FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 72-134
June 28, 1972

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

Enclosed are the press release and the official notices issued by the Board of Governors of the Federal Reserve System in connection with the promulgation of changes in Regulations D and J. The Board has amended its original proposals, published for comment in the Federal Register of April 1. As the press release indicates, the Board received a number of comments and suggestions. This Bank, along with the other Federal Reserve Banks, conducted meetings and discussions on the proposals. The modifications in the proposals, as finally adopted, reflect the Board's desire to make a smooth transition to the new rules.

The modifications in the proposals consist of the addition of a $10 to $100 million net demand deposit reserve classification and a provision for waiver of penalties on reserve deficiencies over a period of up to 21 months for some banks.

During the next three months, prior to the effective date of the changed regulations, our representatives will work with you to make all necessary clearing arrangements and to develop a schedule for waiver of reserve deficiencies in cases where this is applicable. We shall also be working with many banks on the creation of additional regional check processing centers in an effort to expedite the development of a nationwide network for faster and more efficient check clearings.

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:

Regulation J

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

Regulation D

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

Any broad questions or comments you may wish to have us consider on these changes can be directed to Robert Smith, III, Public Information Officer of this Bank. Our branch officers stand ready to assist any bank in their respective territories.

Very truly yours,

P. E. Coldwell

President

Enclosures

FEDERAL RESERVE
press release

For use in papers of
Thursday, June 22, 1972

June 21, 1972

The Board of Governors of the Federal Reserve System today announced its unanimous approval of two regulatory changes designed to restructure on a more equitable basis the reserve requirements of member banks, and to modernize the nation's check collection system.

The changes will go into effect in two steps in late September and early October. They will:

--Apply the same reserve requirements to member banks of like size, regardless of a bank's location (amending Regulation D, governing reserves of member banks).

--Require all banks, also regardless of location, served by the Federal Reserve check collection system (virtually all of the nation's banks) to pay--in immediately collectible funds--for checks drawn on them, the same day the Federal Reserve presents the checks for payment (amending Regulation J, governing collection of checks and other items by Federal Reserve Banks).

The changes, while basically the same as the proposals published for public comment March 28, have been modified in detail and method of application, in the light of comment received. These modifications include further revisions of the restructured reserve schedule affecting member banks' net demand deposits ranging from $10 million to $100 million, and temporary waivers of penalties on reserve deficiencies attributable to the new check collection procedures.

In making the announcement the Board said:

The Board received letters during the seven-week period for comment through May 15 from less than 5 per cent of the nation's 13,800 commercial banks. Although many banks suggested modifications in the original proposals--chiefly to minimize effects of the new check collection procedures upon their funds available for loans and investments--most of them approved of the program fully or in principle.

The correspondence the Board received, and the special efforts made by the Federal Reserve Banks during the comment period to assess the effects of the proposed changes, indicate that a number of banks, especially those not served by most Federal Reserve offices and Federal Reserve Regional Check Processing Centers (RCPCs), would be adversely affected.

The Board has given careful attention to situations where a bank's funds available for investment would be significantly reduced by the new check collection procedures. The changes in the regulations, as now adopted, and the early activation of System-wide RCPC arrangements, will substantially lessen the effects upon investable funds of member banks.

Given the normal growth of deposits, these provisions should make it possible for member banks to adapt without undue difficulty to the new check collection procedures.

In this respect, it should be noted that the Board has formulated its new reserve requirements in such a way that the smaller the member bank, the more its reserve requirements are reduced. For example, member banks in the up to $2 million net demand deposit category would experience a reduction in required reserves of 36 per cent, while member banks with net demand deposits of $400 million and up would have their required reserves lowered by 9 per cent.

The Board is seeking simultaneously to equalize competitive conditions among banks--and further ease adjustment to the new check collection procedures--by giving high priority attention to extending Federal Reserve RCPC clearing services and equalizing cutoff hours.

