

X-9770
Reg. D-4

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal reserve banks)

December 22, 1936.

Mr. _____, President,
Federal Reserve Bank of _____,
_____, _____.

Dear Mr. _____:

This refers to Mr. _____ letter of October 13, 1936, in answer to the Board's letter to you dated September 16, 1936, regarding the question whether advance payments on United States Government bonds are deposits against which member banks and Federal Reserve banks are required to carry reserves. In his letter of October 13, 1936, Mr. _____ suggested that this subject be considered at a joint conference between representatives of the Treasury, the Board of Governors of the Federal Reserve System, and the Federal Reserve Bank of _____. However, it is understood that Mr. _____ no longer desires a consideration of this subject at such a joint conference.

It is understood that these advance payments on Government bonds are made by subscribers pursuant to instructions issued by the Secretary of the Treasury to the Federal Reserve Bank of _____ under date of May 27, 1936, which are designed to provide for an equitable allotment and distribution of these bonds by requiring the subscribers to make a substantial initial payment at the time their subscriptions are entered. In cases where a bank enters subscriptions on

behalf of its customers, the bank is required to certify that there has been paid to it by each such customer, "not subject to withdrawal until after allotment and payment in full for securities allotted, the full amount required to accompany his application." The question presented is whether these advance payments to banks by subscribers constitute deposits against which reserves are required to be carried.

The Board has heretofore taken the position that all funds received by a bank in the course of its commercial or fiduciary business must be considered as deposits against which reserves are required to be carried, unless such funds are trust funds and are actually segregated from the other assets of the bank. This position was stated in a ruling published at page 572 of the Federal Reserve Bulletin for 1922.

Since it appears that these advance payments on Government bonds do not constitute trust funds and are not actually segregated from the bank's other assets, it is the view of the Board of Governors that such advance payments constitute deposits against which member banks and Federal Reserve banks are required to carry reserves.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.