



FEDERAL RESERVE BANK
OF DALLAS

WILLIAM H. WALLACE
FIRST VICE PRESIDENT
AND CHIEF OPERATING OFFICER

May 31, 1989

DALLAS, TEXAS 75222

Circular 89-36

TO: The Chief Operations Officer of
all financial institutions in the
Eleventh Federal Reserve District

SUBJECT

Revised Regulation J and D pamphlets

DETAILS

Enclosed are the revised Regulation J --
Collection of Checks and Other Items and Wire Transfers
of Funds and Regulation D -- Reserve Requirements of
Depository Institutions. Please place these in your
regulations binders and remove any old copies.

ENCLOSURES

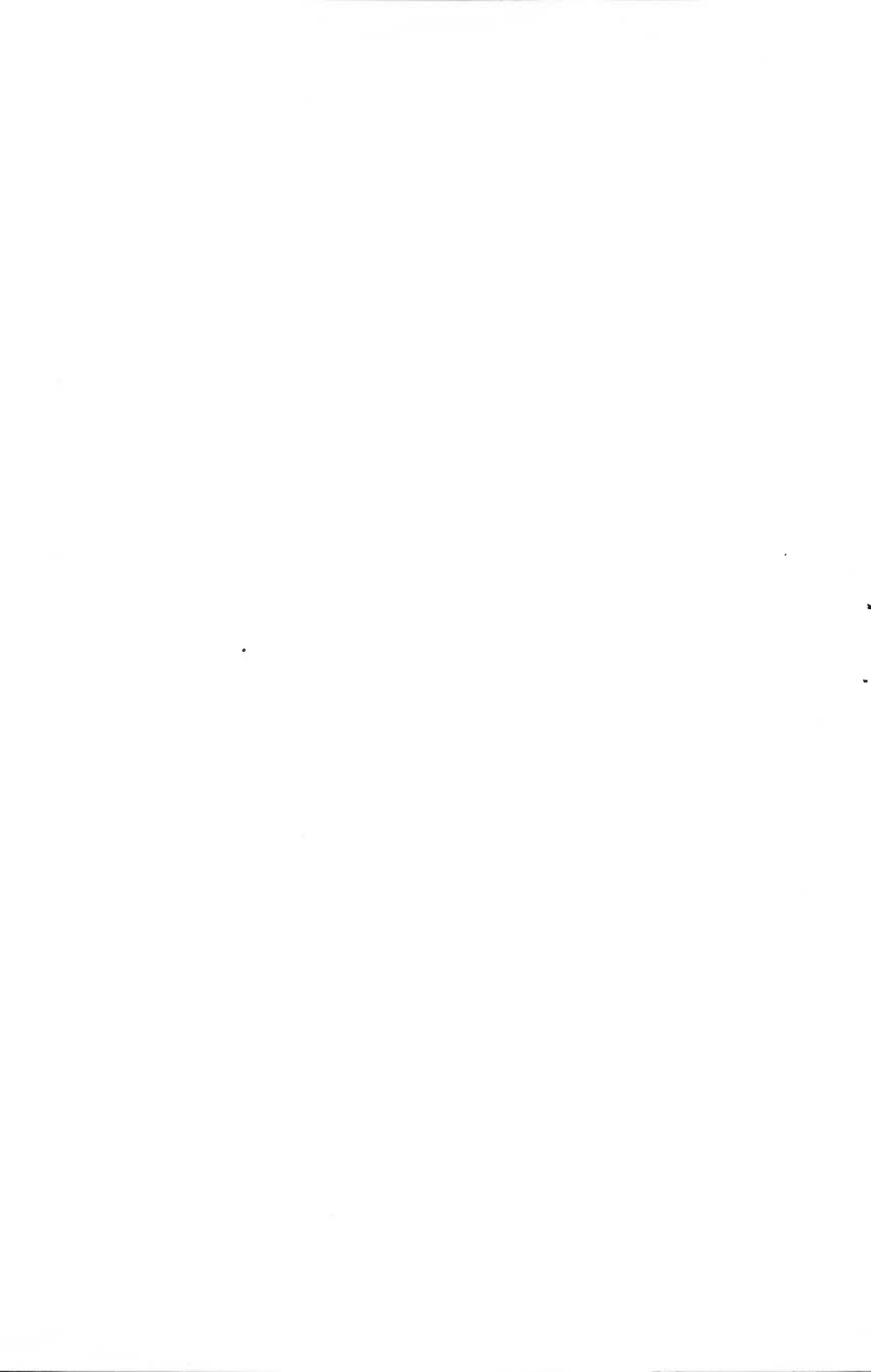
The revised regulation J and D pamphlets are
enclosed.

MORE INFORMATION

For additional copies of these regulations,
please contact Jackie Nicholson at (214) 651-6289.

Sincerely yours,

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



Regulation D Reserve Requirements of Depository Institutions

12 CFR 204; as amended effective December 31, 1987



Any inquiry relating to this regulation should be addressed to the Federal Reserve Bank of the Federal Reserve District in which the inquiry arises.

September 1988

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Regulation D

Reserve Requirements of Depository Institutions

12 CFR 204; as amended effective December 31, 1987

SECTION 204.1—Authority, Purpose and Scope

(a) *Authority.* This part* is issued under the authority of section 19 (12 USC 461 et seq.) and other provisions of the Federal Reserve Act and of section 7 of the International Banking Act of 1978 (12 USC 3105).

(b) *Purpose.* This part relates to reserves that depository institutions are required to maintain for the purpose of facilitating the implementation of monetary policy by the Federal Reserve System.

(c) *Scope.* (1) The following depository institutions are required to maintain reserves in accordance with this part:

(i) Any insured bank as defined in section 3 of the Federal Deposit Insurance Act (12 USC 1813(h)) or any bank that is eligible to apply to become an insured bank under section 5 of such act (12 USC 1815);

(ii) Any savings bank or mutual savings bank as defined in section 3 of the Federal Deposit Insurance Act (12 USC 1813(f), (g));

(iii) Any insured credit union as defined in section 101 of the Federal Credit Union Act (12 USC 1752(7)) or any credit union that is eligible to apply to become an insured credit union under section 201 of such act (12 USC 1781);

(iv) Any member as defined in section 2 of the Federal Home Loan Bank Act (12 USC 1422(4)); and

(v) Any insured institution as defined in section 401 of the National Housing Act (12 USC 1724(a)) or any institution which is eligible to apply to become an insured institution under section 403 of such act (12 USC 1726).

(2) Except as may be otherwise provided by the Board, a foreign bank's branch or agency located in the United States is re-

quired to comply with the provisions of this part in the same manner and to the same extent as if the branch or agency were a member bank, if its parent foreign bank (i) has total worldwide consolidated bank assets in excess of \$1 billion; or (ii) is controlled by a foreign company or by a group of foreign companies that own or control foreign banks that in the aggregate have total worldwide consolidated bank assets in excess of \$1 billion. In addition, any other foreign bank's branch located in the United States that is eligible to apply to become an insured bank under section 5 of the Federal Deposit Insurance Act (12 USC 1815) is required to maintain reserves in accordance with this part as a nonmember depository institution.

(3) Except as may be otherwise provided by the Board, an Edge corporation (12 USC 611 et seq.) or an agreement corporation (12 USC 601 et seq.) is required to comply with the provisions of this part in the same manner and to the same extent as a member bank.

(4) This part does not apply to any financial institution that (i) is organized solely to do business with other financial institutions; (ii) is owned primarily by the financial institutions with which it does business; and (iii) does not do business with the general public.

(5) The provisions of this part do not apply to any deposit that is payable only at an office located outside the United States.

SECTION 204.2—Definitions

For purposes of this part, the following definitions apply unless otherwise specified:

(a) (1) "*Deposit*" means—

(i) the unpaid balance of money or its equivalent received or held by a depository institution in the usual course of business and for which it has given or is obligated to give credit, either conditionally or unconditionally, to an account, includ-

*The words "this part," as used herein, mean Regulation D (Code of Federal Regulations, title 12, chapter II, part 204).

ing interest credited, or which is evidenced by an instrument on which the depository institution is primarily liable;

(ii) money received or held by a depository institution, or the credit given for money or its equivalent received or held by the depository institution in the usual course of business for a special or specific purpose, regardless of the legal relationships established thereby, including escrow funds, funds held as security for securities loaned by the depository institution, funds deposited as advance payment on subscriptions to United States government securities, and funds held to meet its acceptances;

(iii) an outstanding draft, cashier's check, money order, or officer's check drawn on the depository institution and issued in the usual course of business for any purpose, including payment for services, dividends, or purchases;

(iv) any due bill or other liability or undertaking on the part of a depository institution to sell or deliver securities to, or purchase securities for the account of, any customer (including another depository institution), involving either the receipt of funds by the depository institution, regardless of the use of the proceeds, or a debit to an account of the customer before the securities are delivered. A deposit arises thereafter, if after three business days from the date of issuance of the obligation, the depository institution does not deliver the securities purchased or does not fully collateralize its obligation with securities similar to the securities purchased. A security is similar if it is of the same type and if it is of comparable maturity to that purchased by the customer;

(v) any liability of a depository institution's affiliate that is not a depository institution, on any promissory note, acknowledgment of advance, due bill, or similar obligation (written or oral), with a maturity of less than one and one-half years, to the extent that the proceeds are used to supply or to maintain the availability of funds (other than capital) to the depository institution, except any

such obligation that, had it been issued directly by the depository institution, would not constitute a deposit. If an obligation of an affiliate of a depository institution is regarded as a deposit and is used to purchase assets from the depository institution, the maturity of the deposit is determined by the shorter of the maturity of the obligation issued or the remaining maturity of the assets purchased. If the proceeds from an affiliate's obligation are placed in the depository institution in the form of a reservable deposit, no reserves need be maintained against the obligation of the affiliate since reserves are required to be maintained against the deposit issued by the depository institution. However, the maturity of the deposit issued to the affiliate shall be the shorter of the maturity of the affiliate's obligation or the maturity of the deposit;

(vi) credit balances;

(vii) any liability of a depository institution on any promissory note, acknowledgment of advance, banker's acceptance, or similar obligation (written or oral), including mortgage-backed bonds, that is issued or undertaken by a depository institution as a means of obtaining funds, except any such obligation that—

(A) is issued or undertaken and held for the account of—

(1) an office located in the United States of another depository institution, foreign bank, Edge or agreement corporation, or New York Investment (article XII) Company;

(2) the United States government or an agency thereof; or

(3) the Export-Import Bank of the United States, Minbanc Capital Corporation, the Government Development Bank for Puerto Rico, a Federal Reserve Bank, a Federal Home Loan Bank, or the National Credit Union Administration Central Liquidity Facility;

(B) arises from a transfer of direct obligations of, or obligations that are fully guaranteed as to principal and interest by, the United States government

or any agency thereof that the depository institution is obligated to repurchase;

(C) is not insured by a federal agency, is subordinated to the claims of depositors, has a weighted average maturity of seven years or more, and is issued by a depository institution with the approval of, or under the rules and regulations of, its primary federal supervisor;

(D) arises from a borrowing by a depository institution from a dealer in securities, for one business day, of proceeds of a transfer of deposit credit in a Federal Reserve Bank or other immediately available funds, (commonly referred to as "federal funds"), received by such dealer on the date of the loan in connection with clearance of securities transactions; or

(E) arises from the creation, discount and subsequent sale by a depository institution of its banker's acceptance of the type described in paragraph 7 of section 13 of the Federal Reserve Act (12 USC 372);

(viii) any liability of a depository institution that arises from the creation after June 20, 1983, of a banker's acceptance that is not of the type described in paragraph 7 of section 13 of the Federal Reserve Act (12 U.S.C. 372) except any such liability held for the account of an entity specified in section 204.2(a)(1)(vii)(A).

(2) "Deposit" does not include—

(i) trust funds received or held by the depository institution that it keeps properly segregated as trust funds and apart from its general assets or which it deposits in another institution to the credit of itself as trustee or other fiduciary. If trust funds are deposited with the commercial department of the depository institution or otherwise mingled with its general assets, a deposit liability of the institution is created;

(ii) an obligation that represents a conditional, contingent or endorser's liability;

(iii) obligations, the proceeds of which

are not used by the depository institution for purposes of making loans, investments, or maintaining liquid assets such as cash or "due from" depository institutions or other similar purposes. An obligation issued for the purpose of raising funds to purchase business premises, equipment, supplies, or similar assets is not a deposit;

(iv) accounts payable;

(v) hypothecated "deposits" created by payments on an installment loan where (A) the amounts received are not used immediately to reduce the unpaid balance due on the loan until the sum of the payments equals the entire amount of loan principal and interest; (B) and where such amounts are irrevocably assigned to the depository institution and cannot be reached by the borrower or creditors of the borrower;

(vi) dealer reserve and differential accounts that arise from the financing of dealer installment accounts receivable, and which provide that the dealer may not have access to the funds in the account until the installment loans are repaid, as long as the depository institution is not actually (as distinguished from contingently) obligated to make credit or funds available to the dealer;

(vii) a dividend declared by a depository institution for the period intervening between the date of the declaration of the dividend and the date on which it is paid;

(viii) an obligation representing a "pass-through account," as defined in this section;

(ix) an obligation arising from the retention by the depository institution of no more than a 10 percent interest in a pool of conventional one- to four-family mortgages that are sold to third parties;

(x) an obligation issued to a state or municipal housing authority under a loan-to-lender program involving the issuance of tax exempt bonds and the subsequent lending of the proceeds to the depository institution for housing finance purposes;

(xi) shares of a credit union held by the National Credit Union Administration or the National Credit Union Administra-

tion Central Liquidity Facility under a statutorily authorized assistance program; and

(xii) any liability of a United States branch or agency of a foreign bank to another United States branch or agency of the same foreign bank, or the liability of the United States office of an Edge corporation to another United States office of the same Edge corporation.

(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. Demand deposits may be in the form of—

- (i) checking accounts;
- (ii) certified, cashier’s and officer’s checks (including checks issued by the depository institution in payment of dividends);
- (iii) traveler’s checks and money orders that are primary obligations of the issuing institution;
- (iv) checks or drafts drawn by, or on behalf of, a non-United States office of a depository institution on an account maintained at any of the institution’s United States offices;
- (v) letters of credit sold for cash or its equivalent;
- (vi) withheld taxes, withheld insurance and other withheld funds;
- (vii) time deposits that have matured or time deposits upon which the contractually required notice of withdrawal was given and the notice period has expired and which have not been renewed (either by action of the depositor or automatically under the terms of the deposit agreement); and
- (viii) an obligation to pay, on demand or within six 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.

(2) The term “demand deposit” also means deposits or accounts on which the depository institution has reserved the right to require at least seven days’ written notice prior to withdrawal or transfer of any funds in the account and from which the depositor is authorized to make withdrawals or transfers in excess of the withdrawal or transfer limitations specified in section 204.2(d)(2) for such an account and the account is not a NOW account, or an ATS account or other account that meets the criteria specified in either section 204.2(b)(3)(ii) or (iii) below.

- (3) “Demand deposit” does not include—
- (i) any account that is a time deposit or a savings deposit under this part;
 - (ii) any deposit or account on which the depository institution has reserved the right to require at least seven days’ written notice prior to withdrawal or transfer of any funds in the account and either—
 - (A) is subject to check, draft, negotiable order of withdrawal, share draft or similar item, such as an account authorized by 12 USC 1832(a) (“NOW Account”) and an MMDA as described in section 204.2(d)(2)(ii), provided that the depositor is eligible to hold a NOW account; or
 - (B) from which the depositor is authorized to make transfers by preauthorized transfer or telephonic (including data transmission) agreement, order or instruction to another account or to a third party, provided that the depositor is eligible to hold a NOW account;
 - (iii) any deposit or account on which the depository institution has reserved the right to require at least seven days’ written notice prior to withdrawal or transfer of any funds in the account and from which withdrawals may be made automatically through payment to the depository institution itself or through transfer of credit to a demand deposit or other account in order to cover checks or drafts drawn upon the institution or to maintain a specified balance in, or to make periodic transfers to such other account, such as accounts authorized by 12

USC 371a (automatic transfer account or ATS account), provided that the depositor is eligible to hold an ATS account;

(iv) any obligation that is a time deposit under section 204.2(c)(1)(iv);

(v) checks or drafts drawn by the depository institution on the Federal Reserve or on another depository institution; or

(vi) IBF time deposits meeting the requirements of section 204.8(a)(2).

(c)(1) "Time deposit" means—

(i) a deposit that the depositor does not have a right and is not permitted to make withdrawals from within six days after the date of deposit unless the deposit is subject to an early withdrawal penalty of at least seven days' simple interest on amounts withdrawn within the first six days after deposit.¹ A time deposit from which partial early withdrawals are permitted must impose additional early withdrawal penalties of at least seven

days' simple interest on amounts withdrawn within six days after each partial withdrawal. If such additional early withdrawal penalties are not imposed, the account ceases to be a time deposit. The account may become a savings deposit if it meets the requirements for a saving deposit; otherwise it becomes a transaction account.² "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 only upon written notice that is actually required to be given by the depositor not less than seven days prior to withdrawal;

(D) held in "club" accounts (such as "Christmas club" accounts and "vacation club" accounts that are not maintained as "savings deposits") 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 six days from the end of the period; or

(E) share certificates and certificates of indebtedness issued by credit unions, and certificate accounts and notice accounts issued by savings and loan associations;

(ii) a "savings deposit;"

(iii) an "IBF time deposit" meeting the requirements of section 204.8(a)(2); and

(iv) borrowings, regardless of maturity, represented by a promissory note, an acknowledgment of advance, or

(e) when the owner of the time deposit is determined to be legally incompetent by a court or other administrative body of competent jurisdiction; or

(f) where a time deposit is withdrawn within ten days after a specified maturity date even though the deposit contract provided for automatic renewal at the maturity date.

² A nonpersonal time deposit with a stated maturity of one and one-half years or more may be treated as having an original maturity of one and one-half years or more for reserve requirement purposes only if it is subject to the minimum penalty described in section 204.2(f)(3).

¹ Accounts existing on March 31, 1986, may satisfy the early withdrawal penalties specified by this part by meeting the Depository Institutions Deregulation Committee's early withdrawal penalties in existence on March 31, 1986. Accounts that otherwise meet the requirements for time deposits but that lack such penalties due to a lack of a regulatory requirement for such a penalty, as in the case of federally chartered credit unions, may continue to be classified as time deposits; however, the penalty should be included in time deposits opened, renewed or to which additional deposits are made on or after January 1, 1987.

A time deposit, or a portion thereof, may be paid before maturity without imposing the early withdrawal penalties specified by this part—

(a) where the time deposit is maintained in an individual retirement account established in accordance with 26 USC 408 and is paid within seven days after establishment of the individual retirement account pursuant to 26 CFR 1.408-6(d)(4), or where it is maintained in a Keogh (H.R. 10) plan; provided that the depositor forfeits an amount at least equal to the simple interest earned on the amount withdrawn;

(b) where the depository institution pays all or a portion of a time deposit representing funds contributed to an individual retirement account or a Keogh (H.R. 10) plan established pursuant to 26 USC 408 or 26 USC 401 when the individual for whose benefit the account is maintained attains age 59½ or is disabled (as defined in 26 USC 72(m)(7)) or thereafter;

(c) where the depository institution pays that portion of a time deposit on which federal deposit insurance has been lost as the result of the merger of two or more federally insured banks in which the depositor previously maintained separate time deposits, for a period of one year from the date of the merger;

(d) upon the death of any owner of the time deposit funds;

similar obligation described in section 204.2(a)(1)(vii) that is issued to, or any banker's acceptance (other than the type described in 12 USC 372) of the depository institution held by—

(A) any office located outside the United States of another depository institution or Edge or agreement corporation organized under the laws of the United States;

(B) any office located outside the United States of a foreign bank;

(C) a foreign national government, or an agency or instrumentality thereof,³ engaged principally in activities which are ordinarily performed in the United States by governmental entities,

(D) an international entity of which the United States is a member, or

(E) any other foreign, international, or supranational entity specifically designated by the Board.⁴

(2) A time deposit may be represented by a transferable or nontransferable, or a negotiable or nonnegotiable, certificate, instrument, passbook, or statement, or by book entry or otherwise.

(d)(1) "*Savings deposit*" means a deposit or account 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. The term "savings deposit" includes a regular share account at a credit union and a regular account at a savings and loan association.

(2) The term "savings deposit" also means—

(i) A deposit or account that otherwise meets the requirements of section 204.2(d)(1) and from which, under the terms of the account agreement, or by

practice of the depository institution, the depositor is permitted or authorized to make no more than three withdrawals per calendar month, or statement cycle (or similar period) of at least four weeks, for the purpose of transferring funds to another account of the depositor at the same institution (including a "transaction account") or for making payment to a third party by means of a preauthorized or automatic transfer, or telephonic (including data transmission) agreement, order or instruction, provided that no such withdrawals may be by check, draft or similar order (including debit card) drawn by the depositor to third persons. A "preauthorized transfer" includes any arrangement by the depository institution to pay a third party from the account of a depositor upon written or oral instruction (including an order received through an automated clearing house (ACH)) or any arrangement by a depository institution to pay a third party from the account of the depositor at a predetermined time or on a fixed schedule. Such an account is not a "transaction account" by virtue of an arrangement that permits transfers for the purpose of repaying loans and associated expenses at the same depository institution (as originator or servicer) or that permits transfers of funds from the account to another account of the same depositor at the same institution or permits withdrawals (payments directly to the depositor) from the account when such transfers or withdrawals are made by mail, messenger, automated teller machine or in person or when such withdrawals are made by telephone (via check mailed to the depositor) regardless of the number of such transfers or withdrawals.⁵

(ii) A deposit or account, such as an account commonly known as a "money market deposit account" (MMDA), that otherwise meets the requirements of sec-

³ Other than states, provinces, municipalities, or other regional or local governmental units or agencies or instrumentalities thereof.

⁴ The designated entities are specified in 12 CFR 204.125 (page 26).

⁵ In order to ensure that no more than the permitted number of withdrawals or transfers are made, for an account to come within the definitions in section 204.2(d)(2), a depository institution must either—

tion 204.2(d)(1) and from which, under the terms of the deposit contract or by practice of the depository institution, the depositor is permitted or authorized to make no more than six transfers per calendar month or statement cycle (or similar period) of at least four weeks to another account (including a transaction account) of the depositor at the same institution or to a third party by means of a preauthorized or automatic transfer (see section 204.2(d)(2)(i)), or telephonic (including data transmission) agreement, order or instruction and no more than three of the six such transfers may be made by check, draft, debit card or similar order made by the depositor and payable to third parties. Such an account is not a "transaction account" by virtue of an arrangement that permits transfers for the purpose of repaying loans and associated expenses at the same depository institution (as originator or servicer) or that permits transfers of funds from this account to another account of the same depositor at the same institution or permits withdrawals (payments directly to the depositor) from the account when such transfers or withdrawals are made by mail, messenger, automated teller machine or in person or when such withdrawals are made by telephone (via check mailed to the depositor) regardless of the number of such transfers or withdrawals.⁶

(3) A deposit may continue to be classified as a savings deposit even if the depository

institution exercises its right to require notice of withdrawal.

(4) "Savings deposit" does not include funds deposited to the credit of the depository institution's own trust department where the funds involved are utilized to cover checks or drafts. Such funds are "transaction accounts."

(e) "Transaction account" means a deposit or account from which the depositor or account holder is permitted to make transfers or withdrawals by negotiable or transferable instrument, payment order of withdrawal, telephone transfer, or other similar device for the purpose of making payments or transfers to third persons or others or from which the depositor may make third-party payments at an automated teller machine (ATM) or a remote service unit, or other electronic device, including by debit card, but the term does not include savings deposits or accounts described in section 204.2(d)(2) even though such accounts permit third-party transfers. "Transaction account" includes—

- (1) demand deposits;
- (2) deposits or accounts on which the depository institution has reserved the right to require at least seven days' written notice prior to withdrawal or transfer of any funds in the account and that are subject to check, draft, negotiable order of withdrawal, share draft, or other similar item, except accounts described in section 204.2(d)(2)(ii) (MMDAs), but including accounts authorized by 12 USC 1832(a) (NOW accounts).

(3) Deposits or accounts on which the depository institution has reserved the right to require at least seven days' written notice prior to withdrawal or transfer of any funds in the account and from which withdrawals may be made automatically through payment to the depository institution itself or through transfer of credit to a demand deposit or other account in order to cover checks or drafts drawn upon the institution

Continued

(a) prevent withdrawals or transfers of funds in this account that are in excess of the limits established by sections 204.2(d)(2)(i) or (ii) or

(b) adopt procedures to monitor those transfers on an ex post basis and contact customers who exceed the limits established by sections 204.2(d)(2)(i) or 204.2(d)(2)(ii) on more than an occasional basis.

For customers who continue to violate those limits after being contacted by the depository institution, the depository institution must either close the account and place the funds in another account that the depositor is eligible to maintain or take away the account's transfer and draft capacities.

An account that authorizes withdrawals or transfers in excess of the permitted number is a transaction account regardless of whether the authorized number of transactions are actually made.

⁶ See footnote 5. For accounts described in section 204.2(d)(2)(ii), the institution at its option may use on a consistent basis either the date on the check, draft or similar item or the date the item is paid in applying the limits on such items.

or to maintain a specified balance in, or to make periodic transfers to such accounts, except accounts described in section 204.2(d)(2), but including accounts authorized by 12 USC 371a (automatic transfer accounts or ATS accounts).

