

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 83-28
February 25, 1983

REGULATION D

RESERVE REQUIREMENTS OF DEPOSITORY INSTITUTIONS

TO ALL DEPOSITORY INSTITUTIONS IN THE
ELEVENTH FEDERAL RESERVE DISTRICT:

The Board of Governors of the Federal Reserve System has announced final approval of a change to contemporaneous reserve requirements (CRR) to become effective February 2, 1984. The attached press release dated October 5, 1982 provides information regarding the history and rationale of CRR implementation, as well as a statement of seven principal features of CRR. Also included is a chart illustrating reserve maintenance procedures under CRR compared with the present reserve accounting system. The related Federal Register document is also attached.

If you have any questions, please contact Allan Neale, (214) 651-6334 at the Head Office; Javier Jimenez, (915) 544-4730 at the El Paso Branch; Rodney Franklin, (713) 659-4433 at the Houston Branch; or Pete Castleberry, (512) 224-2141 at the San Antonio Branch.

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

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

October 5, 1982

The Federal Reserve Board today announced final approval of a change -- from lagged to contemporaneous reserve requirements (CRR) -- in the way depository institutions maintain reserves.

The change will become effective February 2, 1984. At that time, medium sized and larger depository institutions will begin posting reserves on transaction accounts with a two-day rather than the current two-week accounting delay. (Transaction accounts include checking, NOW, automatic transfer and share draft accounts.) Reserve requirements on nontransaction liabilities will be met on a lagged basis, as described below.

The Board acted after consideration of comment received on proposals published in November 1981 and after extensive staff study during the past several years. The Board decided in principle on June 28, 1982 to adopt contemporaneous reserve requirements on transaction deposits, but left open for later decision the questions of an effective date and whether reserve periods for different sets of institutions should be placed on a staggered basis, with half the institutions settling every other week. The Board has decided against staggering settlement periods.

It is expected that contemporaneous reserve requirements will improve the implementation of monetary policy to a degree by strengthening the linkage between reserves held by depository institutions and the money supply. The Board noted that sizable slippages will remain between reserves and money, as short-run flows are inherently volatile.

Under the present lagged reserve system, depository institutions must post their required reserves in any given week based on their deposit levels two weeks earlier.

The effective date was placed 16 months ahead to give both Reserve Banks and the depository institutions that will maintain reserves on the new basis time to make the adjustments required in their administrative and data processing procedures.

As adopted by the Board, the principal features of CRR, set forth below, are for the most part those proposed in November 1981:

1. Contemporaneous reserve requirements will apply only to institutions reporting their deposits on a weekly basis. (Certain institutions with \$15 million or less in total deposits report deposits and calculate required reserves quarterly, and certain others, with reservable liabilities under \$2 million, will be exempt from reserve requirements upon enactment of legislation now awaiting the President's signature (H.R. 6267)).
2. Reserves will be maintained over two-week periods that will continue to end on a Wednesday.
3. All institutions subject to CRR will settle their reserve accounts on the same day.
4. Required reserves will be computed on the basis of average deposits over a two-week computation period ending on Monday. Reserves required to be posted against transaction accounts will be maintained in the two-week period ending on Wednesday, two days after the end of the computation period. The two-day interval provides time for calculation of required reserves.
5. Required reserves for other liabilities against which reserves must be held -- such as certain kinds of time deposits -- will also be computed on the basis of average deposits over a two-week period ending on Monday, but the reserves required will be posted in the two-week maintenance period beginning 17 days later, on a Thursday.
6. Vault cash eligible to be counted as reserves will be equal to vault cash holdings during the computation period ending 17 days before the beginning of the maintenance period.
7. To assist depository institutions in implementing CRR the Board adopted transition periods for the carryover of reserve balance deficiencies or surpluses. During the first six months following the start of CRR, reserve surpluses or deficiencies that may be carried over into the next reserve period will equal the greater of 3 percent of the daily average level of required reserves (including required clearing balances)

or \$25,000. During the next six months, the permissible carryover will equal the greater of 2 1/2 percent of daily average required reserves or \$25,000. Thereafter, the carryover is the greater of 2 percent of daily average required reserves or \$25,000.

These changes in reserve requirements will be made as amendments to the Board's Regulation D -- Reserve Requirements of Depository Institutions -- to be published in a Federal Register notice and made available by the Reserve Banks to all depository institutions, and upon request, to others.

