

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 83-17
January 25, 1983

REGULATION D

RESERVE REQUIREMENTS OF DEPOSITORY INSTITUTIONS

(Exemption of Money Market Deposit Accounts, MMDA's,
from the Phase-in Reserve Requirements of the Monetary Control Act)

TO ALL DEPOSITORY INSTITUTIONS
IN THE ELEVENTH FEDERAL RESERVE DISTRICT:

There is attached the text of a press release and related Federal Register document concerning an amendment to Regulation D in order to implement Congressional action exempting Money Market Deposit Accounts (MMDA's) from the phase-in reserve requirements of the Monetary Control Act of 1980. In addition, the Board modified the procedure for allocating the statutory exemption from reserve requirements for the first \$2.1 million of an institution's deposits on accounts that are subject to reserve requirements.

Any questions in this regard should be directed to this Bank's Legal Department, Extension 6171.

Additional copies of this circular will be furnished upon request to the Public Affairs Department, Extension 6289.

Sincerely yours,



William H. Wallace
First Vice President

FEDERAL RESERVE press release



For immediate release

January 13, 1983

The Federal Reserve Board has amended its Regulation D -- Reserve Requirements of Depository Institutions -- to implement Congressional action exempting Money Market Deposit Accounts from the phase-in reserve requirements of the Monetary Control Act of 1980.

The revision makes all depository institutions covered by the rules of the Depository Institutions Deregulation Committee subject (without the phase-down requirements of MCA for member banks and the phase-up requirements for non-member institutions) to a reserve requirement of 3 percent on all nonpersonal MMDA accounts and to a zero percent requirement on all personal MMDAs.

The Board also modified the procedure for allocating the statutory exemption from reserve requirements for the first \$2.1 million of an institution's deposits on accounts that are subject to reserve requirements, in order to provide maximum benefit to institutions in light of the legislation exempting MMDA accounts from phase-in provisions.

The reduction in reserve requirements for member banks is effective as of December 14, 1982. For nonmembers the revisions of Regulation D are effective January 13 and apply first to the maintenance period beginning January 27, 1983.

The Board's notice is attached.

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Attachment

FEDERAL RESERVE SYSTEM

Regulation D

[12 CFR Part 204]

[Docket No. R-0446]

RESERVE REQUIREMENTS OF DEPOSITORY INSTITUTIONS

Money Market Deposit Accounts

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Final rule.

SUMMARY: The Board of Governors has amended Regulation D--Reserve Requirements of Depository Institutions (12 CFR Part 204) to implement section 13 of Senate Joint Resolution 271, which exempts Money Market Deposit Accounts ("MMDAs") from the phase-in of reserve requirements under the Monetary Control Act of 1980 (Pub.L. 96-221; 12 U.S.C. § 461(b)(8)). MMDAs were authorized by the Depository Institutions Deregulation Committee ("DIDC"), effective December 14, 1982, pursuant to section 327 of the Garn-St Germain Depository Institutions Act of 1982 (Pub.L. 97-320; 96 Stat. 1501) ("Garn-St Germain Act"). Under this action, all depository institutions will be subject, without application of the phase-in provisions, to a reserve requirement of three percent on all nonpersonal MMDAs and to a zero percent reserve requirement on all personal MMDAs. The Board also has modified the procedure for allocating the exemption from reserve requirements for the first \$2.1 million of an institution's reservable liabilities in order to provide the most benefit to depository institutions in light of the legislation exempting MMDAs from the phase-in of reserve requirements.

EFFECTIVE DATE: January 13, 1983. The first reserve maintenance period to which these amendments apply begins on January 27, 1983.

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

SUPPLEMENTARY INFORMATION: Effective December 14, 1982, federally-insured commercial banks, savings and loan associations, and mutual savings banks were authorized by the DIDC, pursuant to section 327 of the Garn-St Germain Act, to offer MMDAs. The MMDA has the following principal characteristics: (1) an initial and average balance requirement of \$2,500; (2) no minimum maturity requirement, but institutions are

required to reserve the right to require at least seven days' notice prior to withdrawal; (3) no interest rate ceiling on deposits that satisfy the initial and average balance requirements, and (4) no more than six preauthorized, automatic, or other transfers per month, of which no more than three can be checks. The Board of Governors amended Regulation D--Reserve Requirements of Depository Institutions (12 CFR Part 204) on December 1, 1982, to subject MMDAs that are authorized to have no more than six transfers per month to the same reserve requirements as savings deposits (47 Fed. Reg. 55207, December 8, 1982). Such an MMDA in which any beneficial interest is held by a depositor that is not a natural person or that is transferable is subject to reserve requirements as a nonpersonal time deposit with a maturity of less than 3-1/2 years, which presently has a reserve requirement of three percent. Under the Board's action, such an MMDA in which the entire beneficial interest is held by natural persons and that is not transferable is regarded as a personal time deposit not subject to basic reserve requirements of the Monetary Control Act of 1980 ("MCA").

