



FEDERAL RESERVE BANK
OF DALLAS

WILLIAM H. WALLACE
FIRST VICE PRESIDENT

December 11, 1986

DALLAS, TEXAS 75222

Circular 86-105

TO: All depository institutions in the
Eleventh Federal Reserve District

SUBJECT

Amendment to Regulation D related to the low reserve tranche

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 1987 from \$31.7 million to \$36.7 million. The Board also increased the amount of a depository institution's reservable liabilities that are subject to a zero percentage reserve requirement from \$2.6 million to \$2.9 million of total reservable liabilities and increased the reporting cutoff level distinguishing weekly reporters from quarterly reporters from \$26.8 million to 28.6 million of total deposits and other reservable liabilities.

These changes will be effective for FR-2900 weekly reporting institutions starting with the reserve computation period beginning on December 30, 1986, and with the corresponding reserve maintenance periods beginning January 1, 1987, for net transaction accounts, and on January 29, 1987, 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 16, 1986, and with the reserve maintenance period beginning January 15, 1987.

ATTACHMENTS

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

MORE INFORMATION

For more information, please contact the Reserve Maintenance Division at (214) 651-6407.

Sincerely yours,

A handwritten signature in cursive script that reads "William H. Wallace".

For additional copies of any circular please contact the Public Affairs Department at (214) 651-6289. Banks and others are encouraged to use the following incoming WATS numbers in contacting this Bank (800) 442-7140 (intrastate) and (800) 527-9200 (interstate).

FEDERAL RESERVE press release



For immediate release

November 25, 1986

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 1987 from \$31.7 million to \$36.7 million. The Board also increased the amount of a depository institution's reservable liabilities that are subject to a zero percentage reserve requirement from \$2.6 million to \$2.9 million of total reservable liabilities and increased the reporting cutoff level distinguishing weekly reporters from quarterly reporters from \$26.8 million to \$28.6 million of total deposits and other reservable liabilities.

These adjustments take effect beginning December 30, 1986.

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 change in the transaction accounts held by all depository institutions. The growth in total net

transaction accounts of all depository institutions from June 30, 1985 to June 30, 1986 was 19.6 percent. The statutory rule thus requires an increase of \$5.0 million over last year's amount to \$36.7 million.

The Board is also required by the Garn-St Germain Depository Institutions Act of 1982 to amend Regulation D to adjust the amount of a depository institution's total reservable liabilities that are exempt from reserve requirements for the upcoming year by 80 percent of any annual percentage increase in total reservable liabilities for all depository institutions. Growth in total reservable liabilities was 13.6 percent from June 30, 1985 to June 30, 1986, requiring an increase in the reserve requirement exemption to \$2.9 million.

The Board is also increasing the reporting cutoff level distinguishing weekly reporters from quarterly reporters from \$26.8 million to \$28.6 million of total deposits and other reservable liabilities. The cutoff level is indexed to 80 percent of the annual percentage increase in total deposits and other reservable liabilities for all depository institutions. The annual adjustment of the cutoff level is computed as of June 30 of each year. Institutions with total deposits and other reservable liabilities below the reserve requirement exemption amount of \$2.9 million are excused from reporting even on a quarterly basis if their deposits can be estimated from other sources.

FEDERAL RESERVE SYSTEM

12 C.F.R. Part 204

[Regulation D; Docket No. R-0585]

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 \$31.7 million to \$36.7 million of net transaction accounts; (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 \$2.6 million to \$2.9 million of reservable liabilities; and (3) to increase the reporting cutoff level which is used to separate weekly reporters from quarterly reporters from \$26.8 million to \$28.6 million of total deposits and other reservable liabilities.

EFFECTIVE DATE: December 30, 1986.

