

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 83-121  
October 19, 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 modifying reserve requirements on nonpersonal time deposits. The change, effective October 6, 1983, lowers the minimum maturity of nonpersonal time deposits which qualify for a zero reserve requirement from 2-1/2 years to 1-1/2 years. Therefore, nonpersonal time deposits with original maturities of less than 1-1/2 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 Robert Feil, (214) 651-6690 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

October 5, 1983

The Federal Reserve Board has amended its Regulation D -- Reserve Requirements of Depository Institutions -- modifying reserve requirements on nonpersonal time deposits, effective October 6, 1983.

Under the amendment, nonpersonal time deposits with original maturities of 1-1/2 years or more will have no required reserve.<sup>1/</sup> Nonpersonal time deposits with original maturities of less than 1-1/2 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 2-1/2 years is 3 percent. The Board amended the rule in connection with action by the Depository Institutions Deregulation Committee (DIDC) freeing most time deposits from interest rate ceilings effective October 1.

The Board announced its actions September 30. The official notices of the actions, not available at that time, are attached.

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Attachments

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<sup>1/</sup> All stated reserve ratios are as of the completion of reserve phase-in periods required under The Monetary Control Act of 1980.

FEDERAL RESERVE SYSTEM

Regulation D

[12 CFR Part 204]

[Docket No. R-0484]

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 1-1/2 years or more will be subject to a reserve requirement ratio of zero percent. Nonpersonal time deposits with original maturities of less than 1-1/2 years will continue to be subject to a three percent reserve requirement ratio. This action was taken to facilitate the offering by depository institutions of longer maturity time deposits that are exempt from interest rate ceilings.

EFFECTIVE DATE: October 6, 1983. The first reserve maintenance period to which the amendment applies commences October 20, 1983.

FOR FURTHER INFORMATION CONTACT: Gilbert T. Schwartz, Associate General Counsel (202/452-3625) or Paul S. Pilecki, Senior Counsel (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 MCA 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 required notice periods of less than 2-1/2 years. Nonpersonal time deposits with maturities or required notice periods of 2-1/2 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 or required notice period 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 was reduced to 2-1/2 years. In conjunction with the establishment of this instrument and its subsequent reduction in maturity, the Board modified the maturity break for reserve requirements on nonpersonal time deposits 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.

Effective October 1, 1983, the DIDC removed interest rate ceilings on all time deposits with original maturities or required notice periods of 32 days or more and on all time deposits of more than \$2,500 with original maturities or required notice periods of seven to 31 days. 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 1-1/2 years or more will be subject to a zero percent reserve requirement ratio and nonpersonal time deposits with original maturities of less than 1-1/2 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 1-1/2 to 2-1/2 years is small, and, thus, this action will not adversely affect monetary control. However, 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.

This action is effective for depository institutions that report deposits and maintain reserves on a weekly basis with the reserve computation period beginning October 6, 1983. The first reserve maintenance period to which this action applies for these institutions commences October 20, 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 1-1/2 years to 2-1/2 years will commence with the reserve maintenance period that begins on January 12, 1984, based on data submitted for the computation period of December 15-21, 1983.

In view of the fact that commercial banks, mutual savings banks, and savings and loan associations may offer time deposits with a broad range of maturities not subject to interest rate ceilings effective October 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 October 6, 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 October 6, 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 Deposits</u>	
By original maturity (or notice period):	
less than 1-1/2 years	3%
1-1/2 years or more	0%
<u>Eurocurrency Liabilities</u>	3%
* * * * *	

By order of the Board of Governors of the Federal  
Reserve System, October 3, 1983.

(signed) William W. Wiles

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William W. Wiles  
Secretary of the Board

FEDERAL RESERVE SYSTEM

Regulations D and Q

[12 CFR Parts 204 and 217]

(Docket No. R-0417)

RESERVE REQUIREMENTS OF DEPOSITORY INSTITUTIONS  
INTEREST ON DEPOSITS

Definition of Time Deposits

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Final rules.

SUMMARY: The Board of Governors has adopted final amendments to Regulation D--Reserve Requirements of Depository Institutions (12 CFR Part 204) and Regulation Q--Interest on Deposits (12 CFR Part 217) to reduce the minimum maturity of all time deposits to seven days. Comments from the public were favorable to adoption of this rule. The Board's action was taken in light of recent actions by the Depository Institutions Deregulation Committee ("DIDC") to authorize the Money Market Deposit Account ("MMDA") and removing the interest rate ceiling on time deposits of \$2,500 or more with maturities of seven- to 31-days.

EFFECTIVE DATE: October 1, 1983.

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

SUPPLEMENTARY INFORMATION: Section 19(a) of the Federal Reserve Act (12 U.S.C. § 461(a)) authorizes the Board to determine the types of obligations that constitute deposits. At present, the Board defines time deposits as deposits or accounts with a minimum maturity or required notice period of 14 days and deposits with maturities or required notice periods of seven to 13 days issued pursuant to section 1204.121 of the rules of the DIDC (12 C.F.R. § 1204.121). Demand deposits are defined to include any deposit or account with a maturity or required notice period of less than 14 days or that does not meet the requirements of the DIDC for accounts issued under 12 C.F.R. § 1204.121.



On August 24, 1982, the Board requested public comment on a proposal to reduce the minimum maturity or required notice period of all time deposits to seven days. The Board requested comments on the following specific issues:

1. whether reducing the minimum maturity to seven days would broaden the market for certificates of deposit for depository institutions, thereby improving their competitive position;
2. whether depository institutions would have more flexibility to vary the maturity mix of their liability structures;
3. potential difficulties for interpreting the monetary aggregates because of diminished distinctions between transaction accounts and time deposits; and
4. whether such a proposal would erode the liquidity position of depository institutions were they to rely more heavily on short-term funds.

The Board received a total of 57 comments on this proposal, distributed as follows: 45 commercial banks and bank holding companies, six savings and loan associations, eight Federal Reserve Banks, two business organizations, one credit union, and one commercial bank trade association. Of those commenting, 79 percent favored the proposal, 18 percent were opposed to further reducing the minimum maturity of time deposits, and two comments suggested that the minimum maturity of time deposits should be reduced further to one day.

Comments in favor of the proposal generally cited benefits to depository institutions such as an improved competitive position and providing more flexibility to vary the maturity mix of their liability structures, while not adversely affecting depository institution liquidity. However, those opposed to the proposal expressed the view that its adoption would have adverse implications for liquidity by leading to increases in the mismatch of assets and liabilities of depository institutions. With respect to the implications for monetary policy, 75 percent of those addressing the issue believed that the existence of seven-day time deposits would not lead to distortions of the monetary aggregates and, therefore, the conduct of monetary policy would not be impaired.

Since the Board issued its proposal to reduce the minimum maturity of time deposits, several significant actions have been taken by the DIDC to facilitate the ability of



depository institutions to offer short-term deposit accounts. Effective December 14, 1982, depository institutions were authorized to offer MMDAs, which have a minimum denomination of \$2,500, no interest rate ceiling, and are subject only to a reservation of the right of the depository institution to require seven days' notice prior to withdrawal. In addition, effective October 1, 1983, the DIDC removed interest rate ceilings on all time deposits with maturities of more than 31 days and on time deposits of \$2,500 or more with maturities of seven to 31 days, whether issued in negotiable or nonnegotiable form. Consequently, in order to enable depository institutions to offer certificates of deposit with maturities of seven to 13 days, the Board has amended Regulations D and Q to reduce the minimum maturity of time deposits to seven days.

In addition, the Board has previously determined that eligible bankers' acceptances (those described in 12 U.S.C. § 372) are not reservable deposits. The Board has issued a clarifying amendment to confirm that eligible bankers' acceptances held by certain foreign organizations are not deposits.

The impact of this proposal has been considered in accordance with section 605 of the Regulatory Flexibility Act (5 U.S.C. § 604; Pub. L. 96-354). This action will provide an additional tool for small banks to use in competing with larger institutions for short term, large denomination deposits. A seven day minimum maturity could enhance the attractiveness of CDs issued by small banks which normally do not trade in the secondary market.

Since this action relieves a restriction and because this action is necessary to conform the rules of the Board to those of the DIDC, the Board makes this action effective October 1, 1983.

List of Subjects in 12 CFR Part 204

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

List of Subjects in 12 CFR Part 217

Advertising; Banks, banking; Federal Reserve System; Foreign banking.

Pursuant to its authority under section 19(a) of the Federal Reserve Act (12 USC § 461(a)) to define deposits, the Board amends Regulation D (12 CFR Part 204) and Regulation Q (12 CFR Part 217), effective October 1, 1983, as follows:

1. In section 204.2 by revising paragraphs (b)(1) and (2), (c)(1), and (d)(1), and (f)(1)(v) to read as follows:

SECTION 204.2 -- DEFINITIONS

\* \* \* \* \*

(b)(1) "Demand deposit" means a deposit that is payable on demand, or a deposit issued with an original maturity or required notice period of less than seven days, or a deposit representing funds for which the depository institution does not reserve the right to require at least seven days' written notice of an intended withdrawal. The term includes all deposits other than time and savings deposits. Demand deposits may be in the form of (i) \* \* \* (viii) an obligation to pay on demand or within seven days a check (or other instrument, device, or arrangement for the transfer of funds) drawn on the depository institution, where the account of the institution's customer already has been debited. The term does not include an obligation that is a time deposit under § 204.2(c)(1)(ii).

(2) A "demand deposit" does not include checks or drafts drawn by the depository institution on the Federal Reserve or on another depository institution.

(c)(1) "Time deposit" means (i) a deposit that the depositor does not have a right to withdraw for a period of seven days or more after the date of deposit. "Time deposit" includes funds:

(A) payable on a specified date not less than seven days after the date of deposit;

(B) payable at the expiration of a specified time not less than seven days after the date of deposit;

(C) payable upon written notice which actually is required to be given by the depositor not less than seven days before the date of repayment;

(D) such as "Christmas club" accounts and "vacation club" accounts, that are deposited under written contracts providing that no withdrawal shall be made until a certain number of periodic deposits have been made during a period of not less than three months even though some of the deposits may be made within seven days from the end of the period; or

(E) that constitute a "savings deposit" which is not regarded as a "transaction account;" and

(ii) borrowings, regardless of maturity, represented by a promissory note, an acknowledgment of advance, or similar obligation described in section 204.2(a)(1)(vii) that is issued to, or any bankers' acceptance (other than the type described in 12 USC 372) of the depository institution held by, any office located outside the United States of another depository institution or Edge or agreement corporation organized under the laws of the United States, to any office located outside the United States of a foreign bank, or to institutions whose time deposits are exempt from interest rate limitations under section 217.3(g) of Regulation Q (12 CFR 217.3(g)(e)).

\* \* \* \* \*

(d)(1) "Savings deposit" means a deposit or account

(i) (A) with respect to which the depositor is not required by the deposit contract but may at any time be required by the depository institution to give written notice of an intended withdrawal not less than seven days before withdrawal is made, and that is not payable on a specified date or at the expiration of a specified time after the date of deposit; and

(B)\*\*\*

\* \* \* \* \*

(f)(1)\*\*\*

(v) a time deposit represented by a promissory note, an acknowledgment of advance, or similar obligation described in section 204.2 (a)(1)(vii) that is issued to, or any bankers' acceptances (other than the type described in 12 U.S.C. 372) of the depository institution held by, any office located outside the United States of another depository institution or Edge or agreement corporation organized under the laws of the United States, to any office located outside the United States of a foreign bank, or to institutions whose time deposits are exempt from interest rate limitations under section 217.3(g) of Regulation Q (12 CFR 217.3(g)).

\* \* \* \* \*

2. Section 217.1 is amended by revising paragraph (b)(1), the initial phrase in paragraph (e), and paragraphs (e)(2), (3), and (4) to read as follows:

SECTION 217.1 -- DEFINITIONS

\* \* \* \* \*

(b)(1) "Time deposit" means (i) a deposit that the depositor does not have a right to withdraw for a period of seven days or more after the date of deposit. "Time deposit" includes funds:

(A) payable on a specified date not less than seven days after the date of deposit;

(B) payable at the expiration of a specified time not less than seven days after the date of deposit;

(C) payable upon written notice which actually is required to be given by the depositor not less than seven days before the date of repayment;<sup>1/</sup> or

(D) such as "Christmas club" accounts and "vacation club" accounts, that are deposited under written contracts providing that no withdrawal shall be made until a certain number of periodic deposits have been made during a period of not less than seven days from the end of the period; and

(ii) an "international banking facility time deposit."

\* \* \* \* \*

(e) "Savings deposit" means a deposit --

(1) \* \* \*

(2) With respect to which the depositor is not required by the deposit contract but may at any time be required by the bank to give written notice of an intended withdrawal not less than seven days before such withdrawal is made,<sup>3/</sup> and that is not payable on a specified

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<sup>1/</sup> A deposit with respect to which the bank merely reserves the right to require notice of not less than seven days before any withdrawal is made is not a "time deposit" within the meaning of the above definition.

<sup>3/</sup> \* \* \*

date or at the expiration of a specified time after the date of deposit.

(3)(i) \* \* \*

(ii) Deposits in which any beneficial interest is held by a corporation, partnership, association, or other organization that is operated for profit or is not operated primarily for religious, philanthropic, charitable, educational, fraternal or other similar purposes, or that is not a governmental unit described in subparagraph (i)(C) may not be classified as deposits subject to negotiable orders of withdrawal, except as authorized by section 217.7(g).

(4) "Savings deposit" also means a deposit issued pursuant to section 217.7(c)(2)(ii) or section 217.7(g) with respect to which the member bank reserves the right to require at least seven days' notice prior to withdrawal or transfer.

\* \* \* \* \*

3. The second sentence of section 217.5(c)(2) is amended by removing "14" and inserting "seven" in its place.

By order of the Board of Governors, October 4, 1983.

(signed) William W. Wiles

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William W. Wiles  
Secretary of the Board