(4) Deposits or accounts on which the depository institution has reserved the right to require at least seven days' written notice prior to withdrawal or transfer of any funds in the account and under the terms of which, or by practice of the depository institution, the depositor is permitted or authorized to make more than three withdrawals per month or statement cycle (or similar period) of at least four weeks for purposes of transferring funds to another account of the depositor at the same institution (including a "transaction account") or for making payment to a third party by means of preauthorized transfer, or telephonic (including data transmission) agreement, order or instruction, except accounts described in section 204.2(d)(2). An account that authorizes more than three such withdrawals in a calendar month, or statement cycle (or similar period) of at least four weeks, is a "transaction account" whether or not more than three such transfers are made during such period. A "preauthorized transfer" includes any arrangement by the depository institution to pay a third party from the account of a depositor upon written or oral instruction (including an order received through an automated clearing house (ACH)), or any arrangement by a depository institution to pay a third party from the account of the depositor at a predetermined time or on a fixed schedule. Such an account is not a "transaction account" by virtue of an arrangement that permits transfers for the purpose of repaying loans and associated expenses at the same depository institution (as originator or servicer) or that permits transfers of funds from this account to another account of the same depositor at the same institution or permits withdrawals (payments directly to the depositor) from the account when such transfers or withdrawals are made by mail, messenger, automated teller machine or in person or when

such withdrawals are made by telephone (via check mailed to the depositor) regardless of the number of such transfers or withdrawals.

(5) Deposits or accounts maintained in connection with an arrangement that permits the depositor to obtain credit directly or indirectly through the drawing of a negotiable or nonnegotiable check, draft, order or instruction or other similar device (including telephone or electronic order or instruction) on the issuing institution that can be used for the purpose of making payments or transfers to third persons or others, or to a deposit account of the depositor.

(6) All deposits other than time and savings deposits.

(f)(1) "Nonpersonal time deposit" means—

(i) A time deposit, including an MMDA or any other savings deposit, representing funds in which any beneficial interest is held by a depositor which is not a natural person;

(ii) A time deposit, including an MMDA or any other savings deposit, that represents funds deposited to the credit of a depositor that is not a natural person, other than a deposit to the credit of a trustee or other fiduciary if the entire beneficial interest in the deposit is held by one or more natural persons;

(iii) a time deposit that is transferable, except a time deposit originally issued before October 1, 1980, to and held by one or more natural persons, including a deposit to the credit of a trustee or other fiduciary if the entire beneficial interest in the deposit is held by one or more natural persons;

(iv) a time deposit that is transferable, issued on or after October 1, 1980, to and held by one or more natural persons, including a deposit to the credit of a trustee or other fiduciary if the entire beneficial interest is held by one or more natural persons. A time deposit is transferable unless it contains a specific statement on the certificate, instrument, passbook, statement or other form representing the account that it is not transferable. A time deposit that contains a specific statement

that it is not transferable is not regarded as transferable even if the following transactions can be effected: a pledge as collateral for a loan; a transaction that occurs due to circumstances arising from death, incompetency, marriage, divorce, attachment or otherwise by operation of law or a transfer on the books or records of the institution; and

(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 banker's acceptance (other than the type described in 12 USC 372) of the depository institution held by—

(A) any office located outside the United States of another depository institution or Edge or agreement corporation organized under the laws of the United States,

(B) any office located outside the United States of a foreign bank,

(C) a foreign national government, or an agency or instrumentality thereof,⁷ engaged principally in activities which are ordinarily performed in the United States by governmental entities,

(D) an international entity of which the United States is a member, or

(E) any other foreign, international, or supranational entity specifically designated by the Board.⁸

(2) "Nonpersonal time deposit" does not include nontransferable time deposits to the credit of or in which the entire beneficial interest is held by an individual pursuant to an individual retirement account or Keogh (H. R. 10) plan under 26 USC (IRC 1954) 408, 401, or nontransferable time deposits held by an employer as part of an unfunded deferred-compensation plan established pursuant to subtitle D of the Revenue Act of 1978 (Pub. L. No. 95-600, 92 Stat. 2763).

(3) Any nonpersonal time deposit with a stated maturity or notice period of one and one-half years or more that permits any ear-

ly withdrawal must be subject to a minimum early withdrawal penalty equal to at least thirty days' simple interest on the amount withdrawn for any withdrawal that occurs more than six days but within one and one-half years after the date of deposit. Any such account not subject to this minimum early withdrawal penalty will be regarded as a nonpersonal time deposit with an original maturity or notice period of from seven days to less than one and one-half years from the date of the deposit.⁹

(g) "Natural person" means an individual or a sole proprietorship. The term does not mean a corporation owned by an individual, a partnership or other association.

(h) "Eurocurrency liabilities" means—

(1) For a depository institution or an Edge or agreement corporation organized under the laws of the United States, the sum, if positive, of the following:

(i) net balances due to its non-United States offices and its international banking facilities ("IBFs") from its United States offices;

(ii) (A) for a depository institution organized under the laws of the United States, assets (including participations) acquired from its United States offices and held by its non-United States offices, by its IBF, or by non-United States offices of an affiliated Edge or agreement corporation;¹⁰ or

(B) for an Edge or agreement corporation, assets (including participations) acquired from its United States offices and held by its non-United States offices, by its IBF, by non-United States offices of its U.S. or foreign parent institution, or by non-United States offices of an affiliated Edge or agreement corporation;¹⁰ and

⁹ See footnote 1 for treatment of accounts existing on March 31, 1986, and for exceptions to the imposition of the early withdrawal penalties imposed by this part. The penalty required by this section 204.2(f)(3) and that required by section 204.2(c)(1) need not be aggregated.

¹⁰ This subparagraph does not apply to assets (1) that were acquired before October 7, 1979, or (2) that were acquired by an IBF from its establishing entity before the end of the second reserve computation period after its establishment.

⁷ Other than states, provinces, municipalities, or other regional or local governmental units or agencies or instrumentalities thereof.

⁸ The designated entities are specified in 12 CFR 204.125 (page 26).

(iii) credit outstanding from its non-United States offices to United States residents (other than assets acquired and net balances due from its United States offices), except credit extended (A) from its non-United States offices in the aggregate amount of \$100,000 or less to any United States resident, (B) by a non-United States office that at no time during the computation period had credit outstanding to United States residents exceeding \$1 million, (C) to an international banking facility, or (D) to an institution that will be maintaining reserves on such credit pursuant to this part. Credit extended from non-United States offices or from IBFs to a foreign branch, office, subsidiary, affiliate, or other foreign establishment ("foreign affiliate") controlled by one or more domestic corporations is not regarded as credit extended to a United States resident if the proceeds will be used to finance the operations outside the United States of the borrower or of other foreign affiliates of the controlling domestic corporation(s).

(2) For a United States branch or agency of a foreign bank, the sum, if positive, of the following:

(i) net balances due to its foreign bank (including offices thereof located outside the United States) and its international banking facility after deducting an amount equal to 8 percent of the following: the United States branch's or agency's total assets less the sum of (A) cash items in process of collection; (B) unposted debits; (C) demand balances due from depository institutions organized under the laws of the United States and from other foreign banks; (D) balances due from foreign central banks; and (E) positive net balances due from its IBF, its foreign bank, and the foreign bank's United States and non-United States offices; and

(ii) assets (including participations) acquired from the United States branch or agency (other than assets required to be sold by federal or state supervisory authorities) and held by its foreign bank (including offices thereof located outside

the United States), by its parent holding company, by non-United States offices or an IBF of an affiliated Edge or agreement corporation, or by its IBFs.¹¹

(i) (1) "*Cash item in process of collection*" means—

(i) checks in the process of collection, drawn on a bank or other depository institution that are payable immediately upon presentation in the United States, including checks forwarded to a Federal Reserve Bank in process of collection and checks on hand that will be presented for payment or forwarded for collection on the following business day;

(ii) government checks drawn on the Treasury of the United States that are in the process of collection; and

(iii) such other items in the process of collection, that are payable immediately upon presentation in the United States and that are customarily cleared or collected by depository institutions as cash items, including—

(A) drafts payable through another depository institution;

(B) redeemed bonds and coupons;

(C) food coupons and certificates;

(D) postal and other money orders, and traveler's checks;

(E) amounts credited to deposit accounts in connection with automated payment arrangements where such credits are made one business day prior to the scheduled payment date to insure that funds are available on the payment date;

(F) commodity or bill of lading drafts payable immediately upon presentation in the United States;

(G) returned items and unposted debits; and

(H) broker security drafts.

(2) "*Cash item in process of collection*" does not include items handled as noncash collections and credit card sales slips and drafts.

(j) "*Net transaction accounts*" means the total amount of a depository institution's trans-

¹¹ See footnote 10.

action accounts less the deductions allowed under the provisions of section 204.3.

(k) (1) "Vault cash" means United States currency and coin owned and held by a depository institution that may, at any time, be used to satisfy depositors' claims.

(2) "Vault cash" includes United States currency and coin in transit to a Federal Reserve Bank or a correspondent depository institution for which the reporting depository institution has not yet received credit, and United States currency and coin in transit from a Federal Reserve Bank or a correspondent depository institution when the reporting depository institution's account at the Federal Reserve or correspondent bank has been charged for such shipment.

(3) Silver and gold coin and other currency and coin whose numismatic or bullion value is substantially in excess of face value is not vault cash for purposes of this part.

(l) "Pass-through account" means a balance maintained by a depository institution that is not a member bank, by a U.S. branch or agency of a foreign bank, or by an Edge or agreement corporation, (1) in an institution that maintains required reserve balances at a Federal Reserve Bank, (2) in a Federal Home Loan Bank, (3) in the National Credit Union Administration Central Liquidity Facility, or (4) in an institution that has been authorized by the Board to pass through required reserve balances if the institution, Federal Home Loan Bank, or National Credit Union Administration Central Liquidity Facility maintains the funds in the form of a balance in a Federal Reserve Bank of which it is a member or at which it maintains an account in accordance with rules and regulations of the Board.

(m) (1) "Depository institution" means—

(i) any insured bank as defined in section 3 of the Federal Deposit Insurance Act (12 USC 1813(h)) or any bank that is eligible to apply to become an insured bank under section 5 of such act (12 USC 1815);

(ii) any savings bank or mutual savings bank as defined in section 3 of the Feder-

al Deposit Insurance Act (12 USC 1813(f), (g));

(iii) any insured credit union as defined in section 101 of the Federal Credit Union Act (12 USC 1752(7)) or any credit union that is eligible to apply to become an insured credit union under section 201 of such act (12 USC 1781);

(iv) any member as defined in section 2 of the Federal Home Loan Bank Act (12 USC 1422(4)); and

(v) any insured institution as defined in section 401 of the National Housing Act (12 USC 1724(a)) or any institution which is eligible to apply to become an insured institution under section 403 of such act (12 USC 1726).

(2) "Depository institution" does not include international organizations such as the World Bank, the Inter-American Development Bank, and the Asian Development Bank.

(n) "Member bank" means a depository institution that is a member of the Federal Reserve System.

(o) "Foreign bank" means any bank or other similar institution organized under the laws of any country other than the United States or organized under the laws of Puerto Rico, Guam, American Samoa, the Virgin Islands, or other territory or possession of the United States.

(p) "De novo depository institution" means a depository institution that was not engaged in business on July 1, 1979, and is not the successor by merger or consolidation to a depository institution that was engaged in business prior to the date of merger or consolidation.

(q) "Affiliate" includes any corporation, association, or other organization—

(1) of which a depository institution, directly or indirectly, owns or controls either a majority of the voting shares or more than 50 percent of the numbers of shares voted for the election of its directors, trustees, or other persons exercising similar functions at the preceding election, or controls in any manner the election of a majority of its directors, trustees, or other persons exercising similar functions;

(2) of which control is held, directly or indirectly, through stock ownership or in any other manner, by the shareholders of a depository institution or more than 50 percent of the number of shares voted for the election of directors of such depository institution at the preceding election, or by trustees for the benefit of the shareholders of any such depository institution;

(3) of which a majority of its directors, trustees, or other persons exercising similar functions are directors of any one depository institution; or

(4) which owns or controls, directly or indirectly, either a majority of the shares of capital stock of a depository institution or more than 50 percent of the number of shares voted for the election of directors, trustees or other persons exercising similar functions of a depository institution at the preceding election, or controls in any manner the election of a majority of the directors, trustees, or other persons exercising similar functions of a depository institution, or for the benefit of whose shareholders or members all or substantially all the capital stock of a depository institution is held by trustees.

(r) “*United States*” means the states of the United States and the District of Columbia.

