

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON



ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

April 26, 1939.

Dear Sir:

In the enclosure which accompanied the Board's letter X-9474 of January 31, 1936, it was stated that, regardless of whether or not a member bank desires to have allowable deductions from gross demand deposits taken into consideration in the determination of its reserve requirements, it must show (1) gross demand deposits, (2) balances subject to immediate withdrawal due from other banks, (3) cash items in process of collection, and (4) time deposits, in the required reports of deposits submitted to the Federal Reserve bank for reserve computation purposes. It was further stated, however, that, in such reports of deposits, cash items forwarded to a correspondent bank for collection and credit and charged to "due from banks" may be included in "balances subject to immediate withdrawal due from other banks" instead of in "cash items in process of collection".

Recently there has been raised the question whether or not the Board's letter X-9474 was intended to mean that member banks must without exception report as "cash items in process of collection" any cash items sent to Federal Reserve banks and in process of collection. As you know, it is a common practice for country member banks to make no distinction, on their books, between cash items with Federal Reserve banks in process of collection and collected reserve balances; that is to say, they commonly debit "Reserve with Federal Reserve bank" as soon as the cash items are sent to the Federal Reserve bank for collection and credit. Such action does not, of course, affect the amount of reserve balances used in determining whether or not the bank has a deficiency in reserves, because the figures used for that purpose are the collected reserve balances reflected by the books of the Federal Reserve bank.

You are advised that, for the purpose of the reports of deposits above referred to, the Board's letter X-9474 should be interpreted to mean that cash items with Federal Reserve bank in process of collection need be reported as "cash items in process of collection"

only if shown as such on the member bank's books. Permission to follow the same procedure in submitting condition reports on Form F. R. 105 will be incorporated in the letter sending out the forms for the next call. Items with the Federal Reserve bank in process of collection if shown separately on the bank's books may, of course, be deducted from gross demand deposits to obtain net demand deposits on which reserves are computed, and member banks should be encouraged to make the segregation, but they should not be required to do so.

Very truly yours,

A handwritten signature in dark ink, appearing to read 'L. P. Bethea', with a large, sweeping flourish at the end.

L. P. Bethea,  
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS