FEDERAL RESERVE BANK
OF DALLAS

ROBERT D. McTEER, JR.
PRESIDENT
AND CHIEF EXECUTIVE OFFICER

DALLAS, TEXAS 75222

March 16, 1992

Notice 92-23

TO: The Chief Executive Officer of each member bank and others concerned in the Eleventh Federal Reserve District

SUBJECT

Final Amendment to Regulation D and Request for Comments on Proposed Amendments to Regulation D (Reserve Requirements of Depository Institutions)

DETAILS

The Federal Reserve Board has adopted a final amendment to Regulation D which reduces the required reserves on net transaction accounts from 12 percent to 10 percent. The effective date of the final amendment is April 2, 1992.

In addition, the Board has issued for public comment two proposed amendments to Regulation D which would facilitate the computation and maintenance of reserves. The Board proposes to shorten by two weeks the lag in counting vault cash toward required reserves in order to reduce the decline in required reserve balances early in the year. The Board's second proposal would double the carryover allowance for reserve balances to the larger of $50,000.00 or 4 percent of required reserves plus required clearing balances. This would provide institutions with more flexibility in managing reserves from one maintenance period to another.

The Board must receive comments by April 6, 1992. Comments should be addressed to William W. Wiles, Secretary, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue, N.W., Washington, D.C. 20551. All comments should refer to Docket No. R-0750.

ATTACHMENT

Copies of the Board's notices as they appear on pages 8059-60 and pages 8096-98, Vol. 57, No. 45, of the Federal Register dated March 6, 1992, is attached.

MORE INFORMATION

For more information, please contact this Bank's Reserve Maintenance Division at (214) 651-6407. Depository institutions in the Houston territory should contact Reserve Maintenance in the Houston Office at (713) 652-1538.

For additional copies of this Bank's notice, please contact the Public Affairs Department at (214) 651-6289.

Sincerely yours,

Robert D. McTeer, Jr.

Rules and Regulations

Federal Register
Vol. 57, No. 45
Friday, March 6, 1992

FEDERAL RESERVE SYSTEM

12 CFR Part 204

[Docket No. R-0749]

Regulation D—Reserve Requirement of Depository Institutions

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Final rule.

SUMMARY: The Board is amending its Regulation D to reduce the reserves required on net transaction account balances over $42.2 million from the current level of 12 percent to 10 percent, based on a determination that the current level of reserves required on these liabilities is in excess of the level necessary for the conduct of monetary policy, and that a reduction in the level of required reserves will provide an impetus for bank lending and overall economic activity by freeing funds now held as reserves and facilitating depository institutions' access to the capital markets.

EFFECTIVE DATE: April 2, 1992. For depository institutions that report deposits weekly, this reduction will become operative for the reserve maintenance period beginning April 2, 1992. For depository institutions reporting quarterly, the reduction will be operative for the reserve maintenance period starting April 16, 1992.

FOR FURTHER INFORMATION CONTACT: Patrick McDivitt, Attorney (202/452-3818), or Lawranne Stewart, Attorney (202/452-3513), Legal Division; or Joshua Feinman, Economist (202/452-2841), Division of Monetary Affairs. For the hearing impaired *only*, Telecommunications Device for the Deaf ("TDD"), Dorothea Thompson (202/452-3544).

SUPPLEMENTARY INFORMATION: Section 19(b)(2) of the Federal Reserve Act, as amended by title I of the Monetary Control Act of 1980 (Pub. L. 96-221 (March 31, 1980)), provides:

(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 [$42,200,000 or less]; [1] 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 [$42,200,000].

Currently, reserves on transaction accounts balances over $42.2 million are set at 12 percent under Regulation D. 12 CFR 204.9(a)(1).

The Board is exercising its authority under section 19 to reduce the reserve required against net transaction balances in excess of $42.2 million from 12 percent to 10 percent. It is taking this action based on a determination that the current level of reserves required on these liabilities is in excess of the level necessary for the conduct of monetary policy, and that a reduction in the level of required reserves will provide an impetus for bank lending and overall economic activity by freeing funds now held as reserves and facilitating depository institutions' access to the capital markets.

The last reductions to reserve requirements were made in December 1990, at which time reserves for nonpersonal time deposits and Eurocurrency liabilities were reduced from 3 percent to zero percent. These reductions, which were phased in over two reserve maintenance periods in December and January, resulted in a brief period of increased volatility in the federal funds rate and unpredictable demand for excess reserves. Depository institutions generally experience seasonal lows in required reserve balances at the beginning of the year, and the effect of the reductions was to decrease the reserve balances required at this time of year to levels below those needed for clearing purposes. As a result, banks had difficulty adjusting to the lower reserve requirements.

