

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 80-95

May 14, 1980

INTERPRETATION TO REGULATION D PURSUANT TO THE MONETARY CONTROL ACT OF 1980

TO ALL MEMBER BANKS
AND OTHERS CONCERNED IN THE
ELEVENTH FEDERAL RESERVE DISTRICT:

The Federal Reserve Board adopted an interpretation to implement the Monetary Control Act of 1980 as it applies to reserve requirements of a bank that was a member of the Federal Reserve System on July 1, 1979 and subsequently withdrew, and to member banks involved in mergers or consolidations since that date. The interpretation also deals with the availability of Federal Reserve services to banks maintaining reserves.

The Monetary Control Act of 1980 provides that a bank that was a member of the System on July 1, 1979 and withdrew between that time and March 30, 1980 is required to maintain reserves to the same extent as a member bank; and a bank that withdraws from the System on or after March 31, 1980 must continue to maintain reserves to the same extent as a member bank.

The Board has approved the following interpretations relating to provisions of the Act:

1. How the date of withdrawal of a member bank from the System is to be determined.
2. Waiving reserve requirements of former member banks for the period March 31 through August 27, 1980. Member banks will be required to maintain full reserve requirements thereafter, with provisions for limited extensions to avoid hardships in extraordinary circumstances.
3. How reserve requirements will be applied in the cases of banks that withdrew from the System on or after July 1, 1979, due to merger or consolidation where:
 - (1) a non-member bank merged or consolidated with a member bank and the surviving bank is a non-member bank, when

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- a. the merger or consolidation took place between July 1, 1979 and August 27, 1980;
 - b. the merger or consolidation took place on or after August 28, 1980, or
- (2) a surviving member bank merges with a non-member bank after March 30, 1980.
- 4. How the date of a merger or consolidation will be determined.
 - 5. Policy for access to Federal Reserve services, providing that banks maintaining full Federal reserves pursuant to this interpretation will be given access to all Federal Reserve services.

Questions regarding this revision should be directed to Allan Neale at the Head Office, Ext. 6334, or the Manager of the Accounting Departments at our El Paso, Houston, or San Antonio branches.

Sincerely yours,

Robert H. Boykin

First Vice President

Enclosure

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

RESERVES OF MEMBER BANKS

INTERPRETATION OF REGULATION D

Implementation of the Monetary Control Act of 1980

Effective April 21, 1980, §204.120 is added to read as follows:

SECTION 204.120—IMPLEMENTATION OF MONETARY CONTROL ACT OF 1980

The Monetary Control Act of 1980 (Title I of P. L. 96-221) ("Act") provides that any bank that was a member bank on July 1, 1979, and which withdraws from membership in the Federal Reserve System during the period beginning on July 1, 1979, and ending on March 30, 1980, is required to maintain reserves in an amount equal to the amount of reserves it would have been required to maintain if it had been a member bank on March 31, 1980. The Act further provides that any bank that withdraws from membership in the Federal Reserve System on or after March 31, 1980, shall maintain reserves in the same amount as member banks. The Board of Governors has established certain policies and procedures to implement these provisions.

1. Determination of Date of Withdrawal from Membership. Any bank that was a member bank, but which withdrew from membership in the Federal Reserve System prior to July 1, 1979, as determined below, will be subject to Federal reserve requirements on September 1, 1980, the effective date of the remaining provisions of the Monetary Control Act. Such banks will be entitled to an eight-year phase-in of reserve requirements. A bank that is determined to have withdrawn from membership on July 1, 1979, or thereafter, is subject to Federal reserve requirements pursuant to Regulation D in the same manner as a member bank.

The date of withdrawal from membership in the System for a State member bank will be determined by the date on which the Federal Reserve Bank received notice of the decision of the bank's board of directors (and shareholders where State

law requires) to withdraw from membership.¹ With regard to a national bank, the date of withdrawal is the date on which such national bank received a State charter whether by conversion, merger, or consolidation.

In recognition of the fact that there may have been individual bank circumstances that delayed an individual bank's withdrawal or acquisition of a State charter, the Board, consistent with the legislative history of section 103 of the Act, will consider evidence from a former member bank that it made an unambiguous irrevocable decision to withdraw from membership before July 1, 1979, and, thus, is entitled to an eight-year phase-in of required reserves. A bank that was a State member bank whose directors (and shareholders where State law requires) voted to leave the System prior to July 1, 1979, or a bank that was a national bank whose shareholders voted to convert to a State charter (including conversion by merger or consolidation) prior to July 1, 1979, and was not a member bank on March 31, 1980, may present the Board with clear, unambiguous documentation of such actions. Upon review of such information, the Board may then determine that the date that an individual bank made such an irrevocable decision is its date of withdrawal from membership. Any bank that believes that it meets these criteria, should submit full documentation to the Board as soon as possible, but in any event, no later than June 16, 1980. Such submissions should be addressed to Theodore E. Allison, Secretary of the Board, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue, N.W., Washington, D.C. 20551.