(s) “*United States resident*” means (1) any individual residing (at the time of the transaction) in the United States; (2) any corporation, partnership, association or other entity organized in the United States (“domestic corporation”); and (3) any branch or office located in the United States of any entity that is not organized in the United States.

(t) “*Any deposit that is payable only at an office located outside the United States*” means (1) a deposit of a United States resident¹² that is in a denomination of \$100,000 or more, and as to which the depositor is entitled, under the agreement with the institution, to de-

mand payment only outside the United States or (2) a deposit of a person who is not a United States resident¹² as to which the depositor is entitled, under the agreement with the institution, to demand payment only outside the United States.

SECTION 204.3—Computation and Maintenance

(a) *Maintenance of required reserves.* A depository institution, a U.S. branch or agency of a foreign bank, and an Edge or agreement corporation shall maintain reserves against its deposits and Eurocurrency liabilities in accordance with the procedures prescribed in this section and section 204.4 and the ratios prescribed in section 204.9. Penalties shall be assessed for deficiencies in required reserves in accordance with the provisions of section 204.7. Every depository institution, U.S. branch or agency of a foreign bank, and Edge or agreement corporation shall file reports of deposits in accordance with the instructions of the Board, based on the level of its deposits and reservable liabilities consistent with the Board’s need for data to carry out its responsibility to monitor and control monetary and credit aggregates. For purposes of this part, the obligations of a majority-owned (50 percent or more) U.S. subsidiary (except an Edge or agreement corporation) of a depository institution shall be regarded as obligations of the parent depository institution.

(1) *United States branches and agencies of foreign banks.*

(i) A foreign bank’s United States branches and agencies operating within the same state and within the same Federal Reserve District shall prepare and file a report of deposits on an aggregated basis.

(ii) United States branches and agencies of the same foreign bank shall, if possible, assign the low reserve tranche on transaction accounts (§ 204.9(a)) to only one office or to a group of offices filing a single aggregated report of deposits. If the low reserve tranche cannot be fully utilized by a single office or by a group of offices filing a single report of deposits,

¹² A deposit of a foreign branch, office, subsidiary, affiliate or other foreign establishment (“foreign affiliate”) controlled by one or more domestic corporations is not regarded as a deposit of a United States resident if the funds serve a purpose in connection with its foreign or international business or that of other foreign affiliates of the controlling domestic corporation(s).

the unused portion of the tranche may be assigned to other offices of the same foreign bank until the amount of the tranche or net transaction accounts is exhausted. The foreign bank shall determine this assignment subject to the restriction that if a portion of the tranche is assigned to an office in a particular state, any unused portion must first be assigned to other offices located within the same state and within the same Federal Reserve District, that is, to other offices included on the same aggregated report of deposits. If necessary in order to avoid underutilization of the low reserve tranche, the allocation may be changed at the beginning of a calendar month. Under other circumstances, the low reserve tranche may be reallocated at the beginning of a calendar year.

(2) *Edge and agreement corporations.*

(i) An Edge or agreement corporation's offices operating within the same state and within the same Federal Reserve District shall prepare and file a report of deposits on an aggregated basis.

(ii) An Edge or agreement corporation shall, if possible, assign the low reserve tranche on transaction accounts (§ 204.9(a)) to only one office or to a group of offices filing a single aggregated report of deposits. If the low reserve tranche cannot be fully utilized by a single office or by a group of offices filing a single report of deposits, the unused portion of the tranche may be assigned to other offices of the same institution until the amount of the tranche or net transaction accounts is exhausted. An Edge or agreement corporation shall determine this assignment subject to the restriction that if a portion of the tranche is assigned to an office in a particular state, any unused portion must first be assigned to other offices located within the same state and within the same Federal Reserve District, that is, to other offices included on the same aggregated report of deposits. If necessary in order to avoid underutilization of the low reserve tranche, the allocation may be changed at the beginning of a calendar month. Under other

circumstances, the low reserve tranche may be reallocated at the beginning of a calendar year.

(3) *Allocation of exemption from reserve requirements.* (i) In determining the reserve requirements of a depository institution, the exemption provided for in section 204.9(a) shall apply in the following order of priorities:

(A) first, to net transaction accounts that are first authorized by federal law in any state after April 1, 1980;

(B) second, to other net transaction accounts; and

(C) third, to nonpersonal time deposits (including MMDAs and other savings deposits) and Eurocurrency liabilities, starting with those with the highest reserve ratio under section 204.9(a) and then to succeeding lower reserve ratios.

(ii) A depository institution, United States branches and agencies of the same foreign bank, or an Edge or agreement corporation shall, if possible, assign the reserve requirement exemption of section 204.9(a) to only one office or to a group of offices filing a single aggregated report of deposits. If the reserve requirement exemption cannot be fully utilized by a single office or by a group of offices filing a single report of deposits, the unused portion of the exemption may be assigned to other offices of the same institution until the amount of the exemption or reservable liabilities is exhausted. A depository institution, foreign bank, or Edge or agreement corporation shall determine this assignment subject to the restriction that if a portion of the exemption is assigned to an office in a particular state, any unused portion must first be assigned to other offices located within the same state and within the same Federal Reserve District, that is, to other offices included on the same aggregated report of deposits. The exemption may be reallocated at the beginning of a calendar year, or, if necessary to avoid underutilization of the exemption, at the beginning of a calendar month. The amount of the reserve requirement exemption allocated to

an office or group of offices may not exceed the amount of the low reserve tranche allocated to such office or offices under this paragraph.

(b) *Form of reserves.* Reserves shall be held in the form of (i) vault cash, (ii) a balance maintained directly with the Federal Reserve Bank in the District in which it is located, or (iii) a pass-through account. Reserves held in the form of a pass-through account shall be considered to be a balance maintained with the Federal Reserve.

(c) *Computation of required reserves for institutions that report on a weekly basis.*

(1) Required reserves are computed on the basis of daily average balances of deposits and Eurocurrency liabilities during a 14-day period ending every second Monday (the "computation period"). Reserve requirements are computed by applying the ratios prescribed in section 204.9 to the classes of deposits and Eurocurrency liabilities of the institution. The reserve balance that is required to be maintained with the Federal Reserve shall be maintained during a 14-day period (the "maintenance period") which begins on a Thursday and ends on the second Wednesday thereafter.

(2) A reserve balance shall be maintained during a given maintenance period, based—

(i) on the daily average net transaction accounts held by the depository institution during the computation period that began immediately prior to the beginning of the maintenance period; and

(ii) on the daily average nonpersonal time deposits and daily average Eurocurrency liabilities held by the depository institution during the computation period that ended 17 days prior to the beginning of the maintenance period.

(3) In determining the reserve balance that is required to be maintained with the Federal Reserve, the daily average vault cash held during the computation period that ended 17 days prior to the beginning of the maintenance period is deducted from the amount of the institution's required reserves.

(d) *Computation of required reserves for insti-*

tutions that report on a quarterly basis. For a depository institution that is permitted to report quarterly, required reserves are computed on the basis of the depository institution's daily average deposit balances during a seven-day computation period that begins on the third Tuesday of March, June, September, and December. In determining the reserve balance that such a depository institution is required to maintain with the Federal Reserve, the daily average vault cash held during the computation period is deducted from the amount of the institution's required reserves. The reserve balance that is required to be maintained with the Federal Reserve shall be maintained during a corresponding period that begins on the fourth Thursday following the end of the institution's computation period and ends on the fourth Wednesday after the close of the institution's next computation period.

(e) *Computation of transaction accounts.* Overdrafts in demand deposit or other transaction accounts are not to be treated as negative demand deposits or negative transaction accounts and shall not be netted since overdrafts are properly reflected on an institution's books as assets. However, where a customer maintains multiple transaction accounts with a depository institution, overdrafts in one account pursuant to a bona fide cash management arrangement are permitted to be netted against balances in other related transaction accounts for reserve requirement purposes.

(f) *Deductions allowed in computing reserves.*

(1) In determining the reserve balance required under this part, the amount of cash items in process of collection and balances subject to immediate withdrawal due from other depository institutions located in the United States (including such amounts due from United States branches and agencies of foreign banks and Edge and agreement corporations) may be deducted from the amount of gross transaction accounts. The amount that may be deducted may not exceed the amount of gross transaction accounts. However, if a depository institution maintains any transaction accounts that are first authorized under federal law after April 1, 1980, it may deduct from these bal-

ances cash items in process of collection and balances subject to immediate withdrawal due from other depository institutions located in the United States only to the extent of the proportion that such newly authorized transaction accounts are of the institution's total transaction accounts. The remaining cash items in process of collection and balances subject to immediate withdrawal due from other depository institutions located in the United States shall be deducted from the institution's remaining transaction accounts.

(2) United States branches and agencies of a foreign bank may not deduct balances due from another United States branch or agency of the same foreign bank, and United States offices of an Edge or agreement corporation may not deduct balances due from another United States office of the same Edge corporation.

(3) Balances "due from other depository institutions" do not include balances due from Federal Reserve Banks, pass-through accounts, or balances (payable in dollars or otherwise) due from banking offices located outside the United States. An institution exercising fiduciary powers may not include in "balances due from other depository institutions" amounts of trust funds deposited with other banks and due to it as a trustee or other fiduciary.

(g) *Availability of cash items as reserves.* Cash items forwarded to a Federal Reserve Bank for collection and credit shall not be counted as part of the reserve balance to be carried with the Federal Reserve until the expiration of the time specified in the appropriate time schedule established under Regulation J, "Collection of Checks and Other Items and Transfers of Funds" (12 CFR 210). If a depository institution draws against items before that time, the charge will be made to its reserve account if the balance is sufficient to pay it; any resulting impairment of reserve balances will be subject to the penalties provided by law and by this part. However, the Federal Reserve Bank may, at its discretion, refuse to permit the withdrawal or other use of credit given in a reserve account for any time for which the Federal Reserve bank has not re-

ceived payment in actually and finally collected funds.

(h) *Carryover of excesses or deficiencies.* Any excess or deficiency in a required reserve balance for any maintenance period that does not exceed the greater of 2 percent of the institution's required reserves (including required clearing balances and net of the required clearing balance penalty-free band where applicable) or \$25,000, shall be carried forward to the next maintenance period. Any carryover not offset during the next period may not be carried forward to subsequent periods.

(i) *Pass-through rules.*

(1) *Procedure*

(i) A nonmember depository institution required to maintain reserve balances ("respondent") may select only one institution to pass through its required reserves. Eligible institutions through which respondent required reserve balances may be passed ("correspondents") are Federal Home Loan Banks, the National Credit Union Administration Central Liquidity Facility, and depository institutions that maintain required reserve balances at a Federal Reserve office. In addition, the Board reserves the right to permit other institutions, on a case-by-case basis, to serve as pass-through correspondents. The correspondent chosen must subsequently pass through the required reserve balances of its respondents directly to the appropriate Federal Reserve office. The correspondent placing funds with the Federal Reserve on behalf of respondents will be responsible for reserve account maintenance as described in subparagraphs (3) and (4) below.

(ii) Respondent depository institutions or pass-through correspondents may institute, terminate, or change pass-through arrangements for the maintenance of required reserve balances by providing all documentation required for the establishment of the new arrangement and/or termination of the existing arrangement to the Federal Reserve Bank in whose territory the respondent is located. The time period required for such a change to be effected shall be spec-

ified by each Reserve Bank in its operating circular.

(iii) U.S. branches and agencies of foreign banks and Edge and agreement corporations may (a) act as pass-through correspondents for any nonmember institution required to maintain reserves or (b) pass their own required reserve balances through correspondents. In accordance with the provision set forth in subparagraph (3) below, the U.S. branches and agencies of a foreign bank or offices of an Edge and agreement corporation filing a single aggregated report of deposits may designate any one of the other U.S. offices of the same institution to serve as a pass-through correspondent for all of the offices filing such a single aggregated report of deposits.

(2) Reports

(i) Every depository institution that maintains transaction accounts or nonpersonal time deposits is required to file its report of deposits (or any other required form or statement) directly with the Federal Reserve Bank of its District, regardless of the manner in which it chooses to maintain required reserve balances.

(ii) The Federal Reserve Bank receiving such reports shall notify the reporting depository institution of its reserve requirements. Where a pass-through arrangement exists, the Reserve Bank will also notify the correspondent passing respondent reserve balances through to the Federal Reserve of its respondent's required reserve balances.

(iii) The Federal Reserve will not hold a correspondent responsible for guaranteeing the accuracy of the reports of deposits submitted by its respondents to their local Federal Reserve Banks.

