FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 80-220
November 17, 1980

AMENDMENTS TO REGULATION D
RESERVES OF DEPOSITORY INSTITUTIONS

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

The Board of Governors of the Federal Reserve System announced publication of three rules in final form amending Regulation D under the Monetary Control Act of 1980, together with an amendment to the definition of Eurocurrency liabilities. The Federal Register document detailing these actions is printed on the following pages.

The amendments include: (1) extending the special rule regarding quarterly reporting to apply to all depository institutions that have total deposits of less than $15 million (as originally adopted, quarterly reporting was limited to depository institutions with total deposits of less than $5 million); (2) deferring until May 1981 the reporting and reserve maintenance requirements for nonmember depository institutions with less than $2 million in total deposits; and (3) simplifying the method of calculation of reserve requirements where member and nonmember institutions are involved in mergers so that reserves of the surviving institution are calculated by allocating its deposits according to the relative deposit size and structure of the institutions involved in the merger on a proportional basis without regard to whether the surviving institution is a member or a nonmember.

A copy of the amendments is enclosed and should be filed in the Regulations Binder furnished by this Bank. Additional copies of the amendments will be furnished upon request to the Bank and Public Information Department, Ext. 6266.

Sincerely yours,

Robert H. Boykin

First Vice President

Enclosure

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.

TITLE 12--BANKS AND BANKING

CHAPTER II--FEDERAL RESERVE SYSTEM

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

[REGULATION D]

(Docket No. R-0331)

Part 204--RESERVE REQUIREMENTS OF DEPOSITORY INSTITUTIONS

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Final rule and technical amendments.

SUMMARY: The Board of Governors has amended Regulation D--Reserve Requirements of Depository Institutions (12 CFR Part 204) to: (1) extend the special rule regarding quarterly reporting to apply to all depository institutions that have total deposits of less than $15 million (As originally adopted, quarterly reporting was limited to depository institutions with total deposits of less than $5 million); (2) defer until May 1981 the reporting and reserve maintenance requirements for nonmember depository institutions with less than $2 million in total deposits; and (3) simplify the method of calculation of reserve requirements where member and nonmember institutions are involved in mergers so that reserves of the surviving institution are calculated by allocating its deposits according to the relative deposit size and structure of the institutions involved in the merger on a proportional basis without regard to whether the surviving institution is a member or a nonmember.

In addition, a technical amendment has been adopted to clarify that the definition of "Eurocurrency liabilities" (1) includes sales of assets by depository institutions in the United States to their overseas offices that occurred only after October 6, 1979, and (2) with respect to a U. S. branch or agency of a foreign bank, does not include assets sold by its affiliated Edge or Agreement Corporations to its foreign bank (including offices thereof located outside the United States) or its parent holding company, but does include assets sold by the U. S. branch or agency to the non-U. S. offices of an affiliated Edge or Agreement Corporation.

EFFECTIVE DATE: November 13, 1980.

FOR FURTHER INFORMATION CONTACT: Gilbert T. Schwartz, Assistant General Counsel (202/452-3625), Paul S. Pilecki, Attorney (202/452-3281) or Paige Winebarger, Attorney (202/452-3265), Legal Division, Board of Governors of the Federal Reserve System, Washington, D. C. 20551.

SUPPLEMENTARY INFORMATION: The Monetary Control Act of 1980 (Title I of Pub. L. 96-221) ("Act") authorizes the Federal Reserve to impose reserve requirements solely for the purpose of conducting monetary policy on all depository institutions that maintain transaction accounts or nonpersonal time deposits. Depository institutions subject to reserve requirements include any Federally-insured commercial or savings bank, or any such bank that is eligible to become insured by the Federal Deposit Insurance Corporation; any mutual or stock savings bank; any savings and loan association that is a member of a Federal Home Loan Bank, insured by, or eligible to apply for insurance with, the Federal Savings and Loan Insurance Corporation; and any credit union that is insured by, or eligible to apply for insurance with, the National Credit Union Administration Board. The reserve requirements of the Act also will apply to United States branches of foreign banks, to United States agencies of foreign banks with total worldwide consolidated bank assets in excess of $1 billion, and to Edge and Agreement Corporations.

On August 15, 1980, the Board announced a revised Regulation D--Reserve Requirements of Depository Institutions (12 CFR Part 204; 45 FR 56009), to become effective on November 13, 1980, implementing the reserve requirement provisions of the Act. In order to facilitate the implementation of reserve requirements, the Board has amended the regulation in the areas of quarterly reporting by smaller depository institutions and reserve requirement treatment of depository institutions involved in mergers. In addition, the Board has announced a technical amendment clarifying the definition of "Eurocurrency liabilities" concerning sales of assets by depository institutions located in the United States to their overseas offices.

Quarterly Reporting for Certain Depository Institutions

In an effort to reduce the reporting and reserve management burden of very small depository institutions and to reduce the reserve requirement processing burden of the Reserve Banks, the Board established in August a procedure of quarterly reporting for depository institutions with total deposits of less than $5 million. In addition, the Board deferred reserve requirements of institutions that have less than $1 million in total deposits as of December 31, 1979, until May 1981.

Since that time, the Federal Reserve, through numerous contacts with depository institutions and from analysis of more recent data, has determined that simplified reporting procedures could be adopted for a larger number of institutions without substantial effect on the System's ability to conduct monetary policy. Accordingly, the Board has expanded the quarterly reporting procedure to apply to all depository institutions with less than $15 million in total deposits and to defer all reserve maintenance and reporting requirements for nonmember depository institutions with less than $2 million in total deposits as of December 31, 1979. Nonmember institutions with less than $2 million in deposits will be exempt from quarterly reporting and reserve maintenance until May 1981, at which time the Board will determine whether a further delay is warranted.

Under the procedure of quarterly reporting, depository institutions with total deposits of less than $15 million as of December 31, 1979, will complete and file the Report of Transaction Accounts, Other Deposits and Vault Cash (FR 2900) with the Federal Reserve for a 7-day computation period only once during each calendar quarter and maintain reserves over a subsequent three-month period based on the report filed. Quarterly reporting will be staggered so that each month one-third of all quarterly reporters will report data for one week. Reserves will be maintained during a period beginning two weeks after the start of the computation period and ending one week after the end of the institution's next computation period. Balances to be held at the Federal Reserve over the three-month maintenance period, either directly or indirectly on a pass-through basis, will equal required reserves based on the deposit report for one week less vault cash held during the seven-day reporting period. An institution will remain eligible for quarterly reporting until its total deposits are $15 million or more for two consecutive quarterly reports. Depository institutions eligible for quarterly reporting and reserve maintenance would retain the option of reporting and maintaining required reserves on a weekly rather than a quarterly basis.

The quarterly reporting system will commence in January 1981. Member banks with total deposits under $15 million will continue to report deposits and maintain reserves on a weekly basis until that time. Eligible nonmember institutions will not be required to report or maintain reserves until the quarterly procedure begins. It should be noted that Edge and Agreement Corporations and U. S. branches and agencies of foreign banks will not be eligible for quarterly reporting and reserve maintenance. Rather, all such institutions will--regardless of size--be required to report and to maintain reserves on a weekly basis.

Reserve Requirement Treatment of Institutions Involved in Mergers

Under section 19(b)(8)(D) of the Federal Reserve Act (12 U.S.C. § 461(b)(8)(D)), as amended by the Monetary Control Act of 1980 (Title I of Pub. L. 96-221), any bank that was a member bank on or after July 1, 1979, but which subsequently withdraws from membership in the Federal Reserve System shall maintain reserves in the same manner as a member bank. On April 23, 1980, the Board announced an interpretation of the reserve requirement treatment of former member banks (12 CFR 204.120; 45 FR 28305) that included a policy concerning mergers involving former member banks. Under that interpretation, where a bank that withdraws from membership due to merger or consolidation with a nonmember bank on or after July 1, 1979, and the surviving bank is a nonmember bank, the surviving bank is required to maintain Federal reserves in the same manner as a member bank on the fixed proportion of its deposits attributable to the absorbed member bank. This fixed proportion is 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. The proportion of deposits attributable to the nonmember survivor is entitled to an eight-year phase-in of reserve requirements. The Board also adopted a policy of allocating deposits between a member bank and a nonmember bank in cases where a member bank is the surviving bank of a merger or consolidation that takes place between a member and a nonmember bank on or after March 31, 1980. However, only the amount of deposits of the nonmember bank outstanding on a daily average basis during the computation period immediately preceding the date of the merger is eligible for an eight-year phase-in of reserves. These policies were incorporated into revised Regulation D that was announced by the Board on August 15, 1980 (45 FR 56009) and were applied to all depository institutions involved in mergers.

After further consideration of how reserve requirements should apply to mergers, the Board has determined to adopt a simplified procedure of computing reserve requirements in the event of mergers between institutions. The Board has amended Regulation D so that mergers and consolidations involving member and nonmember banks are treated on the same basis for reserve requirement purposes without regard to the membership status of the surviving bank. Accordingly, where (1) a nonmember bank merges or consolidates with a member bank on or after July 1, 1979, and the surviving bank is a nonmember bank, or (2) a member bank merges or consolidates on or after March 31, 1980, with a nonmember bank that was engaged in business on July 1, 1979, and the surviving bank is a member bank, the bank is required to maintain Federal reserves in the same manner as a member bank on the proportion of deposits attributable to the member bank party to the merger or consolidation. This proportion will be the ratio that daily average required reserves of the absorbed member bank were to the sum of daily average required reserves of the banks during the reserve computation period immediately preceding the date of the merger. The proportion of deposits attributable to a nonmember bank that was engaged in business on July 1, 1979, will be entitled to an eight-year phase-in of reserve requirements. In computing the proportion of required reserves for purposes of allocating deposits, calculations will be made before application of the phase-in provisions of Regulation D. For mergers that occur prior to November 6, 1980, the reserve requirement ratios that were in effect on August 31, 1980 (section 204.8(b)) will be used to compute the proportional allocation. For mergers occurring on or after November 6, 1980, the reserve ratios in effect under the Act (section 204.8(a)) will be used.

The rules concerning proportional allocation of deposits shall also apply to any merger occurring on or after September 1, 1980, that involves depository institutions that are subject to different reserve requirement phase-in provisions under Regulation D (section 204.4(a) through (f)). Where a merger involves institutions that are subject to the same phase-in provision, the surviving institution will continue to have its reserves calculated under such applicable rule. For all mergers, the surviving institution is entitled to a two-year transitional period to phase in its increase in reserve requirements that occurs due to the loss of low reserve tranches of an absorbed institution as a result of the merger or consolidation.

Definition of "Eurocurrency Liabilities"

Technical amendments have been made to the definition of "Eurocurrency liabilities" in Regulation D to clarify the definition with regard to sales of assets by a depository institution in the United States to its overseas offices or by a United States branch or agency of a foreign bank to its related offices abroad. In the case of a depository institution or an Edge or Agreement Corporation organized under the laws of the United States, "Eurocurrency liabilities" include assets held by its non-United States offices or by non-United States offices of an affiliated Edge or Agreement Corporation that were acquired from its United States offices only after October 6, 1979. For United States branches and agencies of a foreign bank, such term includes assets held by its foreign bank, by its parent holding company, or by non-United States offices of an affiliated Edge or Agreement Corporation that were acquired from the U. S. branch or agency only after October 6, 1979. However, "Eurocurrency liabilities" of a U. S. branch or agency of a foreign bank does not include assets sold by its affiliated Edge or Agreement Corporation to the branch's or agency's foreign bank or its parent holding company.

The Board believes that these modifications will be more equitable to depository institutions and also will alleviate to some extent the burden associated with maintaining required reserves consistent with the needs of monetary policy. Consequently, the Board, for good cause finds that the notice, public procedure, and deferral of effective date provisions of 5 U.S.C. § 553(b) with regard to this action are impracticable and contrary to the public interest.

Effective November 13, 1980, pursuant to the Board's authority under sections 19, 25 and 25(a) of the Federal Reserve Act (12 U.S.C. §§ 461 *et seq.*, 601 *et seq.*, 611 *et seq.*) and section 7 of the International Banking Act of 1978 (12 U.S.C. § 3105), Regulation D (12 CFR Part 204) is amended as follows:

1. In section 204.2, paragraph (h)(1) is revised to read as follows:

SECTION 204.2--DEFINITIONS

* * * * *

(h) "Eurocurrency liabilities" means the sum of the following:

(1) <u>Transactions with related offices outside the United States</u>.

(i) * * *

(A) * * *

(B) assets (including participations) held by its non-United States offices or by non-United States offices of an affiliated Edge or Agreement Corporation that were acquired after October 6, 1979, from its United States offices.

(ii) * * *

(A) * * *

(B) assets (including participations) held by its foreign bank (including offices thereof located outside the United States), by its parent holding company, or by non-United States offices of an affiliated Edge or Agreement Corporation that were acquired after October 6, 1979, from the United States branch or agency (other than assets required to be sold by Federal or State supervisory authorities).

* * * * *

2. In section 204.3, paragraph (d) is revised to read as follows:

SECTION 204.3--COMPUTATION AND MAINTENANCE

* * * * *

(d) <u>Special rule for depository institutions that have total deposits of less than $15 million</u>.

(1) A depository institution with total deposits of less than $15 million shall file a report of deposits once each calendar quarter for a seven-day computation period that begins on the third Thursday of a given month during the calendar quarter. Each Reserve Bank shall divide the depository institutions in its District that qualify under this paragraph into three substantially equal groups and assign each group a different month to report during each calendar quarter.

(2) * * *

(3) A depository institution that has less than $15 million in total deposits as of December 31, 1979, shall qualify under this paragraph until it reports total deposits of $15 million or more for two consecutive calendar quarters.

* * * * *

3. In section 204.4, paragraph (g) is revised to read as follows:

SECTION 204.4--TRANSITIONAL ADJUSTMENTS

* * * * *

(g) Mergers and consolidations. The following rules concerning transitional adjustments apply to mergers and consolidations of depository institutions.

(1) Where all depository institutions involved in a merger or consolidation are subject to the same paragraph of the transitional adjustment rules contained in paragraphs (a) through (f) of this section during the reserve computation period immediately preceding the merger, the surviving institution shall continue to compute its transitional adjustment of required reserves under such applicable paragraph, except that the amount of reserves which shall be maintained shall be reduced by an amount determined by multiplying the amount by which the required reserves during the computation period immediately preceding the date of the merger (computed as if the depository institutions had merged) exceeds the sum of the actual required reserves of each depository institution during the same computation period, times the appropriate percentage as specified in the following schedule:

Maintenance periods occurring during quarterly periods following merger	Percentage applied to difference to compute amount to be subtracted
1	87.5
2	75.0
3	62.5
4	50.0
5	37.5
6	25.0
7	12.5
8 and succeeding	0

(2) (i) Where the depository institutions involved in a merger or consolidation are not subject to the same paragraph of the transitional adjustment rules contained in paragraphs (a) through (f) of this section and such merger or consolidation occurs

(A) on or after July 1, 1979, between a nonmember bank and a bank that was a member bank on or after July 1, 1979, and the survivor is a nonmember bank;

(B) on or after March 31, 1980, between a member bank and a nonmember bank and the survivor is a member bank; or

(C) on or after September 1, 1980, between any other depository institutions

the required reserves of the surviving institution shall be computed by allocating its deposits, Eurocurrency liabilities, other reservable claims, balances due from other depository institutions and cash items in process of collection to each depository institution involved in the merger transaction and applying to such amounts the transitional adjustment rule of paragraphs (a) through (f) of this section to which each such depository institution was subject during the reserve computation period immediately prior to the merger or consolidation.

(ii) The deposits of the surviving institution shall be allocated according to the ratio that daily average total required reserves of each depository institution involved in the merger were to the sum of daily average total required reserves of all institutions involved in the merger or consolidation during the reserve computation period immediately preceding the date of the merger.

(A) If the merger occurs before November 6, 1980, such ratio of daily average total required reserves shall be computed using the reserve requirement ratios in section 204.8(b).

(B) If the merger occurs on or after November 6, 1980, such ratio of daily average total required reserves shall be computed using the reserve requirement ratios in section 204.8(a) without regard to the transitional adjustments of this section.

(iii) The low reserve tranche on transaction accounts (section 204.8(a)) shall be allocated to each institution involved in the merger or consolidation using the ratio computed in subparagraph (2)(ii) and the reserve requirement tranches on demand deposits (section 204.8(b)) shall be allocated to member bank deposits using such ratio of daily average total required reserves.

(iv) The vault cash of the surviving depository institution also will be allocated to each institution involved in the merger or consolidation according to the ratio that daily average vault cash of each depository institution involved in the merger was to the sum of daily average vault cash of all institutions involved in the merger or consolidation during the reserve computation period immediately preceding the date of the merger.

(v) The amount of reserves which shall be maintained shall be reduced by an amount determined by multiplying the amount by which the required reserves during the computation period immediately preceding the date of the merger (computed as if the depository institutions had merged) exceeds the sum of the actual required reserves of each depository institution during the same computation period, times the appropriate percentage as specified in the following schedule:

Maintenance periods occurring during quarterly periods following merger	Percentage applied to difference to compute amount to be subtracted
1	87.5
2	75.0
3	62.5
4	50.0
5	37.5
6	25.0
7	12.5
8 and succeeding	0

By order of the Board of Governors, October 29, 1980.

(signed) Theodore E. Allison

Theodore E. Allison
Secretary of the Board

[SEAL]

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

RESERVE REQUIREMENTS OF DEPOSITORY INSTITUTIONS

AMENDMENTS TO REGULATION D †

As amended effective November 13, 1980

Effective November 13, 1980, sections 204.2, 204.3, and 204.4 are amended as follows:

1. In section 204.2, paragraph (h)(1) is revised to read as follows:

SECTION 204.2—DEFINITIONS

* * * * *

(h) **"Eurocurrency liabilities"** means the sum of the following:

(1) *Transactions with related offices outside the United States.*

(i) * * *

(A) * * *

(B) assets (including participations) held by its non-United States offices or by non-United States offices of an affiliated Edge or Agreement Corporation that were acquired after October 6, 1979, from its United States offices.

(ii) * * *

(A) * * *

(B) assets (including participations) held by its foreign bank (including offices thereof located outside the United States), by its parent holding company, or by non-United States offices of an affiliated Edge or Agreement Corporation that were acquired after October 6, 1979, from the United States branch or agency (other than assets required to be sold by Federal or State supervisory authorities).

* * * * *

2. In section 204.3, paragraph (d) is revised to read as follows:

SECTION 204.3—COMPUTATION AND MAINTENANCE

* * * * *

(d) **Special rule for depository institutions that have total deposits of less than $15 million.**

(1) A depository institution with total deposits of less than $15 million shall file a report of deposits once each calendar quarter for a seven-day computation period that begins on the third Thursday of a given month during the calendar quarter. Each Reserve Bank shall divide the depository institutions in its District that qualify under this paragraph into three substantially equal groups and assign each group a different month to report during each calendar quarter.

(2) * * *

(3) A depository institution that has less than $15 million in total deposits as of December 31, 1979, shall qualify under this paragraph until it reports total deposits of $15 million or more for two consecutive calendar quarters.

