FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 80-131
July 3, 1980

PROPOSED GUIDELINES CONCERNING REQUIRED RESERVE BALANCE PASS-THROUGH PROCEDURES

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

The Monetary Control Act of 1980 authorizes a nonmember depository institution to pass through its required reserve balance to the Federal Reserve through a depository institution maintaining a reserve account at a Federal Reserve office, through a Federal Home Loan Bank, or through the National Credit Union Administration's Central Liquidity Facility.

Printed on the following pages is the text of a press release by the Board of Governors announcing proposed procedures for nonmember depository institutions to the Federal Reserve and the text of the related proposed guidelines under which pass-through arrangements could be maintained.

As noted in the proposals, your comments are requested by July 31, 1980. Your comments, which should refer to Docket No. R-0309, may be mailed to Theodore E. Allison, Secretary, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue, N.W., Washington, D.C. 20551.

Questions regarding these proposals may be directed to Richard D. Ingram at the Head Office, Ext. 6333, or the officer in charge of the Accounting Department at the El Paso, Houston, or San Antonio branches.

Sincerely yours,

Robert H. Boykin

First Vice President

Banks and others are encouraged to use the following incoming WATS numbers in contacting this Bank: 1-800-442-7140 (intrastate) and 1-800-527-9200 (interstate). For calls placed locally, please use 651 plus the extension referred to above.

FEDERAL RESERVE press release

For immediate release June 26, 1980

The Federal Reserve Board today proposed procedures for nonmember depository institutions to follow if they pass required reserves through another depository institution to the Federal Reserve, and procedures for these intermediaries to follow in handling the reserve balances of others.

The Board asked for comment by July 31, 1980.

Under the Monetary Control Act of 1980, depository institutions are required to hold Federal reserves balances on their transaction and nonpersonal time accounts. These reserves may be held in vault cash, or, if vault cash does not satisfy reserve requirements, balances may be held directly with Federal Reserve Banks or Branches. Nonmember depository institutions may also pass their required reserves through to the Federal Reserve.

Depository institutions that are members of the Federal Reserve System must hold their reserves, as previously, with their local Federal Reserve Bank or Branch.

The Board's proposals are described fully in the attached notice. Some highlights of the proposals are:

--Correspondent institutions that may receive and pass through the reserve balances of nonmember depositories would be Federal Home Loan Banks, the National Credit Union Administration Central Liquidity Facility, or a depository institution (member or nonmember) that holds a reserve balance directly at a Federal Reserve Bank or Branch.

--The correspondent institution passing balances through would maintain the reserve balances it receives, dollar-for-dollar, with the Federal Reserve Bank or Branch in whose territory the main office of the respondent is located.

--A respondent would be able to choose only one correspondent, which may be initiated, terminated or changed as the respondent institution desires by providing to the Federal Reserve documentation specified in the proposals.

--In pass-through arrangements, it would be the responsibility of the correspondent to assure the maintenance of the correct level of its respondent's reserve balances.

--The Board requested comment on the following proposed procedure for the maintenance by correspondents of reserve balance accounts:

> --Maintenance, in the Federal Reserve territory where the correspondent has its main office, of a reserve account commingling correspondent and respondent reserves, and, in each other territory where respondents have head offices, maintenance of an account in which respondent reserves would be commingled.

The Board also requested comment on the following possible alternative procedure:

> --Maintenance of the correspondent's own account, and --separately-- of a commingled account for respondents in the Federal Reserve territory where the correspondent's main office is located, and, for respondents located in other territories, maintenance of a separate commingled respondent account in each territory where respondents have head offices.

--A depository institution maintaining a reserve balance on a pass-through basis would be eligible for Federal Reserve System services provided directly from its local Federal Reserve office.

The Board's notice setting forth these proposed procedures fully is attached.

Attachment

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

[12 CFR Part 204]

(Docket No. R-0309)

PROPOSED REQUIRED RESERVE BALANCE PASS-THROUGH GUIDELINES

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Notice of Proposed Guidelines.

SUMMARY: The Monetary Control Act of 1980 (Title I of P.L. 96-221) imposes Federal reserve requirements on all depository institutions that maintain transaction accounts or nonpersonal time deposits. A depository institution may satisfy reserve requirements by holding vault cash or by placing a balance at the Federal Reserve. The Act authorizes a depository institution that is not a member of the Federal Reserve System to hold its required reserve balance at the Federal Reserve in one of two ways. It may deposit its required reserve balance directly with the Federal Reserve Bank or Branch which serves the territory in which it is located. Alternatively, in accordance with procedures adopted by the Board, it may elect to pass through its required reserve balance through a correspondent. In order to implement the pass-through provisions of the Monetary Control Act, the Board is proposing guidelines under which pass-through arrangements could be maintained.

DATE: Interested parties are invited to submit relevant data, views and other comments. Comments must be received by July 31, 1980.

ADDRESS: Comments, which should refer to Docket No. R-0309, should be addressed to Theodore E. Allison, Secretary, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue, N.W., Washington, D.C. 20551, or delivered to room B-2223 between 8:45 a.m. and 5:15 p.m. Comments received may be inspected in room B-1122 between 8:45 a.m. and 5:15 p.m., except as provided in section 261.6(a) of the Board's Rules Regarding Availability of Information (12 CFR 261.6(a)).

FOR FURTHER INFORMATION CONTACT: Benjamin Wolkowitz, Section Chief (202/452-2686), Paul P. Burik, Economist (202/452/2556), Gilbert T. Schwartz, Assistant General Counsel (202/452-3625), or Lee S. Adams, Senior Attorney (202/452-3623), Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

SUPPLEMENTARY INFORMATION: Under the provisions of the Monetary Control Act of 1980 (Title I of P.L. 96-221), federal reserves are required for all depository institutions with nonpersonal time deposits or transaction accounts as those terms are defined in Section 103 of the Act. If these reserve requirements are not met by holdings of vault cash, a depository institution that is a member of the Federal Reserve System <u>must</u> hold its required reserve balance at its local Federal Reserve

Bank or Branch. A depository institution that is not a member of the Federal Reserve System may hold its required reserve balance in one of two ways. It may deposit its required reserve balance directly with the Federal Reserve Bank or Branch which serves the territory in which it is located, just as member banks do. Alternatively, such a depository institution may elect to pass its required reserve balance through a correspondent. Such a correspondent may be a (i) Federal Home Loan Bank, (ii) the National Credit Union Administration Central Liquidity Facility, or (iii) a depository institution which holds a reserve balance directly at a Federal Reserve Bank of Branch. However, the depository institution passing through required reserve balances to one of these correspondents must be permitted by law or regulation to maintain an account at the institution it has selected. The correspondent will pass through these required reserve balances dollar-for-dollar to the Federal Reserve Bank or Branch in the territory in which the main office of the respondent institution is located.

If a nonmember depository institution (respondent) chooses the pass-through option, the Federal Reserve Board proposes that the following procedures apply:

I. Pass-through Correspondent

1. The nonmember respondent may select only one correspondent to pass through its required reserves. An institution may act as a pass-through correspondent only if it maintains its own required reserves at a Federal Reserve office. The correspondent chosen subsequently must pass through the required reserve balances of its respondents and its own required balances to the appropriate Federal Reserve office. The correspondent placing funds with the Federal Reserve on behalf of respondents will be responsible for reserve account maintenance as described below.

2. The Board requests comments on an alternative to the above pass-through procedures that would permit a nonmember pass-through correspondent the option of subsequently passing through to another depository institution its own required reserves and those of its respondents. The second correspondent would be required to pass through these reserve balances dollar-for-dollar to the appropriate Federal Reserve office and would be responsible for reserve account maintenance for the first correspondent and its respondents as described below.

3. Respondent depository institutions or pass-through correspondents may institute, terminate, or change pass-through arrangements for the maintenance of required reserve balances by providing all documentation required for the establishment of the new arrangement and/or termination of the existing arrangement to the Federal Reserve Bank or Branch in whose territory the respondent or prospective respondent is located. The effective date of such change will be the beginning of the fifth reserve maintenance period following notification, of an earlier date as determined by the affected Reserve Bank or Branch.

II. Reports

1. Every depository institution that maintains transaction accounts or nonpersonal time deposits is required to file its report of deposits (or any other required form or statement) directly with its local Federal Reserve Bank or Branch, regardless of the manner in which it chooses to maintain required reserve balances.

2. The Federal Reserve Bank or Branch receiving such reports shall notify the reporting depository institution of its reserve requirements. Where a pass-through arrangement exists, the Reserve Bank or Branch will also notify the correspondent passing reserves through to the Federal Reserve of the respondent's required reserve balance.

III. Account Maintenance

1. A correspondent that passes through required reserve balances of respondents shall maintain such balances in a single commingled account in each Federal Reserve Bank or Branch in whose territory its respondent's main office is located. The required reserve balance of each correspondent, maintained at the Federal Reserve office for the territory in which its main office is located, shall be commingled in a single account with the required reserve balances of its respondents with main offices in the correspondent's Federal Reserve territory.