The Board approved two other amendments to Regulation D to be spelled out in the forthcoming Federal Register notice:

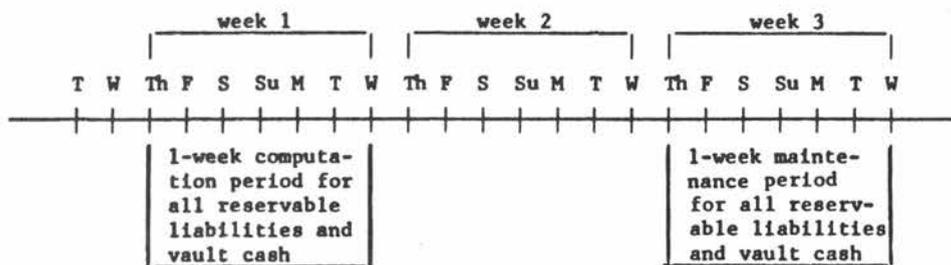
- The dates on which non-member depository institutions phasing in to the reserve requirements of the Monetary Control Act over an eight-year period will be moved back one week, so as to avoid falling in the middle of a reserve maintenance period under the CRR schedule.
- Depository institutions with less than \$15 million deposits and that are not subject to CRR will continue to have a one-week maintenance period, with settlement day on Wednesday. Their computation week each quarter will be shifted back two days from Wednesday to Monday, to align with the computation period of institutions subject to CRR.

The attached chart illustrates reserve maintenance under CRR, compared with the present reserve accounting system.

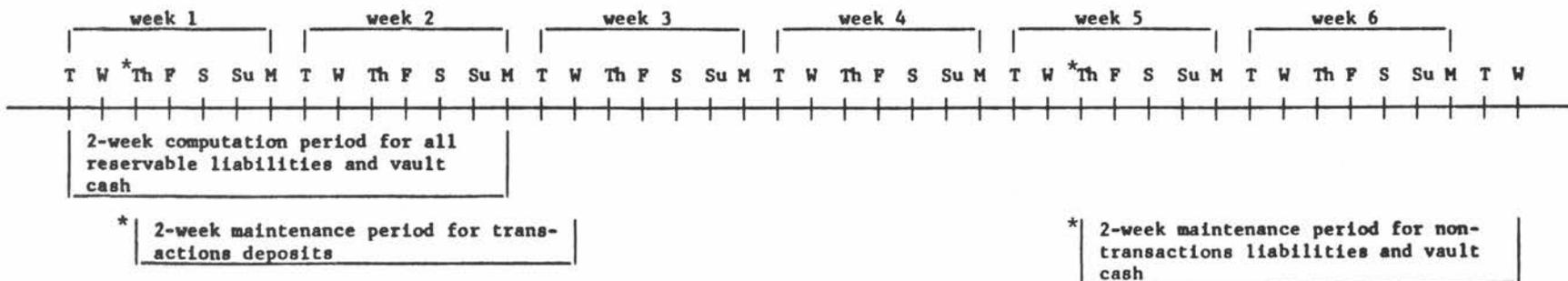
Attachment

PRESENT, AND APPROVED, RESERVE ACCOUNTING SYSTEMS

Present Lagged Reserve Accounting System



Approved CRR Accounting System



*February 2, 1984

FEDERAL RESERVE SYSTEM

[12 CFR Part 204]

Regulation D

[Docket No. R-0371]

RESERVE REQUIREMENTS OF DEPOSITORY INSTITUTIONS

Contemporaneous Reserve Requirements

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Final rules.

SUMMARY: The Board of Governors has amended Regulation D--Reserve Requirements of Depository Institutions (12 CFR Part 204) to modify the manner in which depository institutions maintain required reserves. The changes adopted by the Board will introduce contemporaneous reserve requirements on transaction accounts for medium-size and larger depository institutions instead of the lagged system now in effect. Under the Board's action, depository institutions that have total deposits of \$15 million or more, Edge and Agreement corporations, and U.S. branches and agencies of foreign banks will be required to maintain required reserves on transaction accounts on a daily average basis for a fourteen-day maintenance period ending on the first Wednesday after the fourteen-day computation period, which ends on a Monday. Thus, the reserve maintenance period for transaction accounts will be lagged by only two days from the end of the reserve computation period for transaction accounts. The fourteen-day reserve maintenance period for nonpersonal time deposits and Eurocurrency liabilities will begin seventeen days after the end of the corresponding fourteen-day reserve computation period. Currently, an institution subject to the new requirement maintains its required reserves on a daily average basis over a seven-day period ending on a Wednesday two weeks subsequent to the reserve computation period. To ease the transition to this new procedure for reserve maintenance, allowable carryover of excesses or deficiencies in reserve balances will be increased temporarily from 2 per cent to 3 per cent but will phase down to 2 per cent over a one-year period. The Board also has established a minimum carryover amount of \$25,000. The Board believes that shortening the lag between the computation and maintenance of required reserves on transaction accounts will enhance the conduct of monetary policy by strengthening the linkage between the supply of reserves and the money supply.