Within the context of improving services the Board's most immediate and highest priority aim, is accelerating the development of Regional Check Processing Centers. This will greatly assist the transition to the new conditions by a large number of banks--nonmember as well as member. By making possible earlier receipt of funds due to banks depositing checks for clearance, these facilities for overnight

check gathering, processing and clearing will further offset the earlier payment for checks required by the change in Regulation J.

Regional Check Processing Centers located at Federal Reserve offices will serve areas as large as can be reached on an overnight basis. Such expanded zones of overnight check clearance are already in operation at Baltimore, Miami, (Florida) Chicago, Kansas City, Omaha and Denver. Centers at new locations will be established where needed to serve banks that cannot be reached overnight from present Federal Reserve offices.

The Board believes that the revisions of its regulations, as adopted, will result in a more efficient, more competitive and productive banking system, better able to take advantage of modern communications and accounting technology to serve business and private depositors in a growing economy.

The regulatory changes--and the method to be used in implementing them--will result in a net release of reserves of about $1.5 billion: a total release of about $3.5 billion from the restructuring of reserves and the waiver of penalties, which will be partially absorbed by the immediate $2 billion reduction in float resulting from the change in Regulation J. This float arises out of the present practice whereby so-called "country banks" pay for checks presented by the Federal Reserve in funds that are not available for use until the next business day following presentment of the checks for payment. Additional reduction in float will occur as transportation arrangements are improved.

The net release of reserves will be accomplished in two steps. It is intended that Federal Reserve open market operations will be adapted as needed, when the amendments go into effect, to neutralize the effects on monetary policy.

Effects of the changes on the reserve positions of individual banks will vary and there will be some transitional imbalances

despite the modifications adopted by the Board. 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.

Reserve Restructuring (Regulation D)

The Board's amendment restructuring reserve requirements on net demand deposits will modernize the system of reserves in the light of banking patterns that have evolved over the last 25 years. It will provide member banks of equal size with equal reserve requirements.

Under the basic restructuring, reserve requirements on net demand deposits will be based on the amount of such deposits held by a member bank without regard to its location. The restructuring will apply the following ratios to all member banks:

Amount of Net Demand Deposits	Reserve Percentages Applicable
First $2 million or less	8 per cent
Over $2 Million to $10 million	10 per cent
Over $10 million to $100 million	12 per cent
Over $100 million to $400 million	13 per cent
Over $400 million	17-1/2 per cent

These ratios will become effective in two steps just prior to the period when there is a seasonal need for reserves in the banking system. Beginning in the statement week of September 21 to September 27, the first three ratios--8 per cent, 10 per cent and 12 per cent--

will apply to net demand deposits of $100 million and less, based on the average level of deposits held by the bank during the week ending September 13. This will coincide with the September 21 effective date for the Regulation J change. In addition, the 17-1/2 per cent ratio that now applies to demand deposits between $100 million and $400 million (for present Reserve City banks) will be reduced to 16-1/2 per cent as part of the first step. During the statement week from September 28 to October 4, this latter ratio will be reduced to 13 per cent based on the average level of deposits held by the bank during the week ending September 20.

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

As originally proposed, a ratio of 13 per cent would have applied to net demand deposits from $10 million to $400 million. The Board decided to include an additional category--a 12 per cent ratio

for net demand deposits between $10 million and $100 million--to help offset the absorption of reserves through float reduction under the new check collection rules that will have a sharp impact on banks of this size.

This particular action will release $400 million in reserves, and of this amount $250 million will go to country banks with net demand deposits of more than $10 million.

One part of the reserve restructuring will change the manner in which "reserve city banks" are designated. Under the amendment, a bank is a reserve city bank automatically whenever the average of its net demand deposits for the reserve period rises above $400 million.

In authorizing the Federal Reserve Banks to grant temporary waivers of penalties on certain deficiencies in reserves attributable to the change in Regulation J, the Board set the following guidelines:

--A waiver will be granted initially only for penalties on reserve deficiencies equal to a reduction in available funds that exceeds two per cent of a member bank's net demand deposits.