¹ See 126 Cong. Rec. E 1619 (daily ed. March 28, 1980) (remarks of Rep. Brademas and Rep. Reuss); 126 Cong. Rec. S 3176 (daily ed. March 28, 1980) (remarks of Senators Bayh, Proxmire and Lugar).

2. Reserve Requirements of Former Member Banks. The Board has determined, with respect to banks that withdrew from the System (other than by merger or consolidation) on or after July 1, 1979, and ceased maintaining reserves pursuant to Regulation D prior to March 31, 1980, to waive all Federal reserve requirements for the period from March 31, 1980, through the maintenance period ending August 27, 1980.² Such banks will be required to maintain currently prescribed levels of Federal reserves commencing with the reserve maintenance period that begins on August 28, 1980. A former member bank may commence maintaining reserves with a Federal Reserve Bank beginning on or after June 5, 1980, in order to have sufficient balances available for Federal reserve requirement purposes for the August 28-September 3, maintenance period. A former member bank that maintains full reserve balances on or after June 5, 1980, will receive access to all System services.

The Board recognizes that certain former member banks may experience hardships by being subjected to Federal reserve requirements in the same manner as a member bank, notwithstanding the delayed effective date that has been established. In order to accommodate former member banks that may incur significant hardship by maintaining full reserve balances by the maintenance period beginning August 28, the Board will consider granting limited extensions beyond that date in extraordinary circumstances. A former member bank that placed its Federal reserve balances, prior to March 31, 1980, in assets that have declined significantly in value and that cannot be converted to cash before August 28, 1980, without incurring significant losses may be granted a limited extension of time by the Board to maintain full Federal reserve requirements. A former member bank requesting such an extension should submit information concerning such placements of reserve balances withdrawn by July 15, 1980. Such submissions should be addressed to Theodore E. Allison, Secretary of the Board, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue, N.W., Washington, D.C. 20551.

Any bank that maintained Federal reserves pursuant to Regulation D during the maintenance period that included March 31, 1980, and any member bank that withdraws from the System (other than by merger or consolidation) on or after

March 31, 1980, is required to maintain Federal reserves against its deposits in the same manner as a member bank.

3. Mergers. Banks that withdraw from membership due to mergers or consolidations on or after July 1, 1979, will be required to maintain Federal reserves in the same manner as a member bank on the proportion of their deposits attributable to former member banks. The date of a merger will be determined in accordance with the procedures established in item 1 above.

Where a nonmember bank merges or consolidates on or after July 1, 1979, with a member bank and the surviving bank is a nonmember bank, the bank is required to maintain Federal reserves in the same manner as a member bank on a proportion of its deposits attributable to the absorbed member bank. This proportion will be the ratio that daily average deposits of the absorbed member bank were to the daily average deposits of the combined banks during the reserve computation period immediately preceding the date of the merger. For example, if during the last full computation period before the date of a merger or consolidation between a member bank and a nonmember bank, the ratio of member bank daily average deposits to the daily average total deposits of the merged entity is 25 percent, then the surviving nonmember bank will maintain Federal reserve requirements in the same manner as a member bank on 25 percent of its deposits. The portion of the surviving bank's deposits representing nonmember bank deposits, that is, 75 percent, will be subject to Federal reserve requirements on an eight-year phase-in schedule under the Act.

A ratio also will be computed for vault cash, and only the proportion of the vault cash attributable to the absorbed member bank will be permitted to be used in determining the amount of reserve balances required to be held at the Federal Reserve. For example, if during the last full computation period before the date of a merger or consolidation between a member bank and a nonmember bank, the ratio of member bank daily average vault cash to the daily average total vault cash of the merged entity is 35 percent, then the surviving nonmember bank will take that proportion of its vault cash into account in computing the reserve balance required to be maintained against its deposits attributable to the absorbed member bank.

For mergers or consolidations taking place between July 1, 1979, and August 27, 1980, where the surviving bank is a nonmember bank, Federal

² Such banks will continue to be subject to the special deposit requirement on managed liabilities pursuant to Subpart C of 12 CFR Part 229.

reserves will be required to be maintained on that portion of the bank's deposits representing member bank deposits during the maintenance period beginning August 28, 1980.

Mergers and consolidations that take place on or after March 31, 1980, between a member and nonmember bank that was engaged in business on July 1, 1979, where a member bank is the surviving bank will be treated on a proportionate basis for reserve purposes. However, only the amount of deposits and vault cash of the nonmember bank outstanding on a daily average basis during the computation period immediately preceding the date of the merger will be eligible for an eight-year phase-in of reserves. The balance of the deposits of the surviving member bank will con-

tinue to be subject to member bank reserve requirements.

Mergers and consolidations involving two member banks will continue to be subject to the Board's current policy of a two-year transitional phase-in of increased reserve requirements.

4. Access to Services. Any bank maintaining full Federal reserves pursuant to the above policies will be permitted access to all Federal Reserve services, except that Federal Reserve Banks may require satisfactory clearing balances. However, a nonmember bank that is maintaining reserves due to the acquisition of a member bank will have access to services if it maintains Federal reserves pursuant to Regulation D against all of its deposits.