FOR FURTHER INFORMATION CONTACT: John Harry Jorgenson, Senior Attorney (202/452-3778), Legal Division, or Paul O'Brien, Economist (202/452-3589), Division of Research and Statistics; for users of the Telecommunications Device for the Deaf (TDD), Earnestine Hill or Dorothea Thompson (202/452-3544); 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, before December 31 of each year, the Board shall issue a regulation adjusting 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 adjustment in the tranche is to be 80 percent of the percentage change 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 \$31.7 million. The growth in the total net transaction accounts of all depository institutions from June 30, 1985, to June 30, 1986, was 19.6 percent (from \$427.2 billion to \$510.8 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 \$5.0 million to \$36.7 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

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

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, before December 31 of each year, the Board shall issue a regulation 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 depository institutions determined as of June 30 each year. The growth in total reservable liabilities of all depository institutions from June 30, 1985, to June 30, 1986, was 13.6 percent (from \$928.0 billion to \$1,054.3 billion). In accordance with section 19(b)(11), the Board is amending Regulation D to increase the amount of the reserve requirement exemption for 1987 by \$0.3 million to \$2.9 million.

As a result, the effect of these amendments is to modify the low reserve tranche (which is \$36.7 million, effective December 30, 1986) to apply a zero percent reserve requirement on the first \$2.9 million of transaction accounts (effective January 1, 1987) and a three percent reserve requirement on the remainder of the low reserve tranche. Any amount 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 30, 1986, and with the corresponding reserve maintenance periods beginning January 1, 1987, for net transaction accounts, and on January 29, 1987, 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 16, 1986, and with the reserve maintenance period beginning January 15, 1987. 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 \$26.8 million in total deposits and other reservable liabilities) 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 and other reservable liabilities.^{2/} 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 \$26.8 million in

^{2/} Total deposits and other reservable liabilities is the sum of gross transaction deposits, savings accounts, and time deposits plus the sum of reservable obligations of affiliates, ineligible acceptance liabilities, and net Eurocurrency liabilities.

total deposits and other reservable liabilities 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 and other reservable liabilities less than \$26.8 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).

From June 30, 1985, to June 30, 1986, total deposits and other reservable liabilities grew 8.1 percent, from \$2.87 trillion to \$3.11 trillion. This results in an increase in the cutoff level distinguishing weekly from quarterly reporters of \$1.8 million from the current \$26.8 million to \$28.6 million. Based on the indexation of the reserve requirement exemption, the cutoff level for total deposits and other reservable liabilities above which reports of deposits must be filed rises \$0.3 million to \$2.9 million. Institutions with total deposits and other reservable liabilities below \$2.9 million are excused from reporting if their deposits can be estimated from other sources. The \$28.6 million cutoff level for weekly reporters and the \$2.9 million level threshold for reporting will be used in the second quarter 1987 deposits report screening process to identify weekly and quarterly reporters and the adjustments will be made when the new deposit reporting panels are implemented in September 1987.

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. The amendments also reduce regulatory burdens on depository institutions. Accordingly, the Board believes that notice and public participation is unnecessary and contrary to the public interest.

Regulatory Flexibility Act Analysis. Pursuant to section 605(b) of the Regulatory Flexibility Act (Pub. L. No. 96-354, 5 U.S.C. § 601 et seq.), the Board certifies that the proposed amendments will not have a significant economic impact on a substantial number of small entities. The proposed amendments reduce certain regulatory burdens for all depository institutions, reduce certain burdens for small depository institutions, and have no particular effect on other small entities.

List of Subjects in 12 CFR Part 204

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

Pursuant to the Board's authority under section 19 of the Federal Reserve Act, 12 U.S.C. § 461 et seq., the Board is amending 12 CFR Part 204 as follows:

Part 204 -- RESERVE REQUIREMENTS OF DEPOSITORY INSTITUTIONS

1. The authority citation for 12 CFR Part 204 is revised to read as follows:

Authority: Sections 11(a), 11(c), 19, 25, 25(a) of the Federal Reserve Act (12 U.S.C. §§ 248(a), 248(c), 371a, 371b, 461, 601, 611); section 7 of the International Banking Act of 1978 (12 U.S.C. § 3105); and section 411 of the Garn St-Germain Depository Institutions Act of 1982 (12 U.S.C. § 461).

2. In section 204.9 - Reserve Requirement Ratios, paragraphs (a)(1) and (a)(2) are revised to read as follows:

(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 \$36.7 million	3 percent of amount
over \$36.7 million	\$1,101,000 plus 12% of amount over \$36.7 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 \$2.9 million determined in accordance with section 204.3(a)(3) of this Part.

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By order of the Board of Governors of the Federal Reserve System, November 24, 1986.

(signed) William W. Wiles

William W. Wiles
Secretary of the Board