FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 72-61
March 27, 1972

TO THE CHIEF EXECUTIVE OFFICER OF ALL BANKS
IN THE ELEVENTH FEDERAL RESERVE DISTRICT:

By the attached releases, the Federal Reserve System is announcing for comment a further move in its effort to modernize and improve the Nation's check-collection system. The proposals described in these releases point the way toward faster payment of checks and, thus, a more effective use of deposit balances for the general public. This Regulation J change, to require payment for cash letters on day of presentment, is another in a series of programs designed to lead to the ultimate reduction in checkwriting and faster transfers of credits.

Because the change in Regulation J will mean a reduction in float, the Board of Governors of the Federal Reserve System is proposing a simultaneous change in Regulation D governing reserve requirements of member banks. Nationwide, the reduction in reserve requirements, releasing about $2.9 billion, will more than offset the reduction in float of about $2 billion. Of course, there will not be perfect equality of offset for each member bank, partly because some banks have been keeping higher reserves, and partly because some are already paying for cash letters on the day of presentment. It is believed that the effect of these two changes will make major headway toward equality of reserve and float positions.

It is hoped that all banks in the Eleventh District will recognize the need for payments system improvement and will actively support the Board's actions.

Should you or your officers have questions concerning any element of these proposals, please feel free to write or call collect to any of our senior staff, especially the following:

<u>Regulation J</u>

Tony J. Salvaggio, Senior Vice President
T. E. Spreng, Assistant Vice President
Jack Clymer, Transit Coordinator

<u>Regulation D</u>

Robert H. Boykin, Senior Vice President and Secretary
E. W. Vorlop, Jr., Vice President and Controller
C. L. Vick, Operations Officer

Our branch officers stand ready to assist any bank in their respective territories.

I hope that you will give these proposals your thoughtful consideration. T. W. Plant, First Vice President, and I would be pleased to talk with you and would particularly appreciate the opportunity of discussing the matter if you have any major problems.

The Board of Governors has requested that comments on its proposals be sent to the Board's offices in Washington, D. C., by May 15, 1972. I would appreciate receiving copies of any comments that you would care to make because I am keenly interested in the ways these changes might affect banking in the District.

Yours very truly,

P. E. Coldwell

President

Enclosures

BOARD STATEMENT

The Board of Governors of the Federal Reserve System today proposed two changes in its regulations designed to make reserve requirements of member banks and Federal Reserve check-collection procedures more equitable and more efficient. The proposals are intended to be neutral with respect to monetary policy.

The proposals would strengthen current efforts fostered by the Federal Reserve and commercial banks to modernize the Nation's check-collection system. The Board proposed:

1. To restructure reserve requirements applicable to net demand deposits of Federal Reserve member banks by instituting a system of requirements based on the amount of such deposits, regardless of the bank's location.

2. To require all banks served by the Federal Reserve check-collection system--again, regardless of location--to pay for checks drawn upon them, in immediately available funds, the same day the Federal Reserve presents the checks for payment.

In announcing its proposals, which are being published for public comment to assist the Board in appraising them, the Board said:

The proposals would facilitate the development of a more efficient and less costly check-collection system, and at the same time would increase equity among banks and enhance their ability to render better financial service to the public. These proposed changes would involve putting all banks, city and country, member and nonmember, upon the same payment basis as regards Federal Reserve check collection and giving member banks of equal size equal reserve requirements.

The Board said that in many cases banks receiving earlier credit under the new rules for checks due to them would be able to give their customers' accounts earlier availability of funds.

In considering these proposals, particularly the proposed change in the check-collection procedure, two things should be kept in mind:

> First, the proposed new check-collection procedures would eliminate approximately $2 billion in "float" arising out of the present practice which involves country banks paying for checks presented by the Federal Reserve in funds that are not available until the next business day after presentment of the checks.
>
> Second, the proposed revision of the check-collection schedules in an integral step in the movement being fostered by the Federal Reserve, in cooperation with the commercial banking system, to increase the efficiency of the payments system in the face of the rapidly rising volume of checks.

