

# FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 68-107  
May 1, 1968

## AMENDMENT TO REGULATION D "RESERVES OF MEMBER BANKS"

To All Member Banks  
in the Eleventh Federal Reserve District:

Reference is made to my Circular Letter No. 68-27 dated February 1, 1968, forwarding a Press Release of the Board of Governors of the Federal Reserve System dated January 29, 1968, proposing an Amendment to Paragraph 204.3(a) and (b) of Regulation D. There is attached a copy of a Press Release issued by the Board of Governors of the Federal Reserve System on April 29, 1968, announcing adoption of the lag reserve plan substantially in the form proposed on January 29, 1968. There is also attached an Amendment to Regulation D reflecting the changes in the computation of reserve requirements by member banks to become effective with the reserve computation period beginning September 12, 1968.

The purposes of these amendments are (1) to establish coincident one-week reserve periods for reserve city and country banks, (2) to require the calculation of weekly average required reserves on the basis of average deposits two weeks earlier, (3) to require the calculation of weekly average reserves held in satisfaction of requirements on the basis of average vault cash held two weeks earlier, and (4) to provide that either an excess or a deficiency in reserve requirements averaging up to 2 percent of required reserves will be carried forward to the next reserve week. These changes are expected to reduce uncertainties as to the amount of reserves required during the course of any reserve period and to moderate some of the pressures for reserve adjustments within the banking system that can occasionally develop near the close of a reserve period and can produce sharp fluctuations in the availability of day-to-day funds.

To illustrate the operation of the provision for carrying over a deficiency in reserve requirements (§ 204.3(a)(3)), it will be assumed that a member bank's reserve requirement for the week ending September 18, 1968, is computed to be \$1 million, based on average deposits two weeks earlier. The computation of its reserve balance indicates that it is deficient by 2 percent — its balance is \$980,000 and its deficiency amounts to \$20,000. In the succeeding reserve period ending September 25, the bank must maintain its reserve balance on average \$20,000 higher than its reserve requirement for the week to avoid penalty. If the reserve requirement remained at \$1 million, the reserve balance would need to average at least \$1.02 million in the week ending September 25.

To illustrate the carry over of an excess in reserve requirement, it will again be assumed that a member bank's reserve requirement for the week ending September 18, 1968, is \$1 million. The computation of its reserve balance indicates that it has an excess of 4 percent — its balance is \$1.04 million. The bank is entitled to carry over 2 percent of its requirements, amounting to \$20,000, to the next statement week. This \$20,000 excess carry over will be applied automatically against requirements of the succeeding week ending September 25, reducing the average reserve balance that must be maintained to meet reserve requirements for that week. If the reserve requirement remains at \$1 million, this bank can meet requirements by maintaining average reserve balance at \$980,000. To the extent that the average reserve balance is higher than \$980,000 in the week ending September 25, the bank foregoes use of part or all of the carry-over surplus from September 18, which cannot be carried forward more than one reserve period.

Notice of proposed rule making with respect to these amendments was published in the Federal Register of February 2, 1968 (33 F.R. 2532). The Board adopted the amendments as proposed after consideration of all relevant matter that was presented by interested persons.

A revised Bulletin No. 4, "Reserves of Member Banks," will be forwarded to you at a later date.

Please insert the attached Amendment in the ring binder containing the Regulations of the Board of Governors and the Bulletins of this bank. Additional copies of the Press Release and the Amendment will be furnished upon request.

Please acknowledge receipt of the Amendment to Regulation D on the enclosed postal card.

Yours very truly,

P. E. Coldwell

President

Attachments (3)



# FEDERAL RESERVE

press release

For immediate release.

April 29, 1968

The Board of Governors of the Federal Reserve System announced today adoption of an amendment to its Regulation D, "Reserves of Member Banks," effecting several changes in the computation of reserve requirements by member banks.

Except for clarification in language, the amendment, to become effective September 12, was adopted as proposed by the Board last January 29. The changes made by the amendment involve:

1. establishing a one-week reserve period for the so-called "country banks" instead of their present two-week period, thus putting them on the same basis now used for reserve city banks;
2. using average deposits two weeks earlier in calculating the weekly average required reserves for the present period;
3. using vault cash held two weeks earlier, together with average balances at the Federal Reserve Bank for the current week, in the computation of weekly average reserves held in satisfaction of the requirements; and
4. providing that either excesses or deficiencies averaging up to 2 per cent of required reserves may be carried forward to the next reserve week.

These new rules by which member banks will compute and comply with System reserve requirements do not represent any change in Federal

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Reserve monetary policy, but are alterations in a technical regulation and are designed to facilitate more efficient functioning of the reserve mechanism. In combination, these changes are expected to reduce uncertainties, both for member banks and the Federal Reserve, as to the amount of reserves required during the course of any reserve period. Their adoption should moderate some of the pressures for reserve adjustments within the banking system that can occasionally develop near the close of a reserve period and can produce sharp fluctuations in the availability of day-to-day funds.

The text of the amendment in the form that is being forwarded for publication in the Federal Register is attached.

## AMENDMENT TO REGULATION D

### Section 204.3(a) and (b)

ISSUED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Effective September 12, 1968, Section 204.3(a) and (b) are amended to read as follows:

#### Section 204.3 — Deficiencies in Reserves

(a) **Computation of deficiencies.** — (1) Reserve requirements of all member banks shall be determined on the basis of average daily net deposit balances and average daily currency and coin covering 7-day computation periods which shall end at the close of business on Wednesday of each week.

(2) In determining whether a member bank has maintained a reserve balance that is in excess or less than its required reserve balance for any computation period:

- (i) the required reserve balance of such bank shall be based upon the average daily net deposit balances held by the member bank at the close of business each day during the second computation period prior to the computation period for which the computation is made.
- (ii) The reserve balance of such bank shall consist of the average daily balance with the Federal Reserve Bank of its District held by the member bank at the close of business of each day during the computation period for which the computation is made and the average daily currency and coin held by the member bank at the close of business each day during the second computation period prior to the computation period for which the computation is made.

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