--The amount of deficiency eligible for waiver of penalties will decrease one per cent of net demand deposits for each quarter beginning January 1, 1973.

--No further waivers will be granted under this authority after June 30, 1974.

Check Collection (Regulation J)

The Board adopted the proposals it made in March for revising its Regulation J, covering collection of checks by the Federal Reserve System. At the same time, it took steps to attenuate and mitigate the impact on affected banks of faster check collection.

Commercial banks that are members of the Federal Reserve System send to the Federal Reserve for collection checks deposited by their customers that are drawn for the most part on banks outside their local clearing systems. The Federal Reserve presents the checks, for collection, to the banks against which they are drawn. Nonmember banks use Federal Reserve collection facilities by sending their checks to the Federal Reserve through a member bank. The Federal Reserve credits the reserve account of member banks which send checks to it for collection. The Reserve Bank recovers the amounts it has credited when it collects from banks whose customers wrote the checks.

The revised check collection regulation requires all banks to pay for their checks the same day the Federal Reserve presents them for payment, and to make the payment in funds that are available to the Federal Reserve that day, i.e., to pay in immediately available funds. In no case, however, would a bank be expected to pay for its checks prior to receipt of its cash letter from the Reserve Bank. Nor would the right of a bank to return any check on the following day be affected.

Nearly all banks in the 12 cities where the Federal Reserve banks are located, and the 25 cities with other Federal Reserve offices

have been on such an immediate payment basis. Payment for checks by these banks and their customers, are not affected by the new check collection procedures. They will, of course, benefit from earlier credit from banks whose earlier payment is passed on by the Federal Reserve.

In recent months, in furtherance of Federal Reserve policy aimed at modernizing the nation's payments mechanism, the Federal Reserve Banks have begun establishing Regional Check Processing Centers (RCPCs) to serve expanded "zones of immediate payment" around, as well as in, their cities. Banks and their customers in these zones also have been on an immediate payments basis and their payment practices are thus not affected by the new check collection procedures.

The banks that may be adversely affected most by the revised check collection procedure are those outside cities with Federal Reserve facilities, and outside the immediate payment areas served by the RCPCs. Such banks, which will go on an immediate payment basis, generate some 15 per cent of the dollar volume of all checks, and about half of the 100 million checks currently written in the United States each business day. Whether or not they are adversely affected depends upon the off-setting amount of earlier credits they will receive and reduction of their required reserves.

These "country" banks had previously paid for checks presented to them in funds collectible one day or more after presentation. This practice--rooted in times of slower communications--made available to such banks for investment an average of approximately $2 billion a day

in funds that were in the process of collection through the Federal Reserve. This $2 billion "float" will be eliminated under the new same-day-payment check collection procedure.

The new check collection rules thus place all banks--city and country, member and nonmember--on the same footing as regards check collection by the Federal Reserve. A number of the member "country" banks not now paying in immediately available funds are medium to large banks, located in the many sizeable cities that do not have Federal Reserve offices and in suburban areas around Federal Reserve cities.

In making immediate rather than deferred payment for their checks, banks not already on an immediate payment basis could--in the absence of offsetting action by the Board--lose investable funds. The Board's action will provide newly investable funds resulting from the lower reserves the new reserve schedule permits. And the effect of having to pay the Federal Reserve for their checks earlier, will be offset by earlier credit from the Federal Reserve on checks written in their favor. Where earlier credit is given for checks due to either member or nonmember banks operating through a correspondent bank, the Federal Reserve anticipates that correspondent banks will pass the earlier credit back to the banks they represent.

Despite these offsets, some banks will nevertheless still have to give up funds previously available to them in the form of "float." To attenuate and mitigate the effect of this reduction of funds, the Board has authorized the Reserve Banks to waive penalties on certain deficiencies in reserves for periods of up to 21 months.

The amount of funds on which penalties initially will be waived, after the new check collection procedure goes into effect, will depend upon the amount of net loss of funds a bank experiences. The net loss of reserves will be (1) the reserve reduction due to immediate rather than deferred payment for checks that (2) is not offset by the Board's new reserve requirement structure or (3) by receipt of earlier credit for checks under the new check collection rules. The amount will be figured as a per cent of the bank's net demand deposits.