The present system results in some individuals, businesses, and banks having to wait longer than others to receive credit for funds being transferred to them by check. This is not an efficient and equitable basis for an improved payments system moving in the direction of the transfer of funds by electronic means.

By itself, the proposed change making all banks liable to immediate effective payment for their checks upon presentment would reduce the reserves available to the banking system as the base of their lending activity. Consequently, the Board has linked this proposal to another desirable reform, changing the structure of reserve requirements for member banks from a geographical basis to one placing equal reserve requirements upon banks of equal size, regardless of location.

These proposals--the restructuring of reserve requirements and improvements in the check-collection procedures--if implemented as proposed, would result initially in a net release of reserves to the banking system, but it is intended that Federal Reserve open market operations would be adapted as needed, when the proposals are put into effect, to neutralize the effects on monetary policy.

Effects of these actions on the reserve positions of individual banks will vary and there may be some transitional imbalances. The Board expects that discount officers at the Reserve Banks will be responsive to requests of any member banks temporarily in need of credit to tide them over a period of adjustment to the new check-collection basis.

The changes being proposed by the Board are significant not only in their direct effects, but also as a means to the larger end of a more efficiently functioning banking system, able to provide the public with better and more economical services.

The Board's proposals are described separately in attached news releases and Federal Register documents. Comment should be submitted to the Board by May 15.

- 0 -

For use in morning papers
Tuesday, March 28, 1972

March 27, 1972

RESERVE REQUIREMENTS
(REGULATION D)

The Board of Governors of the Federal Reserve System today proposed a restructuring of reserve requirements applicable to the net demand deposits of member commercial banks. Comments on the proposal should be submitted to the Board by May 15.

The proposed revision would modernize the system of reserve requirements in the light of banking patterns that have evolved over the last 25 years. Under the plan, reserve requirements on net demand deposits would be based on the amount of such deposits held by a member bank without regard to its location in any particular city. No change is planned in the application of reserves on time and savings deposits, commercial paper issued by bank affiliates, or Euro-dollar borrowings.

The proposal to restructure reserve requirements was made simultaneously with another proposal to amend the Board's Regulation J relating to the check-collection process. Both proposals would be made effective at a date to be determined later. The proposal affecting check-collection procedures is described in a separate news release.

The restructuring plan is intended to produce a more consistent and equitable system for computing reserves and would apply the following ratios to all member banks:

Amount of Net Demand Deposits	Reserve Percentages Applicable
First $2 million or less	8 percent
Over $2 million to $10 million	10 percent
Over $10 million to $400 million	13 percent
Over $400 million	17 1/2 percent

At present, member banks are divided into two classes for the purpose of computing reserve requirements on demand deposits. The ratios for reserve city banks--typically the large banks in the large cities--are currently 17 percent on the first $5 million of demand deposits and 17 1/2 percent on demand deposits exceeding $5 million. The reserve ratios for all other member banks--often called "country banks"--are currently 12 1/2 percent and 13 percent, respectively.

The proposed ratios would result in a net reduction of required reserves totaling about $2.9 billion if no other action were taken by the Board. However, the Board said that if the proposal is adopted, this reduction in required reserves would be timed to coincide approximately with the absorption of reserves that would result from the companion action--also proposed today--to require all banks to pay in immediately available funds for checks drawn on them on the same day such checks are presented for payment by the Federal Reserve. This latter action would reduce available reserves by approximately $2 billion. Other improvements in the check-collection process, such as the faster movement of checks between Federal Reserve Districts, the establishment of Regional Check Processing Centers, and the greater use of the Federal Reserve communications system for the wire transfer of funds, will also reduce the availability of reserves as the improvements are implemented. Consequently, the over-all effect of check-collection improvements on reserve availability should be considerably greater than $2 billion with the greatest share stemming from the change in Regulation J proposed today.