(3) Account maintenance

(i) A correspondent that passes through required reserve balances of respondents whose main offices are located in the same Federal Reserve territory in which the main office of the correspondent is located shall have the option of maintaining such required reserve balances in one of two ways: (a) A correspondent may

maintain such balances, along with the correspondent's own required reserve balances, in a single commingled account at the Federal Reserve Bank office in whose territory the correspondent's main office is located, or (b) A correspondent may maintain its own required reserve balance in an account with the Federal Reserve Bank office in whose territory its main office is located. The correspondent, in addition, would maintain in a separate commingled account the required reserve balances passed through for respondents whose main offices are located in the same Federal Reserve territory as that of the main office of the correspondent.

(ii) A correspondent that passes through required reserve balances of respondents whose main offices are located outside the Federal Reserve territory in which the main office of the correspondent is located shall maintain such required reserve balances in a separate commingled account at each Federal Reserve office in whose territory the main offices of such respondents are located.

(iii) A Reserve Bank may, at its discretion, require a pass-through correspondent to consolidate in a single account the reserve balances of all of its respondents whose main offices are located in any territory of that Federal Reserve District.

(4) Responsibilities of parties

(i) Each individual depository institution is responsible for maintaining its required reserve balance with the Federal Reserve Bank either directly or through a pass-through correspondent.

(ii) A pass-through correspondent shall be responsible for assuring the maintenance of the appropriate aggregate level of its respondents' required reserve balances. A Reserve Bank will compare the total reserve balance required to be maintained in each reserve account with the total actual reserve balance held in such reserve account for purposes of determining required reserve deficiencies, imposing or waiving penalties for deficiencies in required reserves, and for other reserve maintenance purposes. A penalty for a

deficiency in the aggregate level of the required reserve balance will be imposed by the Reserve Bank on the correspondent maintaining the account.

(iii) Each correspondent is required to maintain detailed records for each of its respondents in a manner that permits Reserve Banks to determine whether the respondent has provided a sufficient required reserve balance to the correspondent. A correspondent passing through a respondent's reserve balance shall maintain records and make such reports as the Federal Reserve System requires in order to insure the correspondent's compliance with its responsibilities for the maintenance of a respondent's reserve balance. Such records shall be available to the Federal Reserve Banks as required.

(iv) The Federal Reserve Bank may terminate any pass-through relationship in which the correspondent is deficient in its recordkeeping or other responsibilities.

(v) Interest paid on supplemental reserves (if such reserves are required under section 204.6 of this part) held by respondent(s) will be credited to the commingled reserve account(s) maintained by the correspondent.

(5) *Services*

(i) A depository institution maintaining its reserve balances on a pass-through basis may obtain available Federal Reserve System services directly from its local Federal Reserve office. For this purpose, the pass-through account in which a respondent's required reserve balance is maintained may be used by the respondent for the posting of entries arising from transactions involving the use of such Federal Reserve services, if the posting of these types of transactions has been authorized by the correspondent and the Federal Reserve. For example, access to the wire transfer, securities transfer, and settlement services that involve charges to the commingled reserve account at the Reserve Bank will require authorization from the correspondent and the Reserve Bank for the type of transaction that is occurring.

(ii) In addition, in obtaining Federal

Reserve services, respondents maintaining their required reserves on a pass-through basis may choose to have entries arising from the use of Federal Reserve services posted to (a) with the prior authorization of all parties concerned, the reserve account maintained by any institution at a Federal Reserve Bank, or (b) an account maintained for clearing purposes at a Federal Reserve Bank by the respondent.

(iii) Accounts at Federal Reserve Banks consisting only of respondents' reserve balances that are passed through by a correspondent to a Federal Reserve Bank may be used only for transactions of respondents. A correspondent will not be permitted to use such pass-through accounts for purposes other than serving its respondents' needs.

(iv) A correspondent may not apply for Federal Reserve credit on behalf of a respondent. Rather, a respondent should apply directly to its Federal Reserve Bank for credit. Any Federal Reserve credit obtained by a respondent may be credited, at the respondent's option and with the approval of the parties concerned, to the reserve account in which its required reserves are maintained by a correspondent, to a clearing account maintained by the respondent, or to any account to which the respondent is authorized to post entries arising from the use of in Federal Reserve services.

SECTION 204.4—Transitional Adjustments

The following transitional adjustments for computing federal reserve requirements shall apply to all member and nonmember depository institutions, except for reserves imposed under sections 204.5 and 204.6.

(a) *Nonmembers.* Except as provided below, the required reserves of a depository institution that was engaged in business on July 1, 1979, but was not a member of the Federal

Reserve System on or after that date shall be determined by reducing the amount of required reserves computed under section 204.3 in accordance with the following schedule:

<i>Reserve maintenance periods occurring between</i>	<i>Percentage that computed reserves will be reduced</i>
November 13, 1980 to September 2, 1981	87.5
September 3, 1981 to September 1, 1982	75
September 2, 1982 to August 31, 1983	62.5
September 1, 1983 to September 12, 1984	50
September 13, 1984 to September 11, 1985	37.5
September 12, 1985 to September 10, 1986	25
September 11, 1986 to September 9, 1987	12.5
September 10, 1987 forward	0

However, an institution shall not reduce the amount of required reserves on any category of deposits or accounts that are first authorized under federal law in any state after April 1, 1980.

(b) *New members.* The required reserves of a nonmember depository institution that was engaged in business but was not a member bank during the period between July 1, 1979 and September 1, 1980, inclusive, and which becomes a member of the Federal Reserve System after September 1, 1980, shall be determined under paragraph (a) as if it had remained a nonmember and adding to this amount an amount determined by multiplying the difference between its required reserves computed using the ratios specified in section 204.9(a) and its required reserves computed as if it had remained a nonmember times the percentage specified below in accordance with the following schedule:

<i>Maintenance periods occurring during successive quarters after becoming a member bank</i>	<i>Percentage applied to difference to compute amount to be added</i>
1	12.5
2	25.0
3	37.5
4	50.0
5	62.5
6	75.0
7	87.5
8 and succeeding	100.0

(c) *De novo institutions.* (1) The required reserves of any depository institution that was not engaged in business on September 1, 1980, shall be computed under section 204.3 in accordance with the following schedule:

<i>Maintenance periods occurring during successive quarters after entering into business</i>	<i>Percentage of reserve requirement to be maintained</i>
1	40
2	45
3	50
4	55
5	65
6	75
7	85
8 and succeeding	100

This paragraph shall also apply to a United States branch or agency of a foreign bank if such branch or agency is the foreign bank's first office in the United States. Additional branches or agencies of such a foreign bank shall be entitled only to the remaining phase-in available to the initial office.

(2) Notwithstanding subparagraph (1), the required reserves of any depository institution that—

(i) was not engaged in business on November 18, 1981, and

(ii) has \$50 million or more in daily average total transaction accounts, nonpersonal time deposits and Eurocurrency liabilities for any computation period after commencing business

shall be 100 percent of the required reserves computed under section 204.3 starting with the maintenance period that begins 17 days

after the computation period during which such institution has daily average total transaction accounts, nonpersonal time deposits and Eurocurrency liabilities of \$50 million or more.

(d) *Nonmember depository institutions with offices in Hawaii.* Any depository institution that, on August 1, 1978, (1) was engaged in business as a depository institution in Hawaii, and (2) was not a member of the Federal Reserve System at any time on or after such date shall not maintain reserves imposed under this part against deposits held or maintained at its offices located in Hawaii until January 2, 1986. Beginning January 2, 1986, the required reserves on deposits held or maintained at offices located in Hawaii of such a depository institution shall be determined by reducing the amount of required reserves under section 204.3 in accordance with the following schedule:

<i>Maintenance periods occurring between</i>	<i>Percentage that computed reserves will be reduced</i>
January 2 to December 31, 1986	87.5
January 1, 1987 to January 6, 1988	75
January 7, 1988 to January 4, 1989	62.5
January 5, 1989 to January 3, 1990	50
January 4, 1990 to January 2, 1991	37.5
January 3, 1991 to January 1, 1992	25
January 2, 1992 to January 6, 1993	12.5
January 7, 1993 forward	0

(e) *Mergers and consolidations.* The following rules concerning transitional adjustments apply to mergers and consolidations of depository institutions:

(1) Where all depository institutions involved in a merger or consolidation are subject to the same paragraph of the transitional adjustment rules contained in paragraphs (a) through (d) of this section during the reserve computation period immediately

preceding the merger, the surviving institution shall continue to compute its transitional adjustment of required reserves under such applicable paragraph, except that the amount of reserves which shall be maintained shall be reduced by an amount determined by multiplying the amount by which the required reserves during the computation period immediately preceding the date of the merger (computed as if the depository institutions had merged) exceed the sum of the actual required reserves of each depository institution during the same computation period, times the appropriate percentage as specified in the following schedule:

<i>Maintenance periods occurring during quarterly periods following merger</i>	<i>Percentage applied to difference to compute amount to be subtracted</i>
1	87.5
2	75.0
3	62.5
4	50.0
5	37.5
6	25.0
7	12.5
8 and succeeding	0

(2) (i) Where the depository institutions involved in a merger or consolidation are not subject to the same paragraph of the transitional adjustment rules contained in paragraphs (a) through (d) of this section and such merger or consolidation occurs—

(A) on or after July 1, 1979, between a nonmember bank and a bank that was a member bank on or after July 1, 1979, and the survivor is a nonmember bank;

(B) on or after March 31, 1980, between a member bank and a nonmember bank and the survivor is a member bank; or

(C) on or after September 1, 1980, between any other depository institutions,

the required reserves of the surviving institution shall be computed by allocating its deposits, Eurocurrency liabilities, oth-

er reservable claims, balances due from other depository institutions and cash items in process of collection to each depository institution involved in the merger transaction and applying to such amounts the transitional adjustment rule of paragraphs (a) through (d) of this section to which each such depository institution was subject during the reserve computation period immediately preceding the merger or consolidation.

(ii) The deposits of the surviving institution shall be allocated according to the ratio that daily average total required reserves of each depository institution involved in the merger were to the sum of daily average total required reserves of all institutions involved in the merger or consolidation during the reserve computation period immediately preceding the date of the merger.

(A) If the merger occurs before November 6, 1980, such ratio of daily average total required reserves shall be computed using the reserve requirement ratios in section 204.9(b).

(B) If the merger occurs on or after November 6, 1980, such ratio of daily average total required reserves shall be computed using the reserve requirement ratios in section 204.9(a) without regard to the transitional adjustments of this section.

(iii) The low reserve tranche on transaction accounts (section 204.9(a)) shall be allocated to each institution involved in the merger or consolidation using the ratio computed in paragraph (e)(2)(ii) and the reserve requirement tranches on demand deposits (section 204.9(b)) shall be allocated to member bank deposits using such ratio of daily average total required reserves.

(iv) The vault cash of the surviving depository institution also will be allocated to each institution involved in the merger or consolidation according to the ratio that daily average total required reserves of each depository institution involved in the merger was to the sum of daily average total required reserves of all institutions involved in the merger or con-

solidation during the reserve computation period immediately preceding the date of the merger.

(v) The amount of reserves which shall be maintained shall be reduced by an amount determined by multiplying the amount by which the required reserves during the computation period immediately preceding the date of the merger (computed as if the depository institutions had merged) exceed the sum of the actual required reserves of each depository institution during the same computation period, times the appropriate percentage as specified in the following schedule:

<i>Maintenance periods occurring during quarterly periods following merger</i>	<i>Percentage applied to difference to compute amount to be subtracted</i>
1	87.5
2	75.0
3	62.5
4	50.0
5	37.5
6	25.0
7	12.5
8 and succeeding	0

SECTION 204.5—Emergency Reserve Requirement

(a) *Finding by Board.* The Board may impose, after consulting with the appropriate committees of Congress, additional reserve requirements on depository institutions at any ratio on any liability upon a finding by at least five members of the Board that extraordinary circumstances require such action.

(b) *Term.* Any action taken under this section shall be valid for a period not exceeding 180 days, and may be extended for further periods of up to 180 days each by affirmative action of at least five members of the Board for each extension.

(c) *Reports to Congress.* The Board shall transmit promptly to Congress a report of any exercise of its authority under this paragraph and the reasons for the exercise of authority.

(d) *Reserve requirements.* At present, there

are no emergency reserve requirements imposed under this section.

SECTION 204.6—Supplemental Reserve Requirement

(a) *Finding by Board.* Upon the affirmative vote of at least five members of the Board and after consultation with the Board of Directors of the Federal Deposit Insurance Corporation, the Federal Home Loan Bank Board, and the National Credit Union Administration Board, the Board may impose a supplemental reserve requirement on every depository institution of not more than 4 percent of its total transaction accounts. A supplemental reserve requirement may be imposed if—

(1) the sole purpose of the requirement is to increase the amount of reserves maintained to a level essential for the conduct of monetary policy;

(2) the requirement is not imposed for the purpose of reducing the cost burdens resulting from the imposition of basic reserve requirements;

(3) such requirement is not imposed for the purpose of increasing the amount of balances needed for clearing purposes; and

(4) on the date on which supplemental reserve requirements are imposed, the total amount of basic reserve requirements is not less than the amount of reserves that would be required on transaction accounts and nonpersonal time deposits under the initial reserve ratios established by the Monetary Control Act of 1980 (Pub. L. 96-221) in effect on September 1, 1980.

