



FEDERAL RESERVE BANK
OF DALLAS

WILLIAM H. WALLACE
FIRST VICE PRESIDENT

December 31, 1985

DALLAS, TEXAS 75222

Circular 85-157

TO: All depository institutions in the
Eleventh Federal Reserve District

SUBJECT

Regulation D - Reserve Requirements of Depository Institutions

DETAILS

The Board of Governors of the Federal Reserve System has announced amendments to Regulation D increasing the amount of net transaction accounts to which the 3 percent reserve requirement will apply in 1985 from \$29.8 million to \$31.7 million. The Board also increased the amount of reservable liabilities in depository institutions that are subject to a zero percentage reserve requirement from \$2.4 million to \$2.6 million.

These changes will be effective for FR-2900 weekly reporting institutions starting with the reserve computation period beginning on December 31, 1985, and with the corresponding reserve maintenance periods beginning January 2, 1986, for net transaction accounts, and on January 30, 1986, for other reservable liabilities. For institutions that report the FR-2900 quarterly, the tranche adjustment and the exemption will be effective with the computation period beginning on December 17, 1985, and with the reserve maintenance period beginning January 16, 1986.

ATTACHMENTS

Board's press release and the related Federal Register document.

MORE INFORMATION

For further information, please contact Robert G. Feil at (214) 651-6690 or Evelyn E. Thomas at (214) 651-6132.

Sincerely yours,

William H. Wallace

FEDERAL RESERVE press release



For immediate release

December 5, 1985

The Federal Reserve Board today announced an increase in the amount of net transaction accounts to which the 3 percent reserve requirement will apply in 1985 from \$29.8 million to \$31.7 million. The Board also increased the amount of reservable liabilities in depository institutions that are subject to a zero percentage reserve requirement from \$2.4 million to \$2.6 million.

These adjustments take effect beginning December 31, 1985.

The Board made the changes in accordance with provisions of the Monetary Control Act. The Act requires the Board to amend its Regulation D--Reserve Requirements of Depository Institutions--annually to increase the amount of transaction accounts subject to a 3 percent reserve requirement. The annual adjustment must be 80 percent of the annual percentage increase in transaction accounts held by all depository institutions. The growth in total net transaction accounts of all depository institutions from June 30, 1984 to June 30, 1985 was 8.1 percent. The statutory rule thus requires an increase of \$1.9 million over last year's amount to \$31.7 million.

The Board is required by the Garn-St Germain Depository Institutions Act of 1982 to amend Regulation D to adjust the amount exempt from reserve requirements for the upcoming year by 80 percent of the annual percentage increase in total reservable liabilities. Growth in total reservable liabilities was 9.1 percent from June 30, 1984 to June 30, 1985, requiring an increase in the reserve requirement exemption to \$2.6 million.

The Board will also change the basis of the reporting cut off level (currently \$25 million in total deposits) which is used to separate weekly

(over)

reporters from quarterly reporters. The new basis will be indexed to 80 percent of the annual percentage increase in total deposits and other reservable liabilities. The annual adjustment of this basis will be computed as of June 30 of each year.

The Board's notice is attached.

-0-

Attachment

FEDERAL RESERVE SYSTEM

12 C.F.R. Part 204

[Regulation D; Docket No. R-0561]

RESERVE REQUIREMENTS OF DEPOSITORY INSTITUTIONS

Reserve Requirement Ratios

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Final rule.

SUMMARY: The Board is amending 12 CFR Part 204 (Regulation D -- Reserve Requirements of Depository Institutions): (1) to increase the amount of transaction accounts subject to a reserve requirement ratio of three percent, as required by section 19(b)(2)(C), of the Federal Reserve Act (12 U.S.C. § 461(b)(2)(C)), from \$29.8 million to \$31.7 million; and (2) to increase the amount of reservable liabilities of each depository institution that is subject to a reserve requirement of zero percent, as required by section 19(b)(11)(B) of the Federal Reserve Act (12 U.S.C. § 461(b)(11)(B)), from \$2.4 million to \$2.6 million. The Board is also changing the basis of the reporting cutoff level (currently \$25 million in "total deposits"), which is used to separate weekly reporters from quarterly reporters, from "total deposits" to "total deposits and other reservable liabilities."