These proposals--the restructuring of reserve requirements and improvements in check-collection procedures--if implemented as proposed, would result initially in a net release of reserves to the banking system, although the effects of these actions on the reserve position of indivdual banks will vary. It is intended, however, that Federal Reserve open market operations would be adapted as needed, when the proposals are put into effect, to neutralize the effects on monetary policy.

Each bank that is a member of the Federal Reserve System is required to keep reserves equal to a prescribed percentage of its deposits. Reserves may be held by its Federal Reserve Bank or as cash in its vault. For example, if a bank receives a demand deposit of $100 and is required to hold a 13-percent reserve, it must add $13 to its reserves and is free to lend or invest the remaining $87.

An integral part of the over-all restructuring plan is a change in the designation of "reserve city banks." Under the plan, a bank would become a reserve city bank automatically whenever the average of its net demand deposits for the reserve period rose above $400 million.

Under existing law, the Board has authority to set reserve requirements against demand deposits between 7 and 14 percent for "country banks" and between 10 and 22 percent for reserve city banks.

The Board normally does not offer proposed changes in reserve requirements for public comment. It is doing so in this case because of the basic structural nature of the plan. The proposal would take the form of an amendment to the Board's Regulation D, which governs the reserve requirements applicable to member banks.

- 0 -

FEDERAL RESERVE SYSTEM

(12 CFR Part 204)

(Reg. D)

RESERVES OF MEMBER BANKS

Reserve Requirements

The Board of Governors proposes to adopt a system of reserve requirements against the demand deposits of all member banks based on the amount of such deposits held by a member bank.

The purpose of the proposal is to adopt a more equitable system of reserve requirements. Under it, reserve percentages would be based on a member bank's deposits without regard to the location of the bank.

The proposal is not intended to signal any change in monetary policy. The net anticipated effect of the proposal, if adopted, would be an over-all reduction in reserve requirements. The effect of the resulting increase in funds available for use by member banks would be substantially offset by adoption of the Board's proposed amendment to Regulation J, also announced today. It is intended that Federal Reserve open market operations would be adapted as needed, when the proposals are put into effect, to neutralize the effects on monetary policy.

An integral part of the proposal is a redefinition of the term "reserve city." Such redefinition is essential to eliminate major inequities in the present system of reserve requirements under which several large "country banks" are required to maintain less reserves than competitor reserve city banks with comparable size and characteristics.

Under the proposal, a city would become a reserve city automatically as the net demand deposits of a member bank with its head office located in that city rise above $400 million. Unless a Federal Reserve office is located in that city, it would cease to be a reserve city if no member bank headquartered in the city has average net demand deposits of that amount. The amount of reserves that a bank having deposits of $400 million or less must maintain would not be affected by the bank being located in a city that is classified as a reserve city. Permission to carry reduced reserves would be extended to all banks located in a reserve city having deposits of $400 million or less.

Normally, the Board does not offer proposed changes in reserve requirement percentages for public comment. (See § 262.2(e) of the Board's Rules of Procedure.) However, because of the basic structural nature of this proposal, the Board believes that comment by the public can be helpful. Accordingly, to aid in the consideration by the Board of the matter, interested persons are invited to submit relevant data, views, or arguments. Any such material should be submitted in writing to the Secretary, Board of Governors of the Federal Reserve System, Washington, D. C. 20551, to be received not later than May 15, 1972. Such material will be made available for inspection and copying upon request, except as provided in § 261.6(a) of the Board's Rules Regarding Availability of Information.

To implement its proposal, the Board proposes to amend Regulation D (12 CFR 204) in the following respects:

1. Section 204.51 through § 204.57 would be revoked.

2. Section 204.2(a)(2) and (3) would be amended to read as follows:

§ 204.2 Computation of reserves.