(b) *Term*

(1) If a supplemental reserve requirement has been imposed for a period of one year or more, the Board shall review and determine the need for continued maintenance of supplemental reserves and shall transmit annual reports to the Congress regarding the need for continuing such requirement.

(2) Any supplemental reserve requirement shall terminate at the close of the first 90-day period after the requirement is imposed during which the average amount of supplemental reserves required are less than the amount of reserves which would be re-

quired if the ratios in effect on September 1, 1980, were applied.

(c) *Earnings participation account.* A depository institution's supplemental reserve requirement shall be maintained by the Federal Reserve Banks in an earnings participation account. Such balances shall receive earnings to be paid by the Federal Reserve Banks during each calendar quarter at a rate not to exceed the rate earned on the securities portfolio of the Federal Reserve System during the previous calendar quarter. Additional rules and regulations may be prescribed by the Board concerning the payment of earnings on earnings participation accounts by Federal Reserve Banks.

(d) *Report to Congress.* The Board shall transmit promptly to the Congress a report stating the basis for exercising its authority to require a supplemental reserve under this section.

(e) *Reserve requirements.* At present, there are no supplemental reserve requirements imposed under this section.

SECTION 204.7—Penalties

(a) *Penalties for deficiencies.*

(1) *Assessment of penalties.* Deficiencies in a depository institution's required reserve balance, after application of the 2 percent carryover provided in section 204.3(f) are subject to penalties. Federal Reserve Banks are authorized to assess penalties for deficiencies in required reserves at a rate of 2 percent per year above the lowest rate in effect for borrowings from the Federal Reserve Bank on the first day of the calendar month in which the deficiencies occurred. Penalties shall be assessed on the basis of daily average deficiencies during each maintenance period. Reserve Banks may, as an alternative to levying monetary penalties, after consideration of the circumstances involved, permit a depository institution to eliminate deficiencies in its required reserve balance by maintaining additional reserves during subsequent reserve maintenance periods.

(2) *Waivers.* (i) Reserve Banks may waive

the penalty for reserve deficiencies except when the deficiency arises out of a depository institution's gross negligence or conduct that is inconsistent with the principles and purposes of reserve requirements. Each Reserve Bank has adopted guidelines that provide for waivers of small penalties. The guidelines also provide for waiving the penalty once during a two-year period for any deficiency that does not exceed a certain percentage of the depository institution's required reserves. Decisions by Reserve Banks to waive penalties in other situations are based on an evaluation of the circumstances in each individual case and the depository institution's reserve maintenance record. If a depository institution has demonstrated a lack of due regard for the proper maintenance of required reserves, the Reserve Bank may decline to exercise the waiver privilege and assess all penalties regardless of amount or reason for the deficiency.

(ii) In individual cases, where a federal supervisory authority waives a liquidity requirement, or waives the penalty for failing to satisfy a liquidity requirement, the Reserve Bank in the District where the involved depository institution is located shall waive the reserve requirement imposed under this part for such depository institution when requested by the federal supervisory authority involved.

(b) *Penalties for violations.* Violations of this part may be subject to assessment of civil money penalties by the Board under authority of section 19(1) of the Federal Reserve Act (12 USC 505) as implemented in 12 CFR 263. In addition, the Board and any other federal financial institution supervisory authority may enforce this part with respect to depository institutions subject to their jurisdiction under authority conferred by law to undertake cease-and-desist proceedings.

SECTION 204.8—International Banking Facilities

(a) *Definitions.* For purposes of this part, the following definitions apply:

(1) "International banking facility" or "IBF" means a set of asset and liability accounts segregated on the books and records of a depository institution, United States branch or agency of a foreign bank, or an Edge or agreement corporation that includes only international banking facility time deposits and international banking facility extensions of credit.

(2) "International banking facility time deposit" or "IBF time deposit" means a deposit, placement, borrowing or similar obligation represented by a promissory note, acknowledgment of advance, or similar instrument that is not issued in negotiable or bearer form, and

(i) (A) that must remain on deposit at the IBF at least overnight; and

(B) that is issued to—

(1) any office located outside the United States of another depository institution organized under the laws of the United States or of an Edge or agreement corporation;

(2) any office located outside the United States of a foreign bank;

(3) a United States office or a non-United States office of the entity establishing the IBF;

(4) another IBF; or

(5) a foreign national government, or an agency or instrumentality thereof,¹³ engaged principally in activities which are ordinarily performed in the United States by governmental entities; an international entity of which the United States is a member; or any other foreign international or supranational entity specifically designated by the Board;¹⁴ or

(ii) (A) that is payable—

(1) on a specified date not less than two business days after the date of deposit;

(2) upon expiration of a specified period of time not less than two

¹³ Other than states, provinces, municipalities, or other regional or local governmental units or agencies or instrumentalities thereof.

¹⁴ The designated entities are specified in 12 CFR 204.125 (page 26).

business days after the date of deposit; or

(3) upon written notice that actual-ly is required to be given by the depositor not less than two business days prior to the date of withdrawal;

(B) that represents funds deposited to the credit of a non-United States resident or a foreign branch, office, subsidiary, affiliate, or other foreign establishment ("foreign affiliate") controlled by one or more domestic corporations provided that such funds are used only to support the operations outside the United States of the depositor or of its affiliates located outside the United States; and

(C) that is maintained under an agreement or arrangement under which no deposit or withdrawal of less than \$100,000 is permitted, except that a withdrawal of less than \$100,000 is permitted if such withdrawal closes an account.

(3) "*International banking facility extension of credit*" or "*IBF loan*" means any transaction where an IBF supplies funds by making a loan, or placing funds in a deposit account. Such transactions may be represented by a promissory note, security, acknowledgment of advance, due bill, repurchase agreement, or any other form of credit transaction. Such credit may be extended only to—

(i) any office located outside the United States of another depository institution organized under the laws of the United States or of an Edge or agreement corporation;

(ii) any office located outside the United States of a foreign bank;

(iii) a United States or a non-United States office of the institution establishing the IBF;

(iv) another IBF;

(v) a foreign national government, or an agency or instrumentality thereof,¹⁵ engaged principally in activities which are ordinarily performed in the United States by governmental entities; an international entity of which the United States is a

member; or any other foreign international or supranational entity specifically designated by the Board,¹⁶ or

(vi) a non-United States resident or a foreign branch, office, subsidiary, affiliate or other foreign establishment ("foreign affiliate") controlled by one or more domestic corporations provided that the funds are used only to finance the operations outside the United States of the borrower or of its affiliates located outside the United States.

(b) *Acknowledgment of use of IBF deposits and extensions of credit.* An IBF shall provide written notice to each of its customers (other than those specified in section 204.8(a)(2)(i)(B) and section 204.8(a)(3)(i) through (v)) at the time a deposit relationship or a credit relationship is first established that it is the policy of the Board of Governors of the Federal Reserve System that deposits received by international banking facilities may be used only to support the depositor's operations outside the United States as specified in section 204.8(a)(2)(ii)(B) and that extensions of credit by IBFs may be used only to finance operations outside of the United States as specified in section 204.8(a)(3)(vi). In the case of loans to or deposits from foreign affiliates of U. S. residents, receipt of such notice must be acknowledged in writing whenever a deposit or credit relationship is first established with the IBF.

(c) *Exemption from reserve requirements.* An institution that is subject to the reserve requirements of this part is not required to maintain reserves against its IBF time deposits or IBF loans. Deposit-taking activities of IBFs are limited to accepting only IBF time deposits and lending activities of IBFs are restricted to making only IBF loans.

(d) *Establishment of an international banking facility.* A depository institution, an Edge or agreement corporation or a United States branch or agency of a foreign bank may establish an IBF in any location where it is legally authorized to engage in IBF business. However, only one IBF may be established for each reporting entity that is required to submit a

¹⁵ See footnote 13.

¹⁶ See footnote 14.

Report of Transaction Accounts, Other Deposits and Vault Cash (Form FR 2900).

(e) *Notification to Federal Reserve.* At least 14 days prior to the first reserve computation period that an institution intends to establish an IBF it shall notify the Federal Reserve Bank of the District in which it is located of its intent. Such notification shall include a statement of intention by the institution that it will comply with the rules of this part concerning IBFs, including restrictions on sources and uses of funds, and recordkeeping and accounting requirements. Failure to comply with the requirements of this part shall subject the institution to reserve requirements under this part or result in the revocation of the institution's ability to operate an IBF.

(f) *Recordkeeping requirements.* A depository institution shall segregate on its books and records the asset and liability accounts of its IBF and submit reports concerning the operations of its IBF as required by the Board.

SECTION 204.9—Supplement: 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:

<i>Category</i>	<i>Reserve requirement</i>
NET TRANSACTION ACCOUNTS*	
\$0 to \$40.5 million	3% of amount
Over \$40.5 million	\$1,215,000 plus 12% of amount over \$40.5 million
NONPERSONAL TIME DEPOSITS	
By original maturity (or notice period):	
less than 1½ years	3%
1½ years or more	0%
EUROCURRENCY LIABILITIES	3%

* 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), nonpersonal time deposits, or Eurocurrency liabilities or any combination thereof not in excess of \$3.2 million determined in accordance with section 204.3(a)(3) of this part.

(b) *Reserve ratios in effect during last computation period prior to September 1, 1980.*

<i>Category</i>	<i>Reserve requirement</i>
NET DEMAND DEPOSITS	
Deposit tranche:	
\$0-\$2 million	7%
over \$2 million-\$10 million	\$140,000 + 9½% of amount over \$2 million
over \$10 million-\$100 million	\$900,000 + 11¾% of amount over \$10 million
over \$100 million-\$400 million	\$11,475,000 + 12¾% of amount over \$100 million
over \$400 million	\$49,725,000 + 16¼% of amount over \$400 million
SAVINGS DEPOSITS	3%
TIME DEPOSITS (subject to 3% minimum specified by law)	
By initial maturity:	
less than 180 days	
\$0-5 million	3%
over \$5 million	6%
180 days to four years	2½%
four years or more	1%
Accounts authorized pursuant to section 303 of Pub. L. 96-221 offered by member banks located in states outside Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Rhode Island and Vermont	
	12%
Club accounts	3%

For purposes of computing the reserves under this part, that would have been required using the reserve ratios that were in effect on August 31, 1980, the reserve ratio on time deposits of a member bank shall be the average time deposit ratio of the member bank during the 14-day period ending August 6, 1980, except that the reserve ratio on time deposits of a nonmember bank that was a member bank on or after July 1, 1979, but which became a nonmember bank before March 31, 1980, may be the average time deposit ratio of the nonmember during the 14-day period ending August 27, 1980.

SECTION 204.125—Foreign, International, and Supranational Entities Whose Deposits Are Exempt from Reserves

The entities referred to in section 204.2(c) (1)(iv)(E) are:

Europe

Bank for International Settlements
 European Atomic Energy Community
 European Coal and Steel Community
 The European Communities
 European Development Fund
 European Economic Community
 European Free Trade Association
 European Fund
 European Investment Bank

Latin America

Andean Development Corporation
 Andean Subregional Group
 Caribbean Development Bank
 Caribbean Free Trade Association
 Caribbean Regional Development Agency
 Central American Bank for Economic Integration
 The Central American Institute for Industrial Research and Technology
 Central American Monetary Stabilization Fund
 East Caribbean Common Market

Latin American Free Trade Association
 Organization for Central American States
 Permanent Secretariat of the Central American General Treaty of Economic Integration
 River Plate Basin Commission

Africa

African Development Bank
 Banque Centrale des Etats de l'Afrique Equatoriale et du Cameroun
 Banque Centrale des Etats d'Afrique del'Ouest
 Conseil de l'Entente
 East African Community
 Organisation Commune Africaine et Malagache
 Organization of African Unity
 Union des Etats de l'Afrique Centrale
 Union Douaniere et Economique de l'Afrique Centrale
 Union Douaniere des Etats de l'Afrique de l'Ouest

Asia

Asia and Pacific Council
 Association of Southeast Asian Nations
 Bank of Taiwan
 Korea Exchange Bank

Middle East

Central Treaty Organization
 Regional Cooperation for Development

Statutory Provisions

FEDERAL RESERVE ACT

SECTION 19—Bank Reserves

(a) The Board is authorized for the purposes of this section to define the terms used in this section, to determine what shall be deemed a payment of interest, to determine what types of obligations, whether issued directly by a member bank or indirectly by an affiliate of a member bank or by other means, shall be deemed a deposit, and to prescribe such regulations as it may deem necessary to effectuate the purposes of this section and to prevent evasions thereof.