2. The Federal Reserve Board requests comments on an alternative to the above account maintenance procedure. Under this alternative, a correspondent would maintain its own required reserves in one account with the Federal Reserve office in whose territory its main office is located. The correspondent would maintain in a separate account required reserves passed through for respondents whose main office is located in that same Federal Reserve territory. For respondents located in other Federal Reserve territories, the correspondent would maintain a separate commingled account for passing through respondent's required reserves at each Federal Reserve Bank or Branch in whose territory the respondent's main office is located.

IV. Responsibilities of Parties to Pass-through Arrangements

1. The responsibility of maintaining reserve requirements is with the individual depository institution. However, where pass-through arrangements exist for purposes of reserve maintenance, the correspondent passing through reserves to the Federal Reserve shall be responsible for assuring the maintenance of the appropriate level of its respondent's required reserve balances in the same manner as if the balances were maintained by the respondent directly with a Reserve Bank or Branch. Reserve Banks and Branches will treat each correspondent account as a single account for purposes of determining required reserve deficiencies, imposing or waiving penalties for deficiencies in required reserves, paying

interest on supplemental reserves, and for other reserve maintenance purposes. However, correspondents will be required to maintain records in order to pass through penalties for reserve deficiencies or interest on supplementary reserves to individual respondents as if those respondents held their required balances directly with the Federal Reserve.

2. The Board's proposed Regulation D does not contemplate the imposition of supplemental reserve requirements at this time. If, however, supplemental reserves are ever required in the future the Federal Reserve would credit earnings on such balances to the pass-through accounts maintained by the correspondent. Arrangements for the subsequent distribution of the earnings would be the responsibility of the correspondent and its respondent, not the Federal Reserve. If a supplemental reserve requirement is ever imposed, and a reserve account is deficient in total required reserves, the balances maintained will be used first to satisfy basic reserve requirements, and if any unused balances remain, they will be used next to satisfy the supplemental reserve requirement. A penalty will then be assessed for any remaining deficiency on total required reserve balances.

3. A correspondent passing through a respondent's reserve balances shall maintain records and make reports as the Federal Reserve System requires in order to insure the correspondent's compliance with its responsibilities for the maintenance of a respondent's reserve balances. Such records shall be available to the Federal Reserve System as required. The Federal Reserve System may terminate any pass-through relationship in which the correspondent is deficient in its recordkeeping or other responsibilities.

4. Each Federal Reserve Bank or Branch will provide reserve account statements to the depository institutions maintaining required reserves or to correspondents passing through reserve balances to the Federal Reserve.

V. Services

1. A depository institution maintaining its reserve balances on a pass-through basis may obtain available Federal Reserve System services directly from its local Federal Reserve office. For this purpose, the pass-through account in which an institution's required reserve balance is maintained may be used by the institution for the posting of entries arising from transactions involving the use of such Federal Reserve services, if the posting of the individual transactions or types of transactions have been authorized by the correspondent and the Federal Reserve. For example, access to the wire transfer, securities transfer, and settlement services that involve charges to the commingled reserve account at the Reserve Bank or Branch will require authorization from the correspondent and the Reserve Bank for a specific transaction or for the type of transaction that is occurring.

2. Accounts at Federal Reserve offices consisting of respondents' reserve balances which are passed through by a correspondent to a Federal Reserve Bank or Branch at which the correspondent does not maintain its own required reserve balance may be used only for transactions for the account of the respondents. A correspondent will not be permitted to use pass-through accounts maintained outside of the Federal Reserve territory in which the correspondent maintains its own required reserves for purposes other than serving its respondent's needs.

3. In obtaining Federal Reserve services, respondents maintaining their required reserves on a pass-through basis may choose to have entries arising from the use of Federal Reserve services posted to any of the following accounts maintained at the local Federal Reserve office: (1) the pass-through reserve account in which its required reserves are maintained, (2) with the prior authorization of all parties concerned, the reserve account maintained by any other depository institution at the local Federal Reserve office, or (3) a clearing account maintained by the respondent institution directly with its local Federal Reserve office. A statement concerning the clearing balance procedure will be announced when the Federal Reserve publishes its proposed pricing schedule.

Board of Governors of the Federal Reserve System, June 26, 1980.

[SEAL]

(signed) Griffith L. Garwood)
Griffith L. Garwood
Deputy Secretary of the Board