* * *

(2) A member bank in a reserve city is deemed to have a character of business similar to banks outside of reserve cities whenever it has average net demand deposit balances of $400 million or less for the second computation period preceding the current reserve maintenance period. The Board grants permission to any such bank or banks to maintain for the current period the reserve balances that are in effect for member banks not located in reserve cities. Such permission and any other permission granted by the Board to maintain reduced reserves is automatically suspended for the current reserve maintenance period with respect to any member bank in a reserve city that has average net demand deposit balances of more than $400 million for the second computation period preceding the current reserve maintenance period. Any such bank shall maintain for the current period the reserve balances in effect for banks located in reserve cities.

(3) For the purposes of this part, each city having a Federal Reserve office is a reserve city. In addition, any city, town, village, or other community, whether or not incorporated, is a reserve city for a reserve computation period if it contains a head office of any member bank that had average daily net demand deposit balances of more than $400 million for the second computation period preceding the current reserve maintenance period.

3. Section 204.5(a)(1)(iii) and (2)(iii) would be amended to read as follows:

§ 204.5 Reserve requirements.

(a) Reserve percentages. Pursuant to the provisions of section 19 of the Federal Reserve Act and § 204.2(a) and subject to paragraph (c) of this section, the Board of Governors of the Federal Reserve System hereby prescribes the following reserve balances that each member bank of the Federal Reserve System is required to maintain on deposit with the Federal Reserve Bank of its District:

(1) If not in a reserve city--

* * *

(iii) (a) 8 percent of its net demand deposits if its aggregate net demand deposits are $2 million or less, (b) $160,000 plus 10 percent of its net demand deposits in excess of $2 million if its aggregate net demand deposits are in excess of $2 million but less than $10 million, or (c) $960,000 plus 13 percent of its net demand deposits in excess of $10 million.

(2) If in a reserve city (except as to any bank located in such a city that is permitted by the Board of Governors of the Federal Reserve System, pursuant to § 204.2(a)(2), to maintain the reserves specified in subparagraph (1) of this paragraph)--

* * *

(iii) $51,660,000 plus 17 1/2 percent of its net demand deposits in excess of $400 million.

(12 U.S.C. 248(1) and 461.)

By order of the Board of Governors, March 20, 1972.

(Signed) Tynan Smith
Tynan Smith
Secretary of the Board

[SEAL]

For use in morning papers
Tuesday, March 28, 1972

March 27, 1972

CHECK COLLECTION
(REGULATION J)

The Board of Governors of the Federal Reserve System today proposed a technical change in its regulations governing the payment for checks cleared through the Federal Reserve System. Henceforth, all banks would be required to pay in immediately available funds for checks drawn on them. The payment would be due on the same day the checks were presented for payment.

This change would make universal an already widespread practice of prompt settlement for checks presented through the Federal Reserve clearing system. The great bulk of the dollar value of check transactions is made through banks that are now, and have been for some years, on an immediate payment basis.

In terms of its effects on bank customers, the proposed change in check-collection procedures should enable more depositors to receive earlier availability of funds being transferred to them by check. Because banks under the new procedures would be credited earlier for some checks, a person or business depositing such checks could find it possible to make earlier use of the funds.

The Board said that in many cases banks receiving earlier credit under the new rules for checks due to them would be able to give their customers' accounts earlier availability of funds.

The proposal would amend the Board's Regulation J, governing collection of checks on behalf of the public by the Federal Reserve.

The affected checks would be those that are drawn on banks located outside cities with Federal Reserve offices and collected through the Federal Reserve System. Such checks are estimated to be about 15 percent of the dollar volume of all check transactions at present. Thus, approximately 85 percent of the dollar volume of check transactions would be unaffected by the proposed change.

The proposal to amend Regulation J was made simultaneously with another proposal to restructure the reserve requirements of Federal Reserve member banks, relating reserve requirements applicable to demand deposits to the size of those deposits. Both proposals would become effective at a date to be determined later. The proposal affecting reserve requirements is described in a separate news release.

Interested parties are invited to submit comment on either or both of the proposals to the Secretary of the Board not later than May 15. The Board will appraise its proposals in the light of comment received.

The proposed change in Federal Reserve check-collection procedures would:

--Put all banks on an equal footing as regards payments for checks drawn on them.

--Make it possible, in certain cases, for individuals and businesses, and others receiving payments by checks, to use amounts due them earlier than at present.

--Facilitate efforts by the Federal Reserve, such as the establishment of Regional Check Processing Centers, to increase the speed and efficiency, and hold down the cost, of check processing and collection. Any small savings per check are important as an average of 100 million checks are written per business day. This volume is expected to at least double by the end of the decade.

--Drastically reduce--by approximately $2 billion daily average--the more than $3 billion daily average Federal Reserve float. Such float is, in effect, an advance to some banks for checks for which the Federal Reserve has not yet received payment. About $2 billion of float would be eliminated by requiring all banks to make payment in immediately available funds for their checks on the day of presentment.

Other improvements in the check-collection process, such as the faster movement of checks between Federal Reserve Districts, the establishment of Regional Check Processing Centers, and the greater use of wire transfers, will reduce Federal Reserve float further as these improvements are implemented. Consequently, the over-all effect of check-collection improvements on the amount of float in the form of uncollected checks should be considerably greater than $2 billion.

The difference in check settlement practices arose in past years due to differences in proximity of commercial banks to city clearing facilities. Most banks outside of such cities in effect have paid for their checks on the day after checks were presented to them for payment.

The proposal to put all banks on an immediate settlement basis has been made possible by the fact that in recent years modern accounting and communications systems for the transfer of funds have made it entirely feasible for all banks to pay for their checks immediately upon presentment.

Under the new procedures, banks would be permitted to pay for their checks in any form satisfactory to a Federal Reserve Bank, so long as the funds are available before the close of business on the day the checks are presented for payment.

The Federal Reserve will facilitate such same-day payment by presenting checks to banks for payment as early in the day as practicable.

The effect of the proposed change on depositors arises from the fact that writing a check merely authorizes the checking account of the writer to be charged for the amount of the check. The transaction is not completed until funds have actually been transferred from the writer's account to the depositor's account.

When the check writer and the depositor have accounts in different banks, the depositor may not actually be able to use the proceeds of the check he deposits until his bank has received the funds from the other bank. Of course, his bank may advance funds to him, anticipating payment later. If it does not do so, he may have to wait several days to receive funds while the check is being processed and cleared, and until payment is actually received.

Thus, amendment of Regulation J to require all banks to pay for checks presented to them by the Federal Reserve in immediately available funds on the day of presentment can accelerate completion of check transactions, because the sooner the check is collected, the sooner funds will be available.

- 0 -

FEDERAL RESERVE SYSTEM

(12 CFR Part 210)

(Reg. J)

COLLECTION OF CHECKS AND OTHER ITEMS BY FEDERAL RESERVE BANKS

Payment of Cash Items Upon Presentment

The Board of Governors proposes to amend its Regulation J to require banks--member and nonmember--to pay cash items presented by a Federal Reserve Bank on the day of presentment in funds available to the Reserve Bank on that day. The Board anticipates that payment will be by debit to an account on the books of a Reserve Bank.

The proposal is designed to provide an arrangement for immediate payment of checks presented by Federal Reserve offices and to promote earlier availability of funds to depositors. At present, commercial banks in zones of immediate payment in and around cities with a Federal Reserve office, a clearing house, or in areas served by Regional Check Processing Centers are paying checks on the day of presentment, while other banks make actual payment on the day following receipt of the checks.

The Reserve Banks follow the practice of presenting checks to paying banks early in the day, often before the opening of business. Until the mid-1960's many banks outside Federal Reserve cities paid for these checks by drawing and dispatching a draft on the day of receipt of the checks. Remittance drafts were usually not received and collected until the following day, resulting in a deferment of payment.