(b) *Reserve requirements.*

(1) *Definitions.* The following definitions and rules apply to this subsection, subsection (c), section 11A, the first paragraph of section 13, and the second, thirteenth, and fourteenth paragraphs of section 16:

(A) The term 'depository institution' means—

(i) any insured bank as defined in section 3 of the Federal Deposit Insurance Act or any bank which is eligible to make application to become an insured bank under section 5 of such Act;

(ii) any mutual savings bank as defined in section 3 of the Federal Deposit Insurance Act or any bank which is eligible to make application to become an insured bank under section 5 of such Act;

(iii) any savings bank as defined in section 3 of the Federal Deposit Insurance Act or any bank which is eligible to make application to become an insured bank under section 5 of such Act;

(iv) any insured credit union as defined in section 101 of the Federal Credit Union Act or any credit union which is eligible to make application to become an insured credit union pursuant to section 201 of such Act;

(v) any member as defined in section 2 of the Federal Home Loan Bank Act;

(vi) any insured institution as defined in section 401 of the National Housing Act or any institution which is eligible to make application to become an insured institution under section 403 of such Act; and

(vii) for the purpose of section 13 and the fourteenth paragraph of section 16, any association or entity which is wholly owned by or which consists only of institutions referred to in clauses (i) through (vi).

(B) The term 'bank' means any insured or noninsured bank, as defined in section 3 of the Federal Deposit Insurance Act, other than a mutual savings bank or a savings bank as defined in such section.

(C) The term 'transaction account' means a deposit or account on which the depositor or account holder is permitted to make withdrawals by negotiable or transferable instrument, payment orders of withdrawal, telephone transfers, or other similar items for the purpose of making payments or transfers to third persons or others. Such term includes demand deposits, negotiable order of withdrawal accounts, savings deposits subject to automatic transfers, and share draft accounts.

(D) The term 'nonpersonal time deposits' means a transferable time deposit or account or a time deposit or account representing funds deposited to the credit of, or in which any beneficial interest is held by, a depositor who is not a natural person.

(E) In order to prevent evasions of the reserve requirements imposed by this subsection, after consultation with the Board of Directors of the Federal Deposit Insurance Corporation, the Federal Home Loan Bank Board, and the National Credit Union Administration Board, the Board of Governors of the

Federal Reserve System is authorized to determine, by regulation or order, that an account or deposit is a transaction account if such account or deposit may be used to provide funds directly or indirectly for the purpose of making payments or transfers to third persons or others.

(2) *Reserve requirements.* (A) Each depository institution shall maintain reserves against its transaction accounts as the Board may prescribe by regulation solely for the purpose of implementing monetary policy—

(i) in the ratio of 3 per centum for that portion of its total transaction accounts of \$25,000,000 or less, subject to subparagraph (C); and

(ii) in the ratio of 12 per centum, or in such other ratio as the Board may prescribe not greater than 14 per centum and not less than 8 per centum, for that portion of its total transaction accounts in excess of \$25,000,000, subject to subparagraph (C).

(B) Each depository institution shall maintain reserves against its nonpersonal time deposits in the ratio of 3 per centum, or in such other ratio not greater than 9 per centum and not less than zero per centum as the Board may prescribe by regulation solely for the purpose of implementing monetary policy.

(C) Beginning in 1981, not later than December 31 of each year the Board shall issue a regulation increasing for the next succeeding calendar year the dollar amount which is contained in subparagraph (A) or which was last determined pursuant to this subparagraph for the purpose of such subparagraph, by an amount obtained by multiplying such dollar amount by 80 per centum of the percentage increase in the total transaction accounts of all depository institutions. The increase in such transaction accounts shall be determined by subtracting the amount of such accounts on June 30 of the preceding calendar year from the amount of such accounts on June 30 of the calendar year involved. In the case of any such 12-month period in which there has been a decrease in the total

transaction accounts of all depository institutions, the Board shall issue such a regulation decreasing for the next succeeding calendar year such dollar amount by an amount obtained by multiplying such dollar amount by 80 per centum of the percentage decrease in the total transaction accounts of all depository institutions. The decrease in such transaction accounts shall be determined by subtracting the amount of such accounts on June 30 of the calendar year involved from the amount of such accounts on June 30 of the previous calendar year.

(D) Any reserve requirement imposed under this subsection shall be uniformly applied to all transaction accounts at all depository institutions. Reserve requirements imposed under this subsection shall be uniformly applied to nonpersonal time deposits at all depository institutions, except that such requirements may vary by the maturity of such deposits.

(3) *Waiver of ratio limits in extraordinary circumstances.* Upon a finding by at least 5 members of the Board that extraordinary circumstances require such action, the Board, after consultation with the appropriate committees of the Congress, may impose, with respect to any liability of depository institutions, reserve requirements outside the limitations as to ratios and as to types of liabilities otherwise prescribed by paragraph (2) for a period not exceeding 180 days, and for further periods not exceeding 180 days each by affirmative action by at least 5 members of the Board in each instance. The Board shall promptly transmit to the Congress a report of any exercise of its authority under this paragraph and the reasons for such exercise of authority.

(4) *Supplemental reserves.* (A) The Board may, upon the affirmative vote of not less than 5 members, impose a supplemental reserve requirement on every depository institution of not more than 4 per centum of its total transaction accounts. Such supplemental reserve requirement may be imposed only if—

(i) the sole purpose of such requirement is to increase the amount of re-

serves maintained to a level essential for the conduct of monetary policy;

(ii) such requirement is not imposed for the purpose of reducing the cost burdens resulting from the imposition of the reserve requirements pursuant to paragraph (2);

(iii) such requirement is not imposed for the purpose of increasing the amount of balances needed for clearing purposes; and

(iv) on the date on which the supplemental reserve requirement is imposed, except as provided in paragraph (11), the total amount of reserves required pursuant to paragraph (2) is not less than the amount of reserves that would be required if the initial ratios specified in paragraph (2) were in effect.

(B) The Board may require the supplemental reserve authorized under subparagraph (A) only after consultation with the Board of Directors of the Federal Deposit Insurance Corporation, the Federal Home Loan Bank Board, and the National Credit Union Administration Board. The Board shall promptly transmit to the Congress a report with respect to any exercise of its authority to require supplemental reserves under subparagraph (A) and such report shall state the basis for the determination to exercise such authority.

(C) The supplemental reserve authorized under subparagraph (A) shall be maintained by the Federal Reserve banks in an Earnings Participation Account. Except as provided in subsection (c)(1)(A)(ii), such Earnings Participation Account shall receive earnings to be paid by the Federal Reserve banks during each calendar quarter at a rate not more than the rate earned on the securities portfolio of the Federal Reserve System during the previous calendar quarter. The Board may prescribe rules and regulations concerning the payment of earnings on Earnings Participation Accounts by Federal Reserve banks under this paragraph.

(D) If a supplemental reserve under subparagraph (A) has been required of

depository institutions for a period of one year or more, the Board shall review and determine the need for continued maintenance of supplemental reserves and shall transmit annual reports to the Congress regarding the need, if any, for continuing the supplemental reserve.

(E) Any supplemental reserve imposed under subparagraph (A) shall terminate at the close of the first 90-day period after such requirement is imposed during which the average amount of reserves required under paragraph (2) are less than the amount of reserves which would be required during such period if the initial ratios specified in paragraph (2) were in effect.

(5) *Reserves related to foreign obligations or assets.* Foreign branches, subsidiaries, and international banking facilities of non-member depository institutions shall maintain reserves to the same extent required by the Board of foreign branches, subsidiaries, and international banking facilities of member banks. In addition to any reserves otherwise required to be maintained pursuant to this subsection, any depository institution shall maintain reserves in such ratios as the Board may prescribe against—

(A) net balances owed by domestic offices of such depository institution in the United States to its directly related foreign offices and to foreign offices of non-related depository institutions;

(B) loans to United States residents made by overseas offices of such depository institution if such depository institution has one or more offices in the United States; and

(C) assets (including participations) held by foreign offices of a depository institution in the United States which were acquired from its domestic offices.

(6) *Exemption for certain deposits.* The requirements imposed under paragraph (2) shall not apply to deposits payable only outside the States of the United States and the District of Columbia, except that nothing in this subsection limits the authority of the Board to impose conditions and requirements on member banks under section 25 of this Act or the authority of the Board under

section 7 of the International Banking Act of 1978 (12 U.S.C. 3105).

(7) *Discount and borrowing.* Any depository institution in which transaction accounts or nonpersonal time deposits are held shall be entitled to the same discount and borrowing privileges as member banks. In the administration of discount and borrowing privileges, the Board and the Federal Reserve banks shall take into consideration the special needs of savings and other depository institutions for access to discount and borrowing facilities consistent with their long-term asset portfolios and the sensitivity of such institutions to trends in the national money markets.

(8) *Transitional adjustments.*

(A) Any depository institution required to maintain reserves under this subsection which was engaged in business on July 1, 1979, but was not a member of the Federal Reserve System on or after that date, shall maintain reserves against its deposits during the first twelve-month period following the effective date of this paragraph in amounts equal to one-eighth of those otherwise required by this subsection, during the second such twelve-month period in amounts equal to one-fourth of those otherwise required, during the third such twelve-month period in amounts equal to three-eighths of those otherwise required, during the fourth twelve-month period in amounts equal to one-half of those otherwise required, and during the fifth twelve-month period in amounts equal to five-eighths of those otherwise required, during the sixth twelve-month period in amounts equal to three-fourths of those otherwise required, and during the seventh twelve-month period in amounts equal to seven-eighths of those otherwise required. This subparagraph does not apply to any category of deposits or accounts which are first authorized pursuant to Federal law in any State after April 1, 1980.

(B) With respect to any bank which was a member of the Federal Reserve System during the entire period beginning on July 1, 1979, and ending on the effective date of the Monetary Control Act of

1980, the amount of required reserves imposed pursuant to this subsection on and after the effective date of such Act that exceeds the amount of reserves which would have been required of such bank if the reserve ratios in effect during the reserve computation period immediately preceding such effective date were applied may, at the discretion of the Board and in accordance with such rules and regulations as it may adopt, be reduced by 75 per centum during the first year which begins after such effective date, 50 per centum during the second year, and 25 per centum during the third year.

(C)(i) With respect to any bank which is a member of the Federal Reserve System on the effective date of the Monetary Control Act of 1980, the amount of reserves which would have been required of such bank if the reserve ratios in effect during the reserve computation period immediately preceding such effective date were applied that exceeds the amount of required reserves imposed pursuant to this subsection shall, in accordance with such rules and regulations as the Board may adopt, be reduced by 25 per centum during the first year which begins after such effective date, 50 per centum during the second year, and 75 per centum during the third year.

(ii) If a bank becomes a member bank during the four-year period beginning on the effective date of the Monetary Control Act of 1980, and if the amount of reserves which would have been required of such bank, determined as if the reserve ratios in effect during the reserve computation period immediately preceding such effective date were applied, and as if such bank had been a member during such period, exceeds the amount of reserves required pursuant to this subsection, the amount of reserves required to be maintained by such bank beginning on the date on which such bank becomes a member of the Federal Reserve System shall be the amount of reserves

which would have been required of such bank if it had been a member on the day before such effective date, except that the amount of such excess shall, in accordance with such rules and regulations as the Board may adopt, be reduced by 25 per centum during the first year which begins after such effective date, 50 per centum during the second year, and 75 per centum during the third year.

(D)(i) Any bank which was a member bank on July 1, 1979, and which withdraws from membership in the Federal Reserve System during the period beginning on July 1, 1979, and ending on March 31, 1980, shall maintain reserves during the first twelve-month period beginning on the date of enactment of this clause in amounts equal to one-half of those otherwise required by this subsection, during the second such twelve-month period in amounts equal to two-thirds of those otherwise required, and during the third such twelve-month period in amounts equal to five-sixths of those otherwise required.

(ii) Any bank which withdraws from membership in the Federal Reserve System on or after the date of enactment of the Depository Institutions Deregulation and Monetary Control Act of 1980 shall maintain reserves in the same amount as member banks are required to maintain under this subsection, pursuant to subparagraphs (B) and (C)(i).

(E) This subparagraph applies to any depository institution that, on August 1, 1978, (i) was engaged in business as a depository institution in a State outside the continental limits of the United States, and (ii) was not a member of the Federal Reserve System at any time on or after such date. Such a depository institution shall not be required to maintain reserves against its deposits held or maintained at its offices located in a State outside the continental limits of the United States until the first day of the sixth calendar year which begins after the ef-

fective date of the Monetary Control Act of 1980. Such a depository institution shall maintain reserves against its deposits during the sixth calendar year which begins after such effective date in an amount equal to one-eighth of that otherwise required by paragraph (2), during the seventh such year in an amount equal to one-fourth of that otherwise required, during the eighth such year in an amount equal to three-eighths of that otherwise required, during the ninth such year in an amount equal to one-half of that otherwise required, during the tenth such year in an amount equal to five-eighths of that otherwise required, during the eleventh such year in an amount equal to three-fourths of that otherwise required, and during the twelfth such year in an amount equal to seven-eighths of that otherwise required.

