

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7907

June 6, 1934.

SUBJECT: Safekeeping of Securities by Federal
Reserve Banks.

Dear Sir:

The report of the committee on the function of custodies in Federal reserve banks dated March 11, 1927, which was received and approved by the May, 1927 Governors' Conference contained the following question and recommendation:

"1. Should Federal reserve banks receive for safekeeping securities which are the property of member banks, and, if so, should any distinction be made as to the location of the member bank; that is, should the same service be rendered to both city and country banks?

"The Federal reserve banks are all rendering a safekeeping service to their member banks and it is doubtful if the banks could avoid the rendering of this service to at least a limited extent, even if they desired to do so. For instance, the banks necessarily hold large amounts of securities as collateral to loans. The loans are paid off and the securities generally are permitted to remain with the reserve bank as a matter of convenience and in anticipation of the need for further borrowing. Securities so held, even though originally pledged as collateral, are held in safekeeping and it would be very difficult, if not quite impossible, to avoid the holding of securities in such cases. In addition, a large number of banks have lodged with their Federal reserve banks for safekeeping all or a substantial part of their security holdings. In some districts the reserve banks are already holding a majority of all of the securities owned by the country member banks within the districts. This represents a service of very great value to the country member bank and, incidentally, to the public interest generally, for the reason that the majority of country banks do not have

- 2 -

vaults of proper strength for the safeguarding of their property. Your committee believes that the value of this service to the member banks is far beyond its comparatively small cost to the Federal Reserve System and that it is a service which is incident to the maintenance of the reserve account.

"It recommends, therefore, that the Federal reserve banks receive for safekeeping securities which are the property of their country member banks. As to whether or not this service should be rendered to both city and country banks, it is the view of the committee that in general the policy should be to limit the safekeeping of securities to member banks outside of reserve and branch cities, but that the reserve banks should exercise discretion in the case of banks which do not have adequate vault protection of their own, regardless of location".

Replies to the Board's letter B-905 of July 12, 1933, regarding the extent and cost of the service rendered by Federal reserve banks to member banks and others in the safekeeping of securities indicate that several reserve banks are not following the committee's recommendation as quoted above but are accepting for safekeeping all securities tendered by member banks, which are their property, without regard to whether the banks are located in the reserve bank or branch city or outside such cities.

The Federal Reserve Board is in accord with the above-quoted Committee recommendation to the Governors' Conference and is of the opinion that the Federal reserve banks should be guided thereby. The Board recognizes, however, that at times it may be to the interest of the Federal reserve banks to hold in safekeeping (or in "collateral account" although not actually pledged as security for borrowings or deposits), for member banks located in Federal reserve bank and branch cities, United States Government securities which are the exclusive property of

- 3 -

such member banks, particularly when the securities are being used from time to time as collateral to borrowings from the Federal reserve banks, and interposes no objections to Federal reserve banks rendering member banks this service. It feels, however, that this service should not be rendered by the Federal reserve banks for local member banks with adequate vault facilities except for limited periods and to the extent that it contributes to the efficient and economical operation of the reserve banks.

It is noted from the replies to the Board's letter of July 12, 1933, that some of the reserve banks are holding in custody for member banks securities pledged by such banks as collateral to loans obtained by them from their correspondents. The Board is of the opinion that this service should not be rendered except in emergency cases. It is also noted that at some of the reserve banks securities are being held in safekeeping for the account of various receivers of closed banks. In this connection the Board feels that, while there is no objection to retaining the securities held in safekeeping at the time of suspension of a member bank until the receiver has had an opportunity to make other arrangements, new deposits of securities should not be accepted.

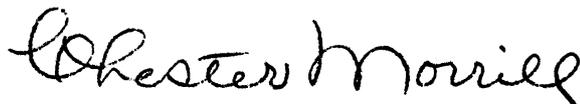
The Board recognizes that there may be valid and persuasive reasons why the reserve banks should wish to receive for safekeeping securities pledged by a member bank to secure public deposits and that an amendment of the Federal Reserve Act is perhaps desirable in order that the reserve banks may be specifically authorized to do so. Please, therefore,

- 4 -

advise the Board of your views as to the desirability of an amendment of the law in this respect and furnish any suggestions which you or counsel for your bank desire to make with respect to the scope or content of such amendment.

A summary statement (B-916) of the replies to the Board's letter of July 12, is inclosed for your information.

Very truly yours,



Chester Morrill,
Secretary.

Inclosure.

TO GOVERNORS OF ALL F. R. BANKS.