In recent years the use of modern accounting and communications systems has led to payment of checks on the day of presentment. Roughly

80 percent of the total amount of payments by paying banks on checks presented by Reserve Banks is through direct charges to reserve accounts. Now it is feasible to make universal the practice of paying in immediately available funds on the day of presentment.

In addition to being a major transitional step toward a more fully automated payments mechanism, the Board's proposal has three immediate goals:

First, requiring payment on the day of presentment will eliminate the long-standing inequities that operate to the disadvantage of banks located in Federal Reserve office cities or in cities served by clearing houses. Until now, banks located outside of these cities have had an additional day to invest funds owed to the collecting bank.

Second, checks drawn on country banks located in the same Federal Reserve territory as depositing banks will be collected a day earlier. Federal Reserve Banks will amend their operating circulars to provide that such amounts will also be credited to depositing banks a day earlier. The Board expects that, in many cases, the depositing member bank will make the credit received from its Reserve Bank available to its depositor at an earlier time than under present practice.

Finally, for checks drawn on country banks located in other Federal Reserve territories, a major component of Federal Reserve float will be eliminated. Federal Reserve float is the equivalent of an interest-free advance. It arises when the collecting bank is given credit on checks for which the Federal Reserve Bank has not received payment. Adoption of the Board's proposal would eliminate approximately 60 percent ($2 billion) of Federal Reserve float.

To aid in the consideration of this matter by the Board, interested persons are invited to submit relevant data, views, or arguments. Any such material should be submitted in writing to the Secretary, Board of Governors of the Federal Reserve System, Washington, D. C. 20551, to be received not later than May 15, 1972. Such material will be made available for inspection and copying upon request, except as provided in § 261.6(a) of the Board's Rules Regarding Availability of Information.

To implement its proposal, the Board is considering amending Regulation J as follows:

1. Section 210.9(a) would be amended to read:

§ 210.9 Remittance and payment.

(a) (1) Cash item. A paying bank becomes accountable for the amount of each cash item received by it from or through a Federal Reserve Bank at the close of the paying bank's banking day on which the cash item was so received[4/] if it retains such item after the close of such banking day, unless, prior to such time, it pays or remits for the item as herein provided. Payment or remittance therefor shall be effected on such day of receipt by:

(i) debit to an account on the books of a Federal Reserve Bank; or

4/ A cash item received by a paying bank shall be deemed to have been received by the bank on its next banking day if the item is received under one of the following circumstances: (1) on a day other than a banking day for it, or (2) on a banking day for it, but (a) after its regular banking hours, or (b) after a "cut-off hour" established by it in accordance with applicable State law, or (c) during afternoon or evening periods when it is open for limited functions only.

(ii) payment in cash; or

(iii) in the discretion of the Federal Reserve Bank, any other form of payment or remittance:

Provided, That the proceeds of any such payment or remittance in any form herein stated shall be available to the Federal Reserve Bank not later than the close of the banking day for such Federal Reserve Bank on the day on which such item was so received by the paying bank. If the banking day on which an item is received by a paying bank is not a banking day for the Federal Reserve Bank from which the item was received, any payment or remittance made hereunder shall be effected on the banking day of both such Federal Reserve Bank and such paying bank next following the day of receipt of such item.

(2) Noncash item. A Federal Reserve Bank may require the paying bank or collecting bank to which it has presented, sent, or forwarded any noncash item pursuant to § 210.7 to pay or remit for such item in cash, but is authorized, in its discretion, to permit such paying bank or collecting bank to authorize or cause payment or remittance therefor to be made by a debit to an account on the books of such Federal Reserve Bank or to pay or remit therefor in any of the following which is in a form acceptable to such Federal Reserve Bank: bank draft, transfer of funds or bank credit, or any other form of payment or remittance authorized by applicable State law.