(9) *Exemption.* This subsection shall not apply with respect to any financial institution which—

(A) is organized solely to do business with other financial institutions;

(B) is owned primarily by the financial institutions with which it does business; and

(C) does not do business with the general public.

(10) *Waivers.* In individual cases, where a Federal supervisory authority waives a liquidity requirement, or waives the penalty for failing to satisfy a liquidity requirement, the Board shall waive the reserve requirement, or waive the penalty for failing to satisfy a reserve requirement, imposed pursuant to this subsection for the depository institution involved when requested by the Federal supervisory authority involved.

(11) *Additional exemptions.* (A)(i) Notwithstanding the reserve requirement ratios established under paragraphs (2) and (5) of this subsection, a reserve ratio of zero per centum shall apply to any combination of reservable liabilities, which do not exceed \$2,000,000 (as adjusted under subparagraph (B)), of each depository institution.

(ii) Each depository institution may

designate, in accordance with such rules and regulations as the Board shall prescribe, the types and amounts of reservable liabilities to which the reserve ratio of zero per centum shall apply, except that transaction accounts which are designated to be subject to a reserve ratio of zero per centum shall be accounts which would otherwise be subject to a reserve ratio of 3 per centum under paragraph (2).

(iii) The Board shall minimize the reporting necessary to determine whether depository institutions have total reservable liabilities of less than \$2,000,000 (as adjusted under subparagraph (B)). Consistent with the Board's responsibility to monitor and control monetary and credit aggregates, depository institutions which have reserve requirements under this subsection equal to zero per centum shall be subject to less overall reporting requirements than depository institutions which have a reserve requirement under this subsection that exceeds zero per centum.

(B) (i) Beginning in 1982, not later than December 31 of each year, the Board shall issue a regulation increasing for the next succeeding calendar year the dollar amount specified in subparagraph (A), as previously adjusted under this subparagraph, by an amount obtained by multiplying such dollar amount by 80 per centum of the percentage increase in the total reservable liabilities of all depository institutions.

(ii) The increase in total reservable liabilities shall be determined by subtracting the amount of total reservable liabilities on June 30 of the preceding calendar year from the amount of total reservable liabilities on June 30 of the calendar year involved. In the case of any such twelve-month period in which there has been a decrease in the total reservable liabilities of all depository institutions, no adjustment shall be made. A decrease in total reservable liabilities shall be determined by sub-

tracting the amount of total reservable liabilities on June 30 of the calendar year involved from the amount of total reservable liabilities on June 30 of the previous calendar year.

(c)(1) Reserves held by a depository institution to meet the requirements imposed pursuant to subsection (b) shall, subject to such rules and regulations as the Board shall prescribe, be in the form of—

(A) balances maintained for such purposes by such depository institution in the Federal Reserve bank of which it is a member or at which it maintains an account, except that (i) the Board may, by regulation or order, permit depository institutions to maintain all or a portion of their required reserves in the form of vault cash, except that any portion so permitted shall be identical for all depository institutions, and (ii) vault cash may be used to satisfy any supplemental reserve requirement imposed pursuant to subsection (b)(4), except that all such vault cash shall be excluded from any computation of earnings pursuant to subsection (b)(4)(C); and

(B) balances maintained by a depository institution which is not a member bank in a depository institution which maintains required reserve balances at a Federal Reserve bank, in a Federal Home Loan Bank, or in the National Credit Union Administration Central Liquidity Facility, if such depository institution, Federal Home Loan Bank, or National Credit Union Administration Central Liquidity Facility maintains such funds in the form of balances in a Federal Reserve bank of which it is a member or at which it maintains an account. Balances received by a depository institution from a second depository institution and used to satisfy the reserve requirement imposed on such second depository institution by this section shall not be subject to the reserve requirements of this section imposed on such first depository institution, and shall not be subject to assessments or reserves imposed on such first depository institution pursuant to section 7 of the

Federal Deposit Insurance Act (12 U.S.C. 1817), section 404 of the National Housing Act (12 U.S.C. 1727), or section 202 of the Federal Credit Union Act (12 U.S.C. 1782).

(2) The balances maintained to meet the reserve requirements of subsection (b) by a depository institution in a Federal Reserve bank or passed through a Federal Home Loan Bank or the National Credit Union Administration Central Liquidity Facility or another depository institution to a Federal Reserve bank may be used to satisfy liquidity requirements which may be imposed under other provisions of Federal or State law.

[12 USC 461. As amended by acts of June 21, 1917 (40 Stat. 239); Aug. 23, 1935 (49 Stat. 714); Sept. 21, 1966 (80 Stat. 823); Dec. 23, 1969 (83 Stat. 374, 375); Oct. 29, 1974 (88 Stat. 1557); March 31, 1980 (94 Stat. 133, 138); Aug. 13, 1981 (95 Stat. 433); and Oct. 15, 1982 (96 Stat. 1520, 1521, 1522, 1523, 1540).]

* * * * *

(f) The required balance carried by a member bank with a Federal Reserve bank may, under the regulations and subject to such penalties as may be prescribed by the Board of Governors of the Federal Reserve System, be checked against and withdrawn by such member bank for the purpose of meeting existing liabilities.

[12 USC 464. As amended by acts of Aug. 15, 1914 (38 Stat. 691); June 21, 1917 (40 Stat. 239); Aug. 23, 1935 (49 Stat. 704); and July 7, 1942 (56 Stat. 648).]

(g) In estimating the reserve balances required by this Act, member banks may deduct from the amount of their gross demand deposits the amounts of balances due from other banks (except Federal Reserve banks and foreign banks) and cash items in process of collection payable immediately upon presentation in the United States, within the meaning of these terms as defined by the Board of Governors of the Federal Reserve System.

[12 USC 465. As amended by acts of Aug. 15, 1914 (38 Stat. 691); June 12, 1917 (40 Stat. 239); and Aug. 23, 1935 (49 Stat. 714).]

SECTION 11 —Powers of the Board of Governors of the Federal Reserve System

The Board of Governors of the Federal Reserve System shall be authorized and empowered:

(a) (1) To examine at its discretion the accounts, books, and affairs of each Federal reserve bank and of each member bank and to require such statements and reports as it may deem necessary. The said board shall publish once each week a statement showing the condition of each Federal reserve bank and a consolidated statement for all Federal reserve banks. Such statements shall show in detail the assets and liabilities of the Federal reserve banks, single and combined, and shall furnish full information regarding the character of the money held as reserve and the amount, nature, and maturities of the paper and other investments owned or held by Federal reserve banks.

(2) To require any depository institution specified in this paragraph to make, at such intervals as the Board may prescribe, such reports of its liabilities and assets as the Board may determine to be necessary or desirable to enable the Board to discharge its responsibility to monitor and control monetary and credit aggregates. Such reports shall be made (A) directly to the Board in the case of member banks and in the case of other depository institutions whose reserve requirements under section 19 of this Act exceed zero, and (B) for all other reports to the Board through the (i) Federal Deposit Insurance Corporation in the case of insured State nonmember banks, savings banks, and mutual savings banks, (ii) National Credit Union Administration Board in the case of insured credit unions, (iii) Federal Home Loan Bank Board in the case of any institution insured by the Federal Savings and Loan Insurance Corporation or which is a member as defined in section 2 of the Federal Home Loan Bank Act, and (iv) such State officer or agency as the Board may designate in the case of any other type of bank, savings and loan association, or credit union. The Board shall endeavor to avoid the imposition of unnecessary bur-

dens on reporting institutions and the duplication of other reporting requirements. Except as otherwise required by law, any data provided to any department, agency, or instrumentality of the United States pursuant to other reporting requirements shall be made available to the Board. The Board may classify depository institutions for the purposes of this paragraph and may impose different requirements on each such class.

* * * * *

(c) To suspend for a period not exceeding thirty days, and from time to time to renew such suspensions for periods not exceeding fifteen days, any reserve requirements specified in this Act.

* * * * *

(e) To add to the number of cities classified as reserve cities under existing law in which national banking associations are subject to the reserve requirements set forth in section [nineteen] of this Act; or to reclassify existing reserve cities or to terminate their designation as such.

[12 USC 248 (a), (c), and (e). As amended by acts of June 12, 1945 (59 Stat. 237); July 28, 1959 (73 Stat. 264); March 18, 1968 (82 Stat. 50) and March 31, 1980 (94 Stat. 132).]

SECTION 25 — Foreign Branches

Any national banking association possessing a capital and surplus of \$1,000,000 or more may file application with the Board of Governors of the Federal Reserve System for permission to exercise, upon such conditions and under such regulations as may be prescribed by the said board, the following powers:

First. To establish branches in foreign countries or dependencies or insular possessions of the United States for the furtherance of the foreign commerce of the United States, and to act if required to do so as fiscal agents of the United States.

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[12 USC 601. As amended by act of Sept. 7, 1916 (39 Stat. 755).]

SECTION 25(a)—Banking Corporations Authorized to Do Foreign Banking Business

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Each corporation so organized shall have power, under such rules and regulations as the Board of Governors of the Federal Reserve System may prescribe:

(a) To purchase, sell, discount, and negotiate, with or without its indorsement or guaranty, notes, drafts, checks, bills of exchange, acceptances, including bankers' acceptances, cable transfers, and other evidences of indebtedness; to purchase and sell with or without its indorsement or guaranty, securities, including the obligations of the United States or of any State thereof but not including shares of stock in any corporation except as herein provided; to accept bills or drafts drawn upon it subject to such limitations and restrictions as the Board of Governors of the Federal Reserve System may impose; to issue letters of credit; to purchase and sell coin, bullion, and exchange; to borrow and to lend money; to issue debentures, bonds, and promissory notes under such general conditions as to security and such limitations as the Board of Governors of the Federal Reserve System may prescribe; to receive deposits outside of the United States and to receive only such deposits within the United States as may be incidental to or for the purpose of carrying out transactions in foreign countries or dependencies or insular possessions of the United States; and generally to exercise such powers as are incidental to the powers conferred by this Act or as may be usual, in the determination of the Board of Governors of the Federal Reserve System, in connection with the transaction of the business of banking or other financial operations in the countries, colonies, dependencies, or possessions in which it shall transact business and not inconsistent with the powers specifically granted herein. Nothing contained in this section shall be construed to prohibit the Board of Governors of the Federal Reserve System, under its power to prescribe rules and regulations, from limiting the aggregate amount of liabilities of any or all classes incurred by the corporation and outstanding

at any one time. Whenever a corporation organized under this section receives deposits in the United States authorized by this section it shall carry reserves in such amounts as the Board of Governors of the Federal Reserve System may prescribe for member banks of the Federal Reserve System.

* * * * *

[12 USC 615. As amended by acts of Aug. 23, 1935 (49 Stat. 704) and Sept. 17, 1978 (92 Stat. 609).]

INTERNATIONAL BANKING ACT

SECTION 7—Authority of Federal Reserve System

(a)(1)(A) Except as provided in paragraph (2) of this subsection, subsections (a), (b), (c), (d), (f), (g), (i), (j), (k), and the second sentence of subsection (e) of section 19 of the Federal Reserve Act shall apply to every Federal branch and Federal agency of a foreign bank in the same manner and to the same extent as if the Federal branch or Federal agency were a member bank as that term is defined in section 1 of the Federal Reserve Act; but the Board either by general or specific regulation or ruling may waive the minimum and maximum reserve ratios prescribed under section 19 of the Federal Reserve Act and may prescribe any ratio, not more than 22 per centum, for any obligation of any such Federal

branch or Federal agency that the Board may deem reasonable and appropriate, taking into consideration the character of business conducted by such institutions and the need to maintain vigorous and fair competition between and among such institutions and member banks. The Board may impose reserve requirements on Federal branches and Federal agencies in such graduated manner as it deems reasonable and appropriate.

(B) After consultation and in cooperation with the State bank supervisory authorities, the Board may make applicable to any State branch or State agency any requirement made applicable to, or which the Board has authority to impose upon, any Federal branch or agency under subparagraph (A) of this paragraph.

(2) A branch or agency shall be subject to this subsection only if (A) its parent foreign bank has total worldwide consolidated bank assets in excess of \$1,000,000,000; (B) its parent foreign bank is controlled by a foreign company which owns or controls foreign banks that in the aggregate have total worldwide consolidated bank assets in excess of \$1,000,000,000; or (C) its parent foreign bank is controlled by a group of foreign companies that own or control foreign banks that in the aggregate have total worldwide consolidated bank assets in excess of \$1,000,000,000.

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[12 USC 3105.]