In determining the application of reserve requirements to the MMDA, the Board determined that the transitional adjustment provisions of the MCA applied. In this regard, nonmember depository institutions generally are phasing in to the reserve requirements of the MCA over an eight-year period. Member banks generally are phasing in to the reserve requirements of the MCA, which are lower than pre-MCA requirements, over a four-year period. As a result, the effective reserve requirements that applied to MMDAs were as follows:

Effective Reserve Ratios on MMDAs (12/14/82)

	<u>Nonmembers (Eight-year Phase-in)</u>	<u>Members (Four-year Phase-in to Lower Reserves)</u>
Personal MMDAs	0	1.125
Nonpersonal MMDAs	1.125	3

On January 12, 1983, Senate Joint Resolution 271 was enacted. In order to provide competitive equity among depository institutions, section 13 of this legislation exempts MMDAs from the transitional adjustments of the Monetary Control Act. Since MMDAs are now exempt from the reserve requirement phase-in, member banks (and Edge and Agreement corporations and certain former member banks) will have a reduction in effective reserve requirements to zero percent on personal MMDAs. On the other hand, the reserve requirement on nonpersonal MMDAs for nonmember depository institutions will rise to an effective ratio of three percent. Nonmembers will continue to be subject to a zero percent reserve requirement on personal MMDAs, and members will continue to be subject to a three per cent reserve requirement on nonpersonal MMDAs.

The Board of Governors has amended Regulation D to implement section 13 of the Senate Joint Resolution 271. For member banks, and other institutions subject to reserve requirements in the same manner as member banks, the reduction in reserve requirements on personal MMDAs shall be effective from December 14, 1982, the date on which such accounts were first offered. The Board believes that making the reduction in reserve requirements for member banks retroactive to December 14, 1982, is consistent with congressional intent in exempting MMDAs from the reserve requirement phase-in. Member banks will be reimbursed for reserve balances that have been maintained against personal MMDAs through "as of" adjustments to be calculated and administered by the Federal Reserve Banks.

Nonmember depository institutions will be subject to a full reserve requirement of 3 percent on all nonpersonal MMDAs. The change in reserve requirements on nonpersonal MMDAs for nonmember depository institutions will be effective for the reserve computation period that begins January 13, 1983, which is the reserve computation period that begins after the date on which the bill is enacted. The first reserve maintenance period to which this change applies begins on January 27, 1983.

The change in reserve requirements on MMDAs will first apply to depository institutions that report deposits and maintain reserves on a quarterly basis starting with the reserve maintenance period that begins on January 27, 1983, for such institutions that submitted a Report of Transaction Accounts, Other Deposits, and Vault Cash (Form FR 2900) for the computation period of December 16-22, 1982. The exemption from the reserve requirement phase-in for MMDAs for other quarterly reporters will be effective with the reserves required to be maintained based on deposit reports to be submitted in either January 1983 or February 1983.

The exemption from reserve requirement phase-ins for MMDAs does not apply in the case of the phase-in for de novo institutions and has no effect in the case of those institutions that are now subject to full reserve requirements under the reserve requirement structure in the Monetary Control Act. In addition, this action does not affect nonmember depository institutions in Hawaii that do not begin maintaining reserves until January 1986; however, when such institutions begin to maintain reserves at that time, nonpersonal MMDAs will be subject to a three percent reserve requirement without the benefit of a phase-in. Depository institutions that are not subject to the jurisdiction of the DIDC, such as credit unions and certain non-federally insured savings and loan associations, also are not affected by this action.

Eliminating the phase-in on MMDAs will make it generally most beneficial to depository institutions to apply the exemption from reserve requirements for \$2.1 million of reservable liabilities to nonpersonal MMDAs first. Accordingly, as indicated below, the Board also has revised

the procedure for allocating the \$2.1 million exemption in order to assure institutions subject to DIDC rules the maximum benefit of the reserve exemption.

For institutions subject to DIDC rules that are not allowed a phase-in on NOW accounts

(except U.S. branches and agencies of foreign banks)

1. Nonpersonal MMDAs
2. Net NOW accounts (NOW accounts less allowable deductions)
3. Net other transaction accounts (other transaction accounts less allowable deductions)
4. Nonpersonal time and savings deposits with maturities of less than 3-1/2 years--excluding nonpersonal MMDAs
5. Eurocurrency liabilities

For all other institutions subject to DIDC rules

(including U.S. branches and agencies of foreign banks)

1. Nonpersonal MMDAs
2. Net transaction accounts
3. Nonpersonal time and savings deposits with maturities of less than 3-1/2 years--excluding nonpersonal MMDAs
4. Eurocurrency liabilities.

The provisions of 5 U.S.C. § 553(b) relating to notice and public participation have not been followed in connection with adoption of these amendments because the change involves the implementation of a statutory provision that is effective upon enactment and does not provide the Board with discretion to modify its terms. Thus, the Board has determined that notice and public participation is unnecessary. The effective date of the amendment has not been deferred pursuant to 5 U.S.C. § 553(d), since deferring the effective date would be inconsistent with section 13 of Senate Joint Resolution 271.

Pursuant to its authority under section 19 of the Federal Reserve Act (12 U.S.C. § 461 et seq.) and under section 13 of Senate Joint Resolution 271 (S.J.Res. 271, 97th Cong., 2d Sess. § 13 (1982)), the Board amends Regulation D (12 CFR Part 204) effective January 13, 1983, as follows:

1. In section 204.3, by revising subparagraph (a)(3)(i) to read as follows:

SECTION 204.3--COMPUTATION AND MAINTENANCE

(a) * * *

(3) Allocation of exemption from reserve requirements. (i)

In determining the reserve requirements of a depository institution, the exemption provided for in section 204.9(a) shall apply in the following order of priorities: (A) first, to nonpersonal time deposits representing deposits or accounts issued pursuant to 12 CFR § 1204.122; (B) second, to net transaction accounts that are first authorized by Federal law in any state after April 1, 1980; (C) third, to other net transaction accounts; and (D) fourth, to other nonpersonal time deposits or Eurocurrency liabilities starting with those with the highest reserve ratio under section 204.9(a) and then to succeeding lower reserve ratios.

* * * * *

2. In section 204.4, the last sentence of paragraph (a), subparagraphs (b)(1), (b)(1)(i), (b)(2), and (b)(2)(i), and the last sentence of paragraph (c) are revised and paragraph (f) is amended by revising the first sentence and adding a sentence at the end to read as follows:

SECTION 204.4--TRANSITIONAL ADJUSTMENTS

* * * * *

(a) * * * However, an institution shall not reduce the amount of required reserves on any category of deposits or accounts that are first authorized under Federal law in any state after April 1, 1980, or on deposits or accounts issued pursuant to 12 CFR § 1204.122.

(b) * * *

(1) A depository institution whose required reserves are higher using the reserve ratios in effect during a given computation period (§ 204.9(a)) than its required reserves using the reserve ratios in effect on August 31, 1980 (§ 204.9(b)) (without regard to required reserves on deposits or accounts issued pursuant to 12 CFR § 1204.122):

(i) shall maintain the full amount of required reserves on deposits or accounts issued pursuant to 12 CFR § 1204.122; and

(ii) * * *

(2) A depository institution whose required reserves are lower using the reserve ratios in effect during a given computation period (§ 204.9(a)) than its required reserves computed using the reserve ratios in effect on August 31, 1980 (§ 204.9(b)) (without regard to required reserves on deposits or accounts issued pursuant to 12 CFR § 1204.122):

(i) shall maintain the full amount of required reserves on deposits or accounts issued pursuant to 12 CFR § 1204.122; and

* * * * *

(c) * * * However, an institution shall not reduce the amount of required reserves on any category of deposits or accounts that are first authorized under Federal law in any state after April 1, 1980, or on deposits or accounts issued pursuant to 12 CFR § 1204.122.

* * * * *

(f) Nonmember depository institutions with offices in Hawaii. Any depository institution that, on August 1, 1978, (i) was engaged in business as a depository institution in Hawaii, and (ii) was not a member of the Federal Reserve System at any time on or after such date shall not maintain reserves imposed under this part against deposits, including deposits or accounts issued pursuant to 12 CFR § 1204.122, held or maintained at its offices located in Hawaii until January 2, 1986.
* * * However, after January 1, 1986, an institution shall not reduce the amount of required reserves on any deposits or accounts issued pursuant to 12 CFR § 1204.122.

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By order of the Board of Governors, January 13, 1983.

(signed) William W. Wiles

William W. Wiles
Secretary of the Board

[SEAL]