Where a bank's net reduction of funds is less than 2 per cent of its net demand deposits, no waiver of penalties will be granted. Penalties will be waived on reserve deficiencies in excess of 2 per cent of net demand deposits through the remainder of this year. Thereafter, the waiver of penalties will be reduced at the beginning of each quarter on an amount equal to 1 per cent of the bank's net demand deposits, up to a maximum of six quarters.

Attached are copies of the regulatory amendments and order relating to waiver of penalties.

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TITLE 12--BANKS AND BANKING

CHAPTER II--FEDERAL RESERVE SYSTEM

SUBCHAPTER A--BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

[Reg. D]

PART 204--RESERVES OF MEMBER BANKS

Computation and Requirements

On March 28, 1972, the Board of Governors announced that it was considering adopting 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. (See 37 Federal Register 6694.) Under the proposal, reserve percentages would be based on a member bank's deposits without regard to the location of the bank. The Board has decided to adopt the proposal, with certain modifications. Some modifications are designed to phase in gradually the reserve requirement structure proposed on March 28; in this connection, the amendments to Regulation D have various deferred effective dates. The purpose of phasing in the new reserve structure is to avoid an unduly large release of reserves at any given point in time. Another modification is designed to cause a reduction from 13 per cent (as proposed earlier) to 12 per cent in the reserve percentage that is applicable to the portion of a member bank's net demand deposits in excess of $10 million but less than $100 million.

To implement its proposal, the Board has amended Regulation D (12 CFR 204) in the following respects:

1. Effective September 21, 1972, sections 204.51 through 204.57 are revoked.

2. Effective September 21, 1972, sections 204.2(a)(2) and (3) are 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. Effective during the period from September 21 to September 27, 1972, sections 204.5(a)(1)(iii) and (2)(iii) are 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 per cent of its net demand deposits if its aggregate net demand deposits are $2 million or less, (b) $160,000 plus 10 per cent 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, (c) $960,000 plus 12 per cent of its net demand deposits in excess of $10 million if its aggregate net demand deposits are in excess of $10 million but less than $100 million, or (d) $11,760,000 plus 13 per

cent of its net demand deposits in excess of $100 million, except that in the case of a bank that was considered located in a reserve city prior to September 21, 1972, the reserve percentage shall be 16-1/2 per cent of its net demand deposits in excess of $100 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) $61,260,000 plus 17-1/2 per cent of its net demand deposits in excess of $400 million.

4. Effective September 28, 1972, sections 204.5(a)(1)(iii) and (2)(iii) are 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 per cent of its net demand deposits if its aggregate net demand deposits are $2 million or less, (b) $160,000 plus

10 per cent 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, (c) $960,000 plus 12 per cent of its net demand deposits in excess of $10 million if its aggregate net demand deposits are in excess of $10 million but less than $100 million, or (d) $11,760,000 plus 13 per cent of its net demand deposits in excess of $100 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) $50,760,000 plus 17-1/2 per cent of its net demand deposits in excess of $400 million.

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

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

(Signed) Michael A. Greenspan

[SEAL]

Michael A. Greenspan
Assistant Secretary

TITLE 12--BANKS AND BANKING

CHAPTER II--FEDERAL RESERVE SYSTEM

SUBCHAPTER A--BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

[Reg. J]

PART 210--COLLECTION OF CHECKS AND OTHER ITEMS BY FEDERAL RESERVE BANKS

Payment of Cash Items Upon Presentment

On March 28, 1972, the Board of Governors proposed to amend its Regulation J to require banks--member and nonmember--to pay cash items on the day of presentment in funds available to the Reserve Bank on that day. (See 37 Federal Register 6695.) For the reasons indicated in that earlier announcement, the Board has decided to adopt the proposal.