EFFECTIVE DATE: December 31, 1985.

FOR FURTHER INFORMATION CONTACT: Oliver I. Ireland, Associate General Counsel (202/452-3625), or John Harry Jorgenson, Senior Attorney (202/452-3778), Legal Division, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

SUPPLEMENTARY INFORMATION: Section 19(b)(2) of the Federal Reserve Act requires each depository institution to maintain with the Federal Reserve System reserves against its transaction accounts and nonpersonal time deposits, as prescribed by Board regulations. The initial reserve requirements imposed under section 19(b)(2) were set at three percent for each depository institution's total transaction accounts of \$25 million or less and at 12 percent on total transaction accounts above \$25 million. Section 19(b)(2) further provides that the Board shall issue a regulation before December 31 of each year that adjusts for the next calendar year the total dollar amount of the transaction account tranche against which reserves must be maintained at a ratio of three percent. The increase in the tranche is to be 80 percent of the percentage increase in total transaction accounts for all depository institutions determined as of June 30 of each year.

Currently, the amount of the low reserve tranche on transaction accounts is \$29.8 million. The growth in the total net transaction accounts of all depository institutions from June 30, 1984, to June 30, 1985, was 8.1 percent (from \$396.6 billion to \$428.9 billion). In accordance with section 19(b)(2), the Board is amending Regulation D to increase the

amount of the low reserve tranche for transaction accounts for 1986 by \$1.9 million to \$31.7 million.

Section 19(b)(11)(A) of the Federal Reserve Act provides that \$2 million of reservable liabilities^{1/} of each depository institution shall be subject to a zero percent reserve requirement. Section 19(b)(11)(A) permits each depository institution, in accordance with the rules and regulations of the Board, to designate the reservable liabilities to which this reserve requirement exemption is to apply. However, if transaction accounts are designated, only those that would otherwise be subject to a three percent reserve requirement (i.e., transaction accounts within the low reserve requirement tranche) may be so designated.

Section 19(b)(11)(B) of the Federal Reserve Act provides that the Board shall issue a regulation before December 31 of each year, adjusting for the next calendar year the dollar amount of reservable liabilities exempt from reserve requirements. The change in the amount is to be made only if the total reservable liabilities held at all depository institutions increases from one year to the next. The percentage increase in the exemption is to be 80 percent of the percentage increase in total reservable liabilities of all

^{1/} Reservable liabilities include transaction accounts, nonpersonal time deposits, and Eurocurrency liabilities as defined in section 19(b)(5) of the Federal Reserve Act.

depository institutions determined as of June 30 each year. The growth in total reservable liabilities of all depository institutions from June 30, 1984, to June 30, 1985, was 8.5 percent (from \$855.5 billion to \$928.0 billion). In accordance with section 19(b)(11), the Board is amending Regulation D to increase the amount of the reserve requirement exemption for 1986 by \$0.2 million to \$2.6 million.

As a result, the effect of these amendments is to modify the low reserve tranche (which is \$31.7 million, effective January 1, 1986) to apply a zero percent reserve requirement on the first \$2.6 million of transaction accounts (effective January 1, 1986) and a three percent reserve requirement on the remainder of the low reserve tranche. Any excess of this zero percent reserve requirement tranche remaining after applying it to transaction accounts will then be applied to nonpersonal time deposits with maturities of less than 1-1/2 years or to Eurocurrency liabilities, both of which are subject to a reserve requirement ratio of three percent.