Although the current reduction in reserve requirements for transaction accounts is not expected to have similar effects, the reduction in transaction account reserves will not be effective until April in order to provide depository institutions with adequate time to adjust reserve management strategies.

To assist the adjustment to lower required reserve balances, the Board also is proposing for comment two amendments to Regulation D that are intended to reduce the seasonal variations in operating balance requirements and to improve the ability of depository institutions to manage their reserve balances. These amendments would reduce lags in the application of vault cash to reserve requirements and would increase the percentage of excesses or deficiencies that may be carried over into the next reserve maintenance period.[2]

Notice and Public Participation

The provisions of the Administrative Procedure Act relating to notice and public participation (5 U.S.C. 553(b)) have not been followed in connection with the adoption of this amendment. In view of the current lack of credit availability, the Board finds good cause for determining, and so determines, that notice and public participation are unnecessary and contrary to the public interest. The amendment will have the affect of decreasing a regulatory burden by lowering the reserves that depository institutions are required to maintain against transaction account. Banks have adopted a more cautious approach to lending, born in part out of concerns about capital, that has had a restraining effect on bank credit growth and a damping influence on aggregate economic actitivy. The announcement is expected to have immediate, beneficial effects on the ability of banks to raise capital. To the extent that an announcement of reserve requirement reductions will provide banks with easier access to capital markets, it should help to improve credit availability. Putting a proposed reduction out for notice and comment is

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[1] Under section 19(b)(2)(C), the amount below which reserves on net transaction account balances are payable at 3 percent, known as the low reserve tranche, is adjusted annually in relation to the growth in total transaction accounts at all depository institutions. The most recent adjustment was made on December 17, 1991 (56 FR 60054 (November 27, 1991)).

[2] See accompanying proposed rule published elsewhere in today's issue of the **Federal Register**.

likely to delay or dilute any beneficial effects.

Regulatory Flexibility Act

Because the Board finds that no notice of proposed rulemaking is required, a statement concerning the effects of the rule on small entities is also not required under the Regulatory Flexibility Act. 5 U.S.C. 604. The Board notes, however, that the amendment imposes no additional reporting or recordkeeping requirements. Reserve requirements for depository institutions with net transaction accounts in excess of $42.2 million will be reduced by the action, and no other small entities should be affected. The first $42.2 million of net transaction accounts are subject a reserve requirement of 3 per cent by statute, and the Board does not have the authority to reduce this requirement.

List of Subjects in 12 CFR Part 204

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

For the reasons set out in the preamble, and pursuant to the Board's authority under section 19 of the Federal Reserve Act, 12 U.S.C. 461 *et seq.*, the Board is amending 12 CFR part 204 to read as follows:

PART 204—RESERVE REQUIREMENTS OF DEPOSITORY INSTITUTIONS

1. The authority citation for part 204 continues to read as follows:

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

2. Section 204.9 is amended by revising paragraph (a)(1) to read as follows:

§ 204.9 Reserve requirement ratios.

(a)(1) *Reserve percentages.* The following reserve ratios are prescribed for all depository institutions, Edge and Agreement corporations, and United States branches and agencies of foreign banks:

Category	Reserve requirement
Net transaction accounts: [1]	
$0 to $42.2 million	3 percent of amount.
Over $42.2 million	$1,266,000 plus 10 percent of amount over $42.2 million.
Nonpersonal time deposits.	0 percent.
Eurocurrency liabilities	0 percent.

[1] Dollar amounts do not reflect the adjustment to be made in the next paragraph.

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By order of the Board of Governors of the Federal Reserve System, March 2, 1992.

William W. Wiles,

Secretary of the Board.

[FR Doc. 92-5218 Filed 3-5-92; 8:45 am]

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FEDERAL RESERVE SYSTEM

12 CFR Part 204

[Docket No. R-0750]

Regulation D - Reserve Requirements of Depository Institutions

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Notice of proposed rulemaking.

SUMMARY: The Board is publishing for comment two amendments to its

Regulation D to facilitate the computation and maintenance of reserves. The Board proposes to reduce the lag in the application of vault cash to reserve requirements in order to damp the seasonal variations in required reserve balances resulting from the current lag in application and thereby reduce the probability that reserve balances will drop seasonally to levels that would cause depository institutions difficulty in managing their reserve balances. The Board also proposes to increase the amount of excesses or deficiencies in reserve balances that may be carried over from one reserve maintenance period to the next from the greater of 2 percent or $25,000 to the greater of 4 percent or $50,000.

