



FEDERAL RESERVE BANK  
OF DALLAS

WILLIAM H. WALLACE  
FIRST VICE PRESIDENT  
AND CHIEF OPERATING OFFICER

December 19, 1988

DALLAS, TEXAS 75222

Circular 88-89

**TO:** All financial institutions in the  
Eleventh Federal Reserve District

**SUBJECT**

**Amendment to Regulation D relating to low reserve tranche and  
exemption**

**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 1989 from \$40.5 million to \$41.5 million. The Board also increased the amount of an institution's reservable liabilities that are subject to a zero percent reserve requirement from \$3.2 million to \$3.4 million of total reservable liabilities. In addition, the reporting cutoff level distinguishing weekly reporters from quarterly reporters was increased from \$40.0 million to \$42.1 million of total deposits and other reservable liabilities.

These changes will be effective for weekly reporting institutions starting with the reserve computation period beginning on Tuesday, December 27, 1988, and with the corresponding reserve maintenance period beginning Thursday, December 29, 1988, for net transactions accounts, and on Thursday, January 26, 1989, for other reservable liabilities. For institutions that report quarterly, the tranche adjustment and the exemption will be effective with the computation period beginning on Tuesday, December 20, 1988, and with the reserve maintenance period beginning Thursday, January 19, 1989.

**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".

# FEDERAL RESERVE press release



For immediate release

December 6, 1988

The Federal Reserve Board today announced an increase from \$40.5 million to \$41.5 million in the net transaction accounts to which a 3 percent reserve requirement will apply in 1989.

The Board also increased the amount of reservable liabilities that are exempt from reserves from \$3.2 million to \$3.4 million of total reservable liabilities.

Additionally, the Board increased the deposit cutoff level, which separates weekly reporting institutions from quarterly reporters, from \$40.0 million to \$42.1 million. Institutions with total reservable liabilities below the exemption level of \$3.4 million are excused from reporting even on a quarterly basis if their deposits can be estimated from other sources.

These adjustments take effect beginning December 20, 1988.

The Board's notice is attached.

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Attachment

**FEDERAL RESERVE SYSTEM****12 CFR Part 204**

[Regulation D; Docket No. R-0653]

**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 \$40.5 million to \$41.5 million of net transaction accounts (known as the low reserve tranche adjustment); (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 \$3.2 million to \$3.4 million of reservable liabilities (known as the reservable liabilities exemption adjustment); and (3) to increase the deposit cutoff level which is used in conjunction with the reservable liabilities exemption amount to determine the frequency of deposit reporting from \$40.0 million to \$42.1 million.

**EFFECTIVE DATE:** December 6, 1988. For depository institutions that report weekly, the low reserve tranche adjustment and the reservable liabilities exemption adjustment will be effective starting with the reserve computation period beginning on Tuesday, December 27, 1988, and with the corresponding reserve maintenance periods beginning Thursday, December 29, 1988, for net transaction accounts, and on Thursday, January 26, 1989, for other reservable liabilities. For institutions that report quarterly, the low reserve tranche adjustment and the reservable liabilities exemption adjustment will be effective with the computation period beginning on Tuesday, December 20, 1988, and with the reserve maintenance period beginning Thursday, January 19, 1989. For all depository institutions, the increase in the deposit cutoff level will be used to screen institutions in the second quarter of 1989 to determine reporting frequency beginning September 1989.

**FOR FURTHER INFORMATION CONTACT:** John Harry Jorgenson, Senior Attorney

(202/452-3778), Legal Division, or Patrick Mahoney, Economist (202/452-3827), Division of Monetary Affairs; 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, DC 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 \$40.5 million. The growth in the total net transaction accounts of all depository institutions from June 30, 1987, to June 30, 1988, was 3.0 percent (from \$586.6 billion to \$604.1 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 1988 by \$1.0 million to \$41.5 million.

Section 19(b)(11)(A) of the Federal Reserve Act provides that \$2 million of reservable liabilities<sup>1</sup> 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.