The tranche adjustment and the reservable liabilities exemption adjustment for weekly reporting institutions will be effective starting with the reserve computation period beginning on December 31, 1985, and with the corresponding reserve maintenance periods beginning January 2, 1986, for net transaction accounts, and on January 30, 1986, for other reservable liabilities. For institutions that report quarterly, the tranche adjustment and the exemption will be

effective with the computation period beginning on December 17, 1985, and with the reserve maintenance period beginning January 16, 1986. In addition, all entities currently submitting Form FR 2900 will continue to submit reports to the Federal Reserve under current reporting procedures.

In order to reduce the reporting burden for small institutions, the Board established a deposit reporting cutoff level (currently \$25 million in "total deposits") to determine deposit reporting frequency. In March of 1985, the Board decided to index this reporting cutoff level equal to 80 percent of the annual rate of increase of "total deposits" at all depository institutions. Institutions are screened during the second quarter of each year to determine reporting frequency beginning the following September.

All U.S. branches and agencies of foreign banks and all Edge and Agreement Corporations, regardless of size, and all other institutions with reservable liabilities in excess of the exemption level amount prescribed by section 19(b)(11) of the Federal Reserve Act and with at least \$25 million in "total deposits" are required to file weekly the Report of Transaction Accounts, Other Deposits and Vault Cash (FR 2900). Depository institutions with reservable liabilities in excess of the exemption level amount but with "total deposits" less than \$25 million may file the FR 2900 quarterly. Institutions that obtain funds from non-U.S. sources or that have foreign branches or international banking facilities are required to

file the Report of Certain Eurocurrency Transactions (FR 2950) on the same frequency. The reporting cutoff level is also used to determine whether an institution with reservable liabilities at or below the exemption level amount must file the Quarterly Report of Selected Deposits, Vault Cash, and Reservable Liabilities (FR 2910q) or the Annual Report of Total Deposits and Reservable Liabilities (FR 2910a).

In order to ensure accurate reporting of reservable nondeposit liabilities, the Board has determined that the reporting cutoff level will be based on "total deposits" plus "other reservable liabilities." Thus, beginning with the screening in the second quarter of 1986, the cutoff level of \$25 million (indexed annually) will be measured by "total deposits" (which is the sum of gross transaction deposits, savings accounts, and time deposits) plus "other reservable liabilities" (which is the sum of reservable obligations of affiliates, ineligible acceptance liabilities, and net Eurocurrency liabilities).

Finally, the Board may require a depository institution to report on a weekly basis, regardless of the cutoff level, if the institution manipulates its "total deposits and other reservable liabilities" in order to qualify for quarterly reporting. Similarly, any depository institution that reports quarterly may be required to report weekly and to maintain appropriate reserve balances with its Reserve Bank if, during its computation period, it understates its usual

reservable liabilities or it overstates the deductions allowed in computing required reserve balances.

The provisions of 5 U.S.C. § 553(b) relating to notice and public participation have not been followed in connection with the adoption of these amendments because the amendments involve adjustments prescribed by statute and an interpretative statement reaffirming the Board's policy concerning reporting practices. Accordingly, the Board believes that notice and public participation is unnecessary and contrary to the public interest.

List of Subjects in 12 CFR Part 204

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

Effective December 31, 1985, pursuant to the Board's authority under section 19 of the Federal Reserve Act, 12 U.S.C. § 461 et seq., 12 CFR Part 204 is amended 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 to \$31.7 million	3 percent of amount
over \$31.7 million	\$951,000 plus 12% of amount over \$31.7 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%

(2) Exemption from reserve requirements: Each depository institution, Edge or Agreement Corporation, and U.S. branch or agency of a foreign bank is subject to a zero percent reserve requirement on an amount of its transaction accounts subject to the low reserve tranche in paragraph (a)(1), nonpersonal time deposits, or Eurocurrency liabilities or any combination thereof not in excess of \$2.6 million determined in accordance with section 204.3(a)(3) of this Part.

* * * * *

By order of the Board of Governors of the Federal Reserve System, December 4, 1985.

(signed) William W. Wiles

William W. Wiles
Secretary of the Board