DATES: Comments should be received by April 6, 1992.

ADDRESSES: Comments, which should refer to Docket No. R–0750, may be mailed to the Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue NW., Washington, DC 20551, to the attention of Mr. William W. Wiles, Secretary.

Comments addressed to the attention of Mr. Wiles may be delivered to the Board's mail room between 8:45 a.m. and 5:15 p.m., and to the security control room outside of those hours. Both the mail room and the security control room are accessible from the courtyard entrance on 20th Street between Constitution Avenue and C Street NW. Comments may be inspected in room B–1122 between 9 a.m. and 5 p.m., except as provided in § 261.8 of the Board's Rules Regarding the Availability of Information, 12 CFR 261.8.

FOR FURTHER INFORMATION CONTACT: Patick J. McDivitt, Attorney (202/452–3818), or Lawranne Stewart, Attorney (202/452–3513), Legal Division; or Joshua Feinman, Economist (202/452–2841), Division of Monetary Affairs. For the hearing impaired *only*, Telecommunications Device for the Deaf ("TDD"), Dorothea Thompson (202/452–3544).

SUPPLEMENTARY INFORMATION: The Board is proposing for public comment revisions to its Regulation D, Reserve Requirements of Depository Institutions, 12 CFR part 204, concerning the computation and maintenance of reserves. The proposed changes, which concern vault cash and carryover of reserve deficiencies an excesses, are intended to improve the ability of depository institutions to manage their reserve balances.

Vault Cash

The Board proposes to amend Regulation D to reduce the lag in the application of vault cash to reserve requirements from two periods to one in order to better synchronize movements in required reserves and applied vault cash. Currently, reserve requirements for depository institutions that report weekly are assessed against transaction accounts on a contemporaneous basis,[1] but offsetting vault cash is applied to the required reserves with a two period lag. This asymmetric treatment of required reserves and applied vault cash often results in potentially disruptive movements in required balances, particularly early in the year. In the maintenance period encompassing Christmas and year-end, for example, both vault cash and required reserves tend to reach their respective seasonal peaks. Vault cash applicable for meeting the enlarged reserve requirements for this period, however, is based on the much smaller vault cash holdings from November. As a result, the required reserve balances needed to meet reserve requirements tend to peak around year-end. These balances subsequently drop precipitously, usually reaching a trough in late January and early February, when reserve requirements have typically fallen from their end-of-year crest and the enlarged vault cash holdings from year-end become available for use in meeting those requirements. This sharp drop in required balances often makes it more difficult for banks to manage their reserve accounts.

The Board believes that placing required reserves and the vault cash available for meeting those requirements in closer proximity would offset some of the volatility in required reserve balances and help temper the seasonal drop in these balances in early February without significantly impairing reserve forecasts. The Board requests comment as to whether a reduction in the lag in the application of vault cash would improve the ability of depository institutions to manage their required reserve balances or whether the proposal would have any adverse effects on their ability to predict required reserve balances. The Board also requests comment as to the costs of implementing a shift in vault cash application, and whether these costs would be considered significant in relation to the benefits of the proposed amendment to the depository institution. If depository institutions believe that the costs of implementing a shift are prohibitive so that the shift should not be implemented, the Board requests comments as to whether depository institutions will be able to manage their reserve positions effectively at the newly implemented level of reserve requirements during the seasonal lows in required reserve balances in January and February.

Carryover of Excesses or Deficiencies

The Board proposes to increase the amount of carryover to the greater of 4 percent of required reserves and clearing balances[2] or $50,000. Currently, carryover of reserve surpluses or deficiencies into the next maintenance period is permitted up to the greater of 2 percent of the sum of required reserves and required clearing balances or $25,000. In either case, the carryover is reduced by the amount of an institution's required clearing balance penalty-free band, if applicable.[3] Reductions in reserve requirements have resulted in a decline in the maximum dollar value of the carryover, reducing the ability of a depository institution to cushion a given dollar shock to its reserve position late in maintenance period. Doubling maximum carryover permitted should provide depository institutions with more flexibility in managing their reserve positions.

Additionally, the Board proposed to amend the lanaguage of the carryover provision to clarify and more accurately reflect the method used to calculate the maximum carryover permitted.

Regulatory Flexibility Act Analysis

Pursuant to section 605(b) of the Regulatory Flexibility Act (Pub. L. No. 96–354, 5 U.S.C. