FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7411

April 14, 1933.

SUBJECT: Penalties for Deficiencies in member bank reserves.

Dear Sir:

Section 19, paragraph 7, of the Federal Reserve Act provides that, "The required balance carried by a member bank with a Federal reserve bank may, under the regulations and subject to such penalties as may be prescribed by the Federal Reserve Board, be checked against and withdrawn by such member bank for the purpose of meeting existing liabilities," and, pursuant to this provision of the Act, the Federal Reserve Board, has prescribed, in Section IV of Regulation D, rules governing the assessment of penalties for deficiencies in reserves.

Reports received by the Board indicate that member banks which normally maintain their reserves somewhat in excess of the minimum requirements occasionally incur penalties for deficiencies in reserves and that, in such cases, where the amounts involved are nominal, it is the general practice of the Federal reserve banks not to assess the penalties. While the Federal Reserve Board has no objection to the non-assessment of penalties of nominal amounts in such cases, it feels that there should be a maximum limit, uniform in all Federal reserve districts, upon the amount which in any case may be assessed or not by the Federal reserve bank in its discretion.

After consideration of this matter, the Board prescribes the following rules for uniform application by each Federal reserve bank:

(a) When the aggregate amount of penalties incurred by a member bank in any calendar month is not in excess of $2.00, such penalties may be assessed or not as the Federal reserve bank may determine upon consideration of the circumstances of the case;

(b) When, for the first time since a bank became a member, there is a deficiency in its reserves which is subject to a penalty, such penalty may be assessed or not as the Federal reserve bank may determine upon consideration of the circumstances of the case.

(c) When, before the assessment of a penalty for a deficiency in the reserves of a member bank, it is placed in receivership or liquidation, such penalty may be assessed or not as the Federal reserve bank may determine upon consideration of the circumstances of the case.

(d) In all cases other than those described in (a), (b) and (c), penalties incurred by a member bank for deficiencies in its reserves shall be assessed unless the Federal Reserve Board, after a review of the facts of the case, authorizes the Federal reserve bank not to make the assessment.

The above rules, however, are not to be considered as in any way affecting the instructions relative to the non-assessment of penalties for reserve deficiencies which were contained in the Board's telegrams of March 30, 1933, (Trans. No. 1735) and April 8, 1933 (Trans. No. 1762).

Very truly yours,

Chester Morrill,
Secretary.

TO GOVERNORS OF ALL F. R. BANKS.