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INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal reserve banks)

March 12, 1937.

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

Dear Mr. _____:

This refers to your letter of February 25, 1937 presenting the question whether deposits received by a member bank as collateral to loans of United States Government securities constitute deposits against which reserves are required to be carried with the Federal Reserve bank of the district.

It is understood that the member bank lends United States Government securities to certain of its customers who are dealers in securities and as collateral for such loans accepts deposits from the customers. The agreement under which the loans of United States Government securities are made contains, among others, the following provisions:

"To secure re-delivery as outlined in the preceding paragraph, and to secure performance and payment by you of any other of your obligations to us, you have deposited with us \$ _____ in cash and the following securities:

"Upon failure to make re-delivery as required above, we shall be entitled, at our option, to retain said cash and securities deposited by you as our absolute property in lieu of the securities loaned to you."

You state that the member bank does not consider deposits made under an agreement of this kind as constituting a part of its deposit liability subject to reserve because of the view that so long as its

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records indicate that these deposits are segregated for this particular purpose, the funds should be considered as collateral and not as deposits subject to reserve. It is understood from your letter, however, that the funds on deposit are mingled with the bank's other general assets.

In a ruling published at page 572 of the Federal Reserve Bulletin for 1922, the Board took 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. Since the date of the above ruling, the principle stated therein has been applied on a number of occasions and was recently applied in a ruling published at page 113 of the Federal Reserve Bulletin for February, 1957.

It appears that the deposits in question create an ordinary debtor-creditor relationship between the bank and the customer and that the funds on deposit under the arrangement referred to above are not trust funds and are not actually segregated from the other assets of the bank. Accordingly, it is the view of the Board that the provisions of section 19 of the Federal Reserve Act require that reserves be carried against these deposits.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.