on deposits of member banks in New York City, and found that net demand plus time deposits over the three-year period 1927-1929 averaged \$27,000,000 more on Saturday mornings than on Saturday nights. It is quite probable that somewhat the same thing holds true at banks in many other places, but whether it does or not, it is evident that deposits at the opening of business Saturday are different than at the close of business, and required reserves based on Saturday morning deposits are consequently different than reserves based on Saturday night deposits.

It is clear that if a member bank has a reserve with the Federal reserve bank at the close of business Saturday equal to its required reserve on its deposits at the close of business it is complying with the law so far as Sunday is concerned. To require a bank to carry a higher reserve on Sunday than would be called for by its deposits at the close of business Saturday would be compelling it, in order to avoid an assessment of a penalty for deficient reserves, to carry a reserve in excess of that actually required by law. The Board does not feel that it can issue a regulation which might under any circumstances penalize a bank for a deficiency in reserves when it is complying with the legal requirements of the Federal Reserve Act.

It has been objected that a bank which has a reduction in its deposits on Saturday, justifying a decrease in its reserve balance over Sunday, could not avail itself of this reduction on Saturday because of the fact that Saturday's closing reserve balance must be maintained against Saturday's opening deposit balance and any reduction in this amount would create a deficiency in its reserve on the basis of its opening requirements. The Board's regulation relates to the assessment of penalties for deficient reserves and does not in any way purport to change the legal requirements regarding required reserves. Inasmuch, therefore, as banks do average their reserves over stated periods, the lowered requirements for Saturday in those cases where deposit liabilities are less on Saturday night than on Saturday morning would, in the ordinary course of business, be averaged out over the reserve computation period. However, a bank which literally followed the Federal Reserve Act would necessarily have a reserve with the Federal reserve bank at the close of business each day equal to the requirements on its deposits at the close of business.

If the recent amendment to the Board's Regulation D had provided that in computing deficiencies the required reserve balances of each member bank at the close of each day shall be based on its deposit balances at the close of business the preceding day, which deposit balances are of course the same as at the opening of business on the current day, the question under consideration might not have arisen. If we admit that member banks are required to carry a reserve with the Federal reserve banks on Sundays it logically follows that required reserves on such days should be calculated on the same basis as for any other days, i.e., on Sunday morning deposits, which are the same as deposits at the close of business on Saturday.

You state in your letter that you do not find that the present or former regulation makes any specific reference to member banks being required to carry reserves on Sundays and on holidays based on their deposit liability at the close of business on the preceding day. That is true, of course, but it has been the practice in the

past to repeat Saturday's reserve requirements for Sunday, and this meant that the Sunday's required reserves were based on deposits at the close of business Saturday. This it would seem conforms to the intent of the Federal Reserve Act which presumably intended that banks should maintain required reserves with the Federal reserve banks at all times or be subject to a penalty for deficiencies. Under your proposal, you would require a bank to carry a reserve on Sunday based on deposits at the close of business Friday, which the Board feels is not consistent with the provisions of the Federal Reserve Act.

Inasmuch as member banks are permitted to average their required reserves over given periods the necessity of knowing actual required reserves for Sundays and holidays during business hours on the preceding days is not of great importance except when a reserve computation period ends on Sunday or a holiday. Reserve computation periods for banks in central reserve and reserve cities never end on Sunday and reserve computation periods for all other banks are on a semi-monthly basis. It is felt, therefore, that the Board's requirement would not seriously inconvenience member banks in view of the comparative infrequency with which reserve computation periods end on Sundays or holidays.

This letter was presented to and unanimously approved by the System's Committee on Bank Reserves. In accordance with a further recommendation of the Committee a copy of this letter is being sent to each Federal reserve bank.

Very truly yours,

E. M. McClelland,
Assistant Secretary.

Mr. O. M. Attebery,
Deputy Governor,
Federal Reserve Bank,
St. Louis, Mo.