To aid in the implementation of the proposal, the Board has also decided to amend its Regulation J to provide that if a Federal Reserve Bank does not receive payment for a cash item in the manner prescribed by Regulation J, the amount of the item may be charged back to the sender of the item.

Effective September 21, 1972, the Board has amended its Regulation J as follows:

1. Section 210.9(a) is 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

(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.

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.

(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) is amended to 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.

3. Section 210.13 is amended to read:

§ 210.13 Chargeback of unpaid cash items and noncash items.

If a Federal Reserve Bank does not receive payment for any cash item in accordance with the provisions of § 210.9(a), the amount of such item may be charged back to the sender, regardless of whether or not the item itself can be returned. If a Federal Reserve Bank does not receive payment in actually and finally collected funds for any cash item or noncash item for which it gave credit subject to payment in actually and finally collected funds, the amount of such item shall be charged back to the sender, regardless of whether or not the item itself can be returned. In the event the amount of the item is charged back, neither the owner or holder of any such item nor the sender shall have the right of recourse upon, interest in, or right of payment from, any reserve

balance, clearing account, deposit account, or other funds of the paying bank or of any collecting bank, in the possession of the Federal Reserve Bank. No draft, authorization to charge, or other order, upon any reserve balance, clearing account, deposit account, or other funds in the possession of a Federal Reserve Bank, issued for the purpose of paying or remitting for any cash items or noncash items handled under the terms of this Part, will be paid, acted upon, or honored after receipt by such Federal Reserve Bank of notice of suspension or closing of the bank making the payment or remittance for its own or another's account.

4. Section 210.15 is amended to substitute the term "§ 210.9" for the term "§ 210.12" appearing at the end of § 210.15.

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

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

(Signed) Michael A. Greenspan

[SEAL]

Michael A. Greenspan
Assistant Secretary

FEDERAL RESERVE SYSTEM

[12 CFR Parts 204 and 210]

Waiver of Penalties for Deficiencies in Reserves

On March 28, 1972, the Board announced that it was considering amending its Regulations D and J to restructure and reduce reserve requirements and to require banks to pay checks on the day of presentment in immediately available funds. After reviewing the comments received, the Board has determined that member banks that will be adversely affected to a substantial degree by adoption of these proposals should be permitted a reasonable time to adjust to the effects of the new regulations. Below is the text of a letter to the Federal Reserve Banks setting out this measure:

The Board regards it as appropriate for a Reserve Bank to waive penalties in some cases for member bank reserve deficiencies that result from the implementation of the proposed amendments to Regulations D and J, announced on March 28, 1972. In those cases where the implementation of these changes would result in a net loss of funds (as computed by the Reserve Bank) in an amount more than two per cent of the member bank's net demand deposits, it seems appropriate to waive certain of the penalties for reserve deficiencies. For the reserve periods ending on or before January 1, 1973, it is regarded as appropriate in such cases to waive penalties on deficiencies in amounts of the full loss, less the two per cent of net demand deposits. For each subsequent quarter, an additional one per cent of net demand

deposits would be subtracted from the amount of deficiencies eligible for waiver, until the amount of the waiver is eventually zero. This authorization for waivers will terminate on June 30, 1974.

The loss to each member bank should be calculated as the average amount[1/] of the bank's Federal Reserve cash letter for which it would make earlier payment, less the average amount of same-territory country items for which the bank would receive earlier credit, or two per cent of its net demand deposits, whichever is less, less the average reduction in reserve requirements due to the change in Regulation D. (For those few banks whose reserve requirements would be increased, the change in reserves would be added rather than subtracted.)

Applications for waiver should be submitted by a member bank prior to August 15, 1972.

1/ The average amount will be calculated over the 4-week period ending on June 28, 1972. However, if an RCPC has been implemented during 1972, the Reserve Bank should choose a 4-week period prior to the date of such implementation. In addition, for purposes of these calculations, the figure for net demand deposits should be the average amount of net demand deposits over that same period.

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

(Signed) Michael A. Greenspan

[SEAL]

Michael A. Greenspan
Assistant Secretary