EFFECTIVE DATE: February 2, 1984. This date is the beginning of the first reserve maintenance period to which contemporaneous reserve requirements will apply.

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: In order to satisfy the reserve requirements imposed under the current provisions of Regulation D--Reserve Requirements of Depository Institutions (12 CFR Part 204), depository institutions that have total deposits of \$15 million or more, Edge and Agreement corporations, and U.S. branches and agencies of foreign banks are required to maintain reserve balances at Federal Reserve Banks on a daily average basis over a seven-day reserve maintenance period ending on Wednesday. The amount of reserves that are required to be maintained during a given reserve maintenance week are based upon the level of the institution's daily average deposits during the seven-day reserve computation period which begins on a Thursday two weeks prior to the beginning of a given reserve maintenance week. United States currency and coin held during the reserve computation period are deducted from the balances that are required to be maintained at the Reserve Bank during the corresponding reserve maintenance week. Depository institutions with total deposits of less than \$15 million generally are subject to a quarterly procedure for reporting deposits and maintaining reserves.

In connection with a proposal in June 1980 to revise Regulation D to implement the Monetary Control Act of 1980 (Title I of Pub. L. 96-221), the Board requested comment on the issue as to whether reserves should be maintained on a contemporaneous basis (45 Fed. Reg. 38388). When Regulation D was revised in August 1980 (45 Fed. Reg. 56069), the Board stated that it was disposed toward returning to contemporaneous reserve requirements ("CRR"), if a further investigation of potential operational difficulties indicated that such a system was practical. Among the issues to be studied were the feasibility of such a reserve accounting system for all types of depository institutions, potential complications arising from pass-through arrangements, and the relation to reserve carryover. The Board, after considering these issues, requested public comment in November 1981 on a proposal that would implement a procedure of contemporaneous reserve requirements (46 Fed. Reg. 58185).

Under the proposal, the reserve computation period would cover the fourteen-day period beginning Tuesday and ending on the second Monday thereafter. The corresponding reserve maintenance period for transaction accounts would begin on the Thursday immediately after the start of the reserve computation period and would end on the Wednesday immediately after the end of the reserve computation period. For all other reservable liabilities, such as nonpersonal time deposits and Eurocurrency liabilities, the corresponding reserve maintenance period would begin seventeen days after the end of the corresponding reserve computation period. Reserve requirements would continue to be computed based upon the daily average deposits outstanding during the reserve computation period. Reserve requirements would be required to be satisfied (1) by the U.S. currency

and coin held by the institution on a daily average basis during the fourteen-day reserve computation period which begins on a Tuesday, 30 days prior to the beginning of a reserve maintenance period, and (2) by balances maintained with a Federal Reserve Bank on a daily average basis during the fourteen-day reserve maintenance period which begins two days after the beginning of the reserve computation period for transaction accounts and which begins 30 days after the beginning of the reserve computation period for all other reservable liabilities.

An institution would continue to be permitted to carry forward to the following fourteen-day reserve maintenance period excesses or deficiencies up to 2 per cent of its required reserves. The proposed procedure for reserve maintenance would apply to depository institutions that have total deposits of \$15 million or more, all Edge and Agreement corporations, and all U.S. branches and agencies of foreign banks subject to reserve requirements under Regulation D.

The Board received approximately 180 comments from the public on the proposal, primarily from depository institutions and their industry trade groups. Those commenting in favor of CRR generally expressed the view that the benefits of improved monetary control and consequent improvements in the national economy would override any costs that would be imposed on depository institutions and the Federal Reserve. Commentators generally were opposed to CRR on the grounds that it would improve monetary control only in the short run and that the benefits over a longer period would be minimal. Commentators also stated that their view that the benefits of CRR would not be outweighed by the substantial increases in costs, including those related to revisions of depository institutions' existing procedures for collecting data on deposits, monitoring deposits, and managing reserves. However, the range of estimates provided to the Board for initial and continuing costs varied widely.

With respect to comments on particular elements of the proposal, such comments generally opposed as being too short a two-day lag between the end of the reserve computation and maintenance periods, favored increasing such periods to two weeks or longer as facilitating the management of reserve positions, and favored expanding the amount of excesses or deficiencies in reserve balances that may be carried over from one reserve maintenance period to another. Other issues were commented upon less frequently. These comments indicated that CRR would complicate reserve balance pass-through procedures, suggested that there would be a need for liberalization of the Federal Reserve's policy regarding as-of adjustments to reserve accounts, and favored implementation of CRR on all reservable liabilities rather than only on transaction accounts in order to reduce confusion and cost burdens.

After consideration of all of the comments received, the Board has determined to adopt the procedure of CRR substantially in the form proposed. The Board believes that the improvements in monetary control to be gained by CRR outweigh the costs to depository institutions. The CRR procedure will become effective in February 1984. This will provide depository institutions sufficient time to modify their accounting

systems and procedures to implement CRR. In addition, in order to assist depository institutions as they adjust their operations to the new reserve maintenance procedures, the Board has provided for a temporary increase in the amount of allowable carryover of excesses or deficiencies of reserve balances (including required clearing balances). In this regard, allowable carryover will be 3 per cent of required reserves for the first reserve maintenance period under CRR and for all maintenance periods during the first six months following implementation. Allowable carryover will be reduced to 2-1/2 per cent of required reserves over the subsequent six-month period. Approximately one year after implementation of CRR, allowable carryover will return to 2 per cent of required reserves. In order to assist small depository institutions, the Board has adopted a minimum carryover amount of \$25,000. Thus, an institution's carryover will be the larger of the applicable percentage (3, 2-1/2, or 2) or \$25,000.

Under the new procedure, an institution subject to CRR will be required to maintain a reserve balance at the Federal Reserve (directly or on a pass-through basis) on a daily average basis during the fourteen-day reserve maintenance period beginning Thursday, February 2, 1984, and ending on Wednesday, February 15, 1984, based upon daily average transaction accounts held during the fourteen day reserve computation period beginning Tuesday, January 31, 1984, and ending Monday, February 13, 1984, and upon daily average nonpersonal time deposits, Eurocurrency liabilities, and other reservable liabilities during the fourteen-day reserve computation period beginning Tuesday, January 3, 1984, and ending Monday, January 16, 1984, after deducting the daily average amount of the institution's currency and coin maintained during the fourteen-day computation period beginning Tuesday, January 3, 1984, and ending Monday, January 16, 1984.

An institution subject to CRR holding transaction accounts or nonpersonal time deposits will continue to file a report of deposits each week with the Federal Reserve Bank of its District. Each report will reflect daily data for transaction accounts and other reservable liabilities as of the close of business for each day of the Tuesday through Monday reporting week. Although the reserve maintenance periods for transaction accounts and for other reservable liabilities will not coincide, all weekly reports will reflect data for deposits actually held during a particular reporting period.

The Board has considered the impact of CRR on small depository institutions in accordance with section 604 of the Regulatory Flexibility Act (5 U.S.C. § 604). The Board has determined that depository institutions that have total deposits of less than \$15 million will continue to report deposits and maintain reserves on a quarterly basis under the lagged system now in effect for such smaller institutions. However, any institution that elects to follow the standard, rather than the quarterly procedures, will report deposits and maintain reserves under the contemporaneous

procedure. Institutions that report on a quarterly basis will report deposits for reserve requirement purposes for one seven-day period each quarter beginning on a Tuesday and ending on a Monday. Since the reserve maintenance period for quarterly reporters has not been modified, such institutions will continue to settle their reserve accounts every Wednesday. Documents presenting analyses of alternative procedures for the implementation of CRR are available through the Board's Freedom of Information Office (202/452-2407).

The Board is taking this action in order to enhance the conduct of monetary policy. It is anticipated that a shortening of the lag between the computation and maintenance of required reserves on transaction accounts will tighten the linkage between the supply of reserves to the depository system and the money stock and thereby enhance the effectiveness of monetary policy.

LIST OF SUBJECTS IN 12 CFR PART 204

Banks, banking; Currency; Federal Reserve System; Penalties; Reporting requirements.

Pursuant to its authority under sections 19, 25 and 25(a) of the Federal Reserve Act (12 U.S.C. §§ 461, 601 et seq., 611 et seq.) and under section 7 of the International Banking Act of 1978 (12 U.S.C. § 3105), effective February 2, 1984, the Board amends Regulation D (12 CFR Part 204) as follows:

1. In section 204.2(h), footnote 1 is amended by deleting the word "fourth" and inserting in its place the word "second".
2. In section 204.3, paragraphs (c), (d), and (h) are revised to read as follows:

SECTION 204.3 -- COMPUTATION AND MAINTENANCE

* * * * *

(c) Computation of required reserves.

(1) Required reserves are computed on the basis of daily average balances of deposits and Eurocurrency liabilities during a fourteen-day period ending every second Monday (the "computation period"). Reserve requirements are computed by applying the ratios prescribed in section 204.9 to the classes of deposits and Eurocurrency liabilities of the institution. The reserve balance that is required to be maintained with the Federal Reserve shall be maintained during a fourteen-day period (the "maintenance period") which begins on a Thursday and ends on the second Wednesday thereafter.

(2) A reserve balance shall be maintained during a given maintenance period, based

(i) on the daily average net transaction accounts held by the depository institution during the computation period that began immediately prior to the beginning of the maintenance period; and

(ii) on the daily average nonpersonal time deposits and daily average Eurocurrency liabilities held by the depository institution during the computation period that ended seventeen days prior to the beginning of the maintenance period.

(3) In determining the reserve balance that is required to be maintained with the Federal Reserve, the daily average vault cash held during the computation period that ended seventeen days prior to the beginning of the maintenance period is deducted from the amount of the institution's required reserves.

(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 Tuesday 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) Required reserves are computed on the basis of the depository institution's daily average deposit balances during the seven-day computation period. In determining the reserve balance that a depository institution is required to maintain with the Federal Reserve, the daily average vault cash held during the computation period is deducted from the amount of the institution's required reserves. The reserve balance that is required to be maintained with the Federal Reserve shall be maintained during a corresponding period that begins on the fourth Thursday following the end of the institution's computation period and ends on the fourth Wednesday after the close of the institution's next computation period. Such reserve balance shall be maintained in the amount required on a daily average basis during each week of the quarterly reserve maintenance period.

(3) * * *

(4) A depository institution that qualifies under this paragraph may elect at the beginning of a calendar year to report deposits on a weekly basis and maintain reserves during fourteen-day reserve maintenance periods in accordance with paragraph (c) of this section.

* * * * *

(h) Carryover of excesses or deficiencies. (1) For a depository institution computing required reserves under paragraph (c) of this section, any excess or deficiency in a required reserve balance for any maintenance period that does not exceed the greater of the percentage set forth in the schedule below of the institution's required reserves (including required clearing balances) or \$25,000, shall be carried forward to the next maintenance period.

<u>Reserve maintenance periods occurring between</u>	<u>Percentage applied to determine allowable carryover</u>
February 2, 1984 and August 1, 1984	3
August 2, 1984 and January 30, 1985	2-1/2
January 31, 1985 and forward	2

(2) For a depository institution reporting deposits and maintaining required reserves under paragraph (d) of this section, any excess or deficiency in a required reserve balance for any maintenance period that does not exceed the greater of 2 per cent of the institution's required reserves (including required clearing balances) or \$25,000, shall be carried forward to the next maintenance period.

(3) Any carryover not offset during the next period may not be carried forward to additional periods.

* * * * *

3. Section 204.4 is amended by revising the schedule in paragraph (a) as follows:

SECTION 204.4 — TRANSITIONAL ADJUSTMENTS

* * * * *

(a) * * *

<u>Reserve maintenance periods occurring</u>	<u>Percentage that computed reserves will be reduced</u>
November 13, 1980 to September 2, 1981	87.5
September 3, 1981 to September 1, 1982	75
September 2, 1982 to August 31, 1983	62.5

September 1, 1983 to September 12, 1984	50
September 13, 1984 to September 11, 1985	37.5
September 12, 1985 to September 10, 1986	25
September 11, 1986 to September 9, 1987	12.5
September 10, 1987 and forward	0

* * * * *

4. In the third sentence of section 204.7(a)(1), by deleting the word "computation" and inserting the word "maintenance" in its place.

By order of the Board of Governors, October 5, 1982.

(signed) William W. Wiles

William W. Wiles
Secretary of the Board

[SEAL]