* * * * *

3. In section 204.4, paragraph (g) is revised to read as follows:

SECTION 204.4—TRANSITIONAL ADJUSTMENTS

* * * * *

(g) **Mergers and consolidations.** The following rules concerning transitional adjustments apply to mergers and consolidations of depository institutions.

(1) Where all depository institutions involved in a merger or consolidation are subject to the same paragraph of the transitional adjustment rules contained in paragraphs (a) through (f) of this section during the reserve computation period immediately preceding the merger, the surviving institution shall continue to compute its transitional adjustment of required reserves under such applicable paragraph,

† For this Regulation to be complete retain:
1) Printed Regulation pamphlet dated November 13, 1980.
2) Supplement slip sheet dated August 1980.
3) This slip sheet.

except that the amount of reserves which shall be maintained shall be reduced by an amount determined by multiplying the amount by which the required reserves during the computation period immediately preceding the date of the merger (computed as if the depository institutions had merged) exceeds the sum of the actual required reserves of each depository institution during the same computation period, times the appropriate percentage as specified in the following schedule:

Maintenance periods occurring during quarterly periods following merger	*Percentage applied to difference to compute amount to be subtracted*
1	87.5
2	75.0
3	62.5
4	50.0
5	37.5
6	25.0
7	12.5
8 and succeeding	0

(2) (i) Where the depository institutions involved in a merger or consolidation are not subject to the same paragraph of the transitional adjustment rules contained in paragraphs (a) through (f) of this section and such merger or consolidation occurs

(A) on or after July 1, 1979, between a nonmember bank and a bank that was a member bank on or after July 1, 1979, and the survivor is a nonmember bank;

(B) on or after March 31, 1980, between a member bank and a nonmember bank and the survivor is a member bank; or

(C) on or after September 1, 1980, between any other depository institutions

the required reserves of the surviving institution shall be computed by allocating its deposits, Eurocurrency liabilities, other reservable claims, balances due from other depository institutions and cash items in process of collection to each depository institution involved in the merger transaction and applying to such amounts the transitional adjustment rule of paragraphs (a) through (f) of this section to which each such depository institution was subject during the reserve computation period immediately prior to the merger or consolidation.

(ii) The deposits of the surviving institution shall be allocated according to the ratio that daily average total required reserves of each depository institution involved in the merger were to the sum of daily average total required reserves of all institutions involved in the merger or consolidation during the reserve computation period immediately preceding the date of the merger.

(A) If the merger occurs before November 6, 1980, such ratio of daily average total required reserves shall be computed using the reserve requirement ratios in section 204.8(b).

(B) If the merger occurs on or after November 6, 1980, such ratio of daily average total required reserves shall be computed using the reserve requirement ratios in section 204.8(a) without regard to the transitional adjustments of this section.

(iii) The low reserve tranche on transaction accounts (section 204.8(a)) shall be allocated to each institution involved in the merger or consolidation using the ratio computed in subparagraph (2)(ii) and the reserve requirement tranches on demand deposits (section 204.8(b)) shall be allocated to member bank deposits using such ratio of daily average total required reserves.

(iv) The vault cash of the surviving depository institution also will be allocated to each institution involved in the merger or consolidation according to the ratio that daily average vault cash of each depository institution involved in the merger was to the sum of daily average vault cash of all institutions involved in the merger or consolidation during the reserve computation period immediately preceding the date of the merger.

(v) The amount of reserves which shall be maintained shall be reduced by an amount determined by multiplying the amount by which the required reserves during the computation period immediately preceding the date of the merger (computed as if the depository institutions had merged) exceeds the sum of the actual required reserves of each depository institution during the same computation period, times the appropriate percentage as specified in the following schedule:

Maintenance periods occurring during quarterly periods following merger	*Percentage applied to difference to compute amount to be subtracted*
1	87.5
2	75.0
3	62.5
4	50.0
5	37.5
6	25.0
7	12.5
8 and succeeding	0