(3) Nonbank payor. A Federal Reserve Bank may require the nonbank payor to which it has presented any cash item or noncash item pursuant to § 210.7 to pay therefor in cash, but is authorized, in its discretion, to permit such nonbank payor to pay therefor in any of the following which

is in a form acceptable to such Federal Reserve Bank: cashier's check, certified check, or other bank draft or obligation.

2. Section 210.12(a) would read:

§ 210.12 Return of cash items.

(a) A paying bank that receives a cash item from or through a Federal Reserve Bank, otherwise than for immediate payment over the counter, and that pays or remits for such item as provided in § 210.9(a) of this part shall have the right to recover any payment or remittance so made if, before it has finally paid the item, it returns the item before midnight of its banking day next following the banking day of receipt or takes such other action to recover such payment or remittance within such time and by such means as may be provided by applicable state law: Provided, That the foregoing provisions shall not extend, nor shall the time herein provided for return be extended by, the time for return of unpaid items fixed by the rules and practices of any clearing house through which the item was presented or fixed by the provisions of any special collection agreement pursuant to which it was presented.

(12 U.S.C. 248(i) and (o) and 342.)

By order of the Board of Governors, March 20, 1972.

(Signed) Tynan Smith

Tynan Smith
Secretary of the Board

[SEAL]

For use in morning papers
Tuesday, March 28, 1972

March 27, 1972

The Board of Governors of the Federal Reserve System today issued the attached questions and answers relating to proposed changes in the check-clearing process and the structure of reserve requirements. These questions and answers are intended to supplement the Board's formal announcements of these matters, also issued today.

- 0 -

March 27, 1972

CHECK COLLECTION

REGULATION J

1. What is the legal responsibility of the Federal Reserve System for check collection?

   Congress has charged the Federal Reserve System with responsibility for providing a nationwide mechanism for the transfer of funds and collection of checks. (See Federal Reserve Act, Section 13, paragraph 1, and Section 16, paragraph 14.)

2. What does the proposed amendment to Regulation J do?

   Regulation J establishes the rules, including the time schedule for payment and the availability of credits with respect to checks and other cash items, under which the Federal Reserve Banks collect checks deposited with one commercial bank and payable at another such bank.

   Under present arrangements, some banks pay for checks in immediately available funds on the day they are presented for payment by the Federal Reserve, while payments from other banks are received a day or two days later. The proposal would require all payor banks to pay in immediately available funds for all checks and cash items presented to them by the Federal Reserve Bank. The Federal Reserve Bank would thus be able to speed up the availability of some credits to the depositing bank.

3. What is the reason for amending Regulation J?

   To accelerate the settlement of transactions effected by check and thus reduce Federal Reserve float and commercial bank float as well.

4. Will there be a public benefit?

   Yes. The funds that are received by Reserve Banks on the days of presentment will be made available to depositing banks, and thus, in many cases, can be passed on to their individual, business, and other depositors on that day.

5. Would this change affect all payments?

   No. Many banks are now meeting this requirement by paying in immediately available funds through participation in clearing houses and in regional check clearing arrangements operated by the Federal Reserve Banks in various parts of the Nation. About 85 percent of the dollar value of checks presented for payment are handled on this basis. Banks not participating in an arrangement culminating in overnight presentment and immediate payment usually make payment for their checks in funds not available until the day following presentment. Since the checks usually are charged to the accounts of depositors on the day of receipt, these banks have temporary use of funds for which the Federal Reserve has not yet received payment.

6. What is meant by "immediately available funds"?

   These are funds that may be used by the collecting bank on the day the checks are presented to the payor bank for payment.

7. What forms of payment will constitute immediately available funds?

   The most convenient form of immediately available payment is a pre-authorized charge to the account of a member bank on the books of a Federal Reserve Bank.

   In the case of nonmember banks, this would require an agreement between a nonmember bank, a correspondent member bank, and the Federal Reserve Bank if the nonmember bank elects to make immediately available payment for its checks in this way. This agreement would authorize a Reserve Bank to charge, on the day of presentment, the account of a designated correspondent member bank for checks presented to a nonmember bank.

