

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



August 9, 1939

Dear Sir:

There is attached, for your information, a copy of a letter addressed to the First Vice President of a Federal Reserve bank, under date of August 3, 1939, with regard to the reporting, in condition reports and in reports of deposits submitted for reserve computation purposes, of outstanding drafts drawn upon member bank reserve accounts.

Very truly yours,

A handwritten signature in cursive script, appearing to read "S. R. Carpenter".

S. R. Carpenter,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

S-171-a

August 3, 1939

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

Dear Mr. _____:

This refers to your letter of June 30, regarding the reporting, in condition reports and in reports of deposits submitted for reserve computation purposes, of outstanding drafts drawn upon member bank reserve accounts.

As indicated in the Board's letter R-488 of June 16, 1939, transmitting blank forms for the mid-year call for condition reports upon State bank members, the definition of "Reserve with Federal Reserve bank", item 7 in Schedule D of form F.R. 105, was amended in view of the Board's letter S-161 of April 26, 1939. That letter merely gives member banks permission to exclude from "Cash items in process of collection" as shown in condition reports and in reports of deposits submitted for reserve computation purposes, any cash items in process of collection which are included in "Reserve with Federal Reserve bank" on the member banks' books. Banks which take advantage of such permission are required to carry higher reserves than they otherwise would have to carry, because they do not deduct from gross demand deposits cash items in process of collection with Federal Reserve banks. Moreover, in determining whether or not a member bank has adequate reserves the Federal Reserve bank uses the balance shown by its books (which, of course, does not include cash items for which the member bank has been given deferred credit) rather than the balance shown by the member bank's books.

In contrast with the above situation, if a member bank should omit outstanding drafts upon its reserve account from deposits as reported for reserve purposes, it would be excluding a class of liabilities which Regulation D specifically defines as deposit liabilities, with the result that its computed reserve requirements would be understated. This understatement of reserve requirements would not be offset by the member bank's charging the outstanding drafts to its reserve account because its reserve balance as shown by the Federal Reserve bank's books, which is the figure used in determining whether reserves are equal to requirements, is not charged until the drafts reach the Federal Reserve bank. Member banks should, therefore, continue to include outstanding drafts on their reserve accounts in demand deposits as shown in reports submitted for reserve computation purposes. Since, however, member bank

condition reports are prepared from their general books a bank may in condition reports show deposits as reflected by its books, but any difference between deposits as shown in condition reports and in reports of deposits for reserve purposes should be explained by the member bank.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.