

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 83-50

March 30, 1983

REGULATION D

RESERVE REQUIREMENTS OF DEPOSITORY INSTITUTIONS

(Amendment)

TO ALL DEPOSITORY INSTITUTIONS IN THE  
ELEVENTH FEDERAL RESERVE DISTRICT:

The Board of Governors of the Federal Reserve System has issued an amendment to Regulation D (Reserve Requirements of Depository Institutions) modifying reserve requirements on nonpersonal time deposits. The change, effective March 31, 1983, lowers the minimum maturity of nonpersonal time deposits which qualify for a zero reserve requirement from 3 1/2 years to 2 1/2 years. Therefore, nonpersonal time deposits with original maturities of less than 2 1/2 years will continue to be subject to a 3 percent reserve requirement.

Attached is the text of the Board's press release and related Federal Register document.

Questions regarding the material contained in this circular should be directed to 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

# FEDERAL RESERVE press release



For immediate release

March 17, 1983

The Federal Reserve Board today announced an amendment to Regulation D -- Reserve Requirements of Depository Institutions -- modifying reserve requirements on nonpersonal time deposits, effective March 31, 1983.

Under the amendment, nonpersonal time deposits with original maturities of 2-1/2 years or more will have no required reserve. Nonpersonal time deposits with original maturities of less than 2-1/2 years will continue to be subject to a 3 percent reserve requirement.

The existing reserve requirement for nonpersonal time accounts with original maturities of less than 3-1/2 years is 3 percent. The Board amended the rule to conform Regulation D with action by the Depository Institutions Deregulation Committee (DIDC), creating a ceiling-free negotiable or nonnegotiable time deposit with an original maturity of 2-1/2 years or more.

Nonpersonal time deposits are defined by the Monetary Control Act as time deposits that are transferable, regardless of the nature of the holder, and time deposits in which any beneficial interest is held by a depositor who is not a natural person.

The minimum maturity of the 2-1/2 year or more time deposit instrument is scheduled to decrease by one year annually until March 31, 1986, at which time the minimum maturity will be that specified for any time deposit. However, the Board indicated that its action is not an indication that it will make further adjustments in the reserve requirements on nonpersonal time deposits. The Board noted that reducing further the

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nonpersonal time deposit maturity break could have an adverse effect on monetary and credit conditions by eroding the reserve base and loosening the linkage between reserves and deposits in the money stock.

The Board's notice is attached.

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Attachment

FEDERAL RESERVE SYSTEM

Regulation D

[12 CFR Part 204]

[Docket No. R-0461]

RESERVE REQUIREMENTS OF DEPOSITORY INSTITUTIONS

Reserve Requirements on Nonpersonal Time Deposits

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 modify the reserve requirements on nonpersonal time deposits. Under the amendment, nonpersonal time deposits with original maturities of 2-1/2 years or more will be subject to a reserve requirement ratio of zero percent. Nonpersonal time deposits with original maturities of less than 2-1/2 years will continue to be subject to a three percent reserve requirement ratio. This action was taken in view of the change in the Depository Institutions Deregulation Committee's rules, effective April 1, 1983, to permit the issuance of a ceiling-free time deposit with an original maturity of 2-1/2 years or more which may be offered by depository institutions in negotiable form.

EFFECTIVE DATE: March 31, 1983. The first reserve maintenance period to which the amendment applies commences April 14, 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: The Monetary Control Act of 1980 (Title I of P.L. 96-221; 94 Stat. 132) ("MCA") authorizes the Board to prescribe, solely for the purpose of implementing monetary policy, reserve requirements against nonpersonal time deposits within a reserve ratio range of zero to nine percent. The Monetary Control Act requires the reserve requirement against nonpersonal time deposits to be applied uniformly to the deposits at all depository institutions, except that such requirement may vary by deposit maturity. Nonpersonal time deposits are defined by the MCA as time deposits that are transferable, regardless of the nature of the holder, and time deposits in which any beneficial interest is held by a depositor who is

not a natural person. Nontransferable time deposits in which the entire beneficial interest is held solely by a natural person are not subject to reserve requirements.

Regulation D--Reserve Requirements of Depository Institutions (12 CFR Part 204) currently imposes a three percent reserve requirement on nonpersonal time deposits with original maturities or notice periods of less than 3-1/2 years. Nonpersonal time deposits with maturities of 3-1/2 years or more are subject to a zero percent reserve requirement.

The Depository Institutions Deregulation Committee ("DIDC"), pursuant to its authority under the Depository Institutions Deregulation Act of 1980 (Title II of Pub. L. 96-221; 12 U.S.C. § 3501 et seq.), authorized Federally insured commercial banks, mutual savings banks, and savings and loan associations to offer, effective May 1, 1982, a new category of ceiling-free time deposit with an original maturity of 3-1/2 years or more. Such time deposits may be issued in negotiable or nonnegotiable form at the option of the issuer to any holder. Effective April 1, 1983, the minimum maturity of this deposit category will be reduced to 2-1/2 years.

This new instrument, if issued to an individual with an original maturity of 2-1/2 to less than 3-1/2 years and in negotiable form (as well as an instrument with that maturity issued to other than a natural person regardless of negotiability) would be subject to a three percent reserve requirement. Thus, the existing reserve requirement structure presents a disincentive for issuing the new instrument with maturities of 2-1/2 to less than 3-1/2 years to individuals in negotiable form. At the time the 3-1/2 year or more instrument was first authorized, the Board modified the maturity break for reserve requirements on nonpersonal time deposits from four years to 3-1/2 years to facilitate the DIDC's objectives in authorizing this instrument in negotiable form. In this regard, a negotiable time deposit was viewed as more attractive to depositors since it could be sold as an alternative to incurring an early withdrawal penalty. To continue to facilitate the DIDC's objectives, the Board has amended the reserve requirements on nonpersonal time deposits so that, after the completion of the transition periods set forth in the MCA, nonpersonal time deposits with original maturities of 2-1/2 years or more will be subject to a zero percent reserve requirement ratio and nonpersonal time deposits with original maturities of less than 2-1/2 years will be subject to a three percent reserve requirement ratio. The Board estimates that the amount of reserves held on nonpersonal time deposits with maturities of 2-1/2 to 3-1/2 years is small, and, thus, this action will not adversely affect monetary control.

According to the current deregulation schedule adopted by the DIDC (12 CFR § 1204.119), the minimum maturity of the 2-1/2 year or more time deposit instrument will decrease by one year annually until March 31, 1986, at which time the minimum maturity will be that specified for any time deposit. However, the Board indicated that its action is not an indication that it will make further adjustments in the reserve requirements on nonpersonal time deposits in line with the DIDC's currently announced

schedule to decrease annually the minimum maturity of this ceiling-free time deposit by one year. The Board notes that reducing further the nonpersonal time deposit maturity break could have an adverse effect on monetary control by eroding the reserve base and loosening the linkage between reserves and deposits in the money stock. Accordingly, any decision to shorten the maximum time deposit maturity to which reserve requirements apply will be considered by the Board as the DIDC implementation dates approach when account can be taken of experience up to that point and monetary and credit conditions at the time.

This action is effective for depository institutions that report deposits and maintain reserves on a weekly basis with the reserve computation period beginning March 31, 1983. The first reserve maintenance period to which this action applies for these institutions commences April 14, 1983. For depository institutions that report deposits and maintain reserves on a quarterly basis, the change in reserve requirements on nonpersonal time deposits with maturities of 2-1/2 years to 3-1/2 years will commence with the reserve maintenance period that begins on May 19, 1983, for such institutions that will submit a Report of Transaction Accounts, Other Deposits and Vault Cash (Form FR 2900) for the computation period of April 21-27, 1983. The change in reserve requirements for other quarterly reporters will be effective with the reserves required to be maintained based on deposit reports to be submitted in either May 1983 or June 1983.

In view of the fact that commercial banks, mutual savings banks, and savings and loan associations may offer this time deposit category with a minimum maturity of 2-1/2 years as of April 1, 1983, the Board finds that application of the notice and public participation provisions of 5 U.S.C. § 553 to this action would be contrary to the public interest, and that, since this action relieves a restriction, good cause exists for making this action effective March 31, 1983.

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), the Board amends Regulation D (12 CFR Part 204) effective March 31, 1983, by revising paragraph (a) of section 204.9 to read as follows:

SECTION 204.9--RESERVE REQUIREMENT RATIOS

(a)(1) Reserve percentages. The following reserve ratios are prescribed for all depository institutions, Edge and Agreement Corporations and United States branches and agencies of foreign banks:

<u>Category</u>	<u>Reserve Requirement</u>
<u>Net Transaction Accounts</u>	
\$0 - \$26.3 million	3% of amount
Over \$26.3 million	\$789,000 plus 12% of amount over \$26.3 million
<u>Nonpersonal Time Deposit</u>	
By original maturity (or notice period):	
less than 2-1/2 years	3%
2-1/2 years or more	0%
<u>Eurocurrency Liabilities</u>	3%
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By order of the Board of Governors of the Federal Reserve System,  
March 17, 1983.

(signed) William W. Wiles  
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William W. Wiles  
Secretary of the Board

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