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

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, 1987, to June 30, 1988, was 6.5 percent (from \$1,184.6 billion to \$1,261.7 billion). In accordance with section 19(b)(11), the Board is amending Regulation D to increase the amount of the reserve requirement exemption from 1989 by \$0.2 million to \$3.4 million.

As a result, the effect of these amendments is to raise the low reserve tranche to \$41.5 million and to apply a zero percent reserve requirement on the first \$3.4 million of transaction accounts 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 1½ 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 Tuesday, December 27, 1988, and with the corresponding reserve maintenance periods beginning Thursday, December 29, 1988, for net transaction accounts, and on Thursday, January 26, 1989, for other reservable liabilities. For institutions that report quarterly, the tranche adjustment and the exemption will be effective with the computation period beginning on Tuesday, December 20, 1988, and with the reserve maintenance period beginning Thursday, January 19, 1989. 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 in 1981 established a deposit reporting cutoff level of \$25 million to determine deposit reporting frequency. Institutions

are screened during the second quarter of each year to determine reporting frequency beginning the following September. 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.<sup>2</sup> In July of 1988, in conjunction with approval of the extension of the deposit reporting system, the Board increased the cutoff to \$40 million, effective in September 1988, from the \$30 million cutoff that would have become effective in September 1988.

From June 30, 1987, to June 30, 1988, total deposits grew 6.5 percent, from \$3,296.9 billion to \$3,511.4 billion. This results in an increase of \$2.1 million in the deposit cutoff level which determines frequency of reporting from the current \$40.0 million to \$42.1 million. Based on the indexation of the reserve requirement exemption, the cutoff level for total deposits above which reports of deposits must be filed rises \$0.2 million to \$3.4 million. Institutions with total deposits below \$3.4 million are excused from reporting if their deposits can be estimated from other sources. The \$42.1 million cutoff level for weekly versus quarterly FR 2900 reporting and for quarterly FR 2910q versus annual FR 2910a reporting, and the \$3.4 million level threshold for reporting will be used in the second quarter 1989 deposits report screening process, and the adjustments will be made when the new deposit reporting panels are implemented in September 1989.

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 (known as "nonexempt institutions") and with total deposits at least equal to the deposit cutoff level 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 the deposit cutoff level may file the FR 2900 quarterly effective each September. 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 2950/2951) on the same frequency as they file the FR 2900. The deposit cutoff is also used to determine whether an institution with reservable liabilities at or below the exemption level amount (known as an "exempt institution") must file one of two reduced deposits reports—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). Exempt institutions (that is, institutions with total deposits less than the exemption amount) are not required to file a deposits report if their deposits can be estimated from other sources.

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.

**Notice and Public Participation**

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 continues to read as follows:

Authority: Secs. 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); sec. 7 of the International Banking Act of 1978 (12 U.S.C. 3105); and sec. 411 of the Garn-St Germain Depository Institutions Act of 1982 (12 U.S.C. 461).

2. In § 204.9, paragraph (a) is revised to read as follows:

**§ 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:

Category	Reserve requirement
Net transaction accounts: <sup>1</sup>	
\$0 to \$41.5 million.....	3 percent of amount.
Over \$41.5 million.....	\$1,245,000 plus 12% of amount over \$41.5 million.
Nonpersonal time deposits: By original maturity (or notice period):	
Less than 1½ years....	3 percent.
1½ years or more.....	0 percent.
Eurocurrency liabilities.....	3 percent.

<sup>1</sup> Dollar amounts do not reflect the adjustment to be made by the next paragraph.

(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) of this section, nonpersonal time deposits, or Eurocurrency liabilities or any combination thereof not in excess of \$3.4 million determined in accordance with § 204.3(a)(3) of this part.

By order of the Board of Governors of the Federal Reserve System, November 29, 1988.

**William W. Wiles,**  
*Secretary of the Board.*

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<sup>2</sup> In November of 1985, the Board amended the definition of "total deposits" as used in determining the cutoff level to include not only gross transaction deposits, savings accounts, and time deposits but also reservable obligations of affiliates, ineligible acceptance liabilities, and net Eurocurrency liabilities.