   Payment can be made in other forms acceptable to a Reserve Bank that will result in the Reserve Bank receiving immediately available funds.

8. Does the proposed change in Regulation J affect both member and nonmember banks?

   Regulation J affects all banks that either send checks to a Federal Reserve Bank for collection, or that receive checks from a Federal Reserve Bank for payment.

9. Will the proposed revision result in faster presentment of checks by the Federal Reserve?

   No. The proposal relates to the way in which checks are paid for <u>after</u> they are presented for payment. Other operational changes now in progress, such as overnight processing and clearing of checks in Regional Check Processing Centers, will result in faster presentment, but this is not part of the Regulation J proposal.

10. Will member banks that have difficulty in adjusting to the new check collection procedures be assisted by the Federal Reserve?

    Yes. Although the Board is simultaneously proposing changes in reserve requirements that, together with other actions, are aimed at neutralizing the monetary effect of the proposed change in Regulation J, it is realized that effects on particular banks will vary. Consequently, Federal Reserve discount officers will be responsive to requests for assistance by member banks to tide them over the period of adjustment to the new procedures.

11. Does the proposal affect the right of a bank to return unpaid checks, or the time available for doing so?

    No. A bank that makes conditional payment for checks by the close of business upon the day of presentment in immediately available funds would continue to have until midnight of the business day following that day of presentment to return items.

12. What happens when checks being presented for payment are delayed in transit?

    No bank would be required to pay for its checks prior to receipt. It is the practice of the Federal Reserve not to charge a bank for checks that are not delivered for payment at the scheduled time. Accounting adjustments will be made in special circumstances.

13. Do the amendments to Regulation J being proposed affect the handling of noncash items?

No.

RESERVE REQUIREMENTS

REGULATION D

1. Why is the Board proposing to restructure reserve requirements applicable to demand deposits?

The present structure of reserve requirements has resulted in inequities among member banks. The criteria presently used for designating reserve cities and reserve city banks are related basically to the location of banks and the nature of their business. It has also been difficult to apply in practice the criteria for granting reduced reserves to small- and medium-sized banks in reserve cities. There are banks of similar size in different localities that conduct similar types of business but which have different reserve requirements. This is unfair to the banks that have the higher reserve requirements. The proposal would eliminate these inequities because reserve requirements on demand deposits would be based on the amount of such deposits without regard to the location of a bank.

2. What is a reserve city and what relationship does it have to reserve requirements?

The Federal Reserve Act gives the Board authority to classify cities as reserve cities or to end that classification.

Banks located in reserve cities are called reserve city banks and are required generally to carry a higher percentage of reserves on demand deposits than banks located elsewhere--the so-called "country banks." There are presently 46 reserve cities.

The Board has authority to set reserve requirements on demand deposits between 10 and 22 percent for reserve city banks and between 7 and 14 percent for "country banks." The Board also may permit small- and medium-sized banks located in reserve cities to carry the same reserves as "country banks" because they engage in a type of business similar to banks located outside reserve cities.

3. How would the proposal affect the designation of a reserve city bank?

   A bank would become a reserve city bank automatically whenever its net demand deposits rose above $400 million.

4. How would member banks be affected by the proposed restructuring in reserve requirements?

   The following tables would apply:

	Present Requirement	Proposed Requirement
For banks presently designated as reserve city banks		
First $2 million in net demand deposits	17	8
$2 million to $5 million	17	10
$5 million to $10 million	17 1/2	10
$10 million to $400 million	17 1/2	13
Over $400 million	17 1/2	17 1/2

	Present Requirement	Proposed Requirement
For banks presently designated as country banks and banks in reserve cities that have permission to carry reduced reserves		
First $2 million in net demand deposits	12 1/2	8
$2 million to $5 million	12 1/2	10
$5 million to $10 million	13	10
$10 million to $400 million	13	13
Over $400 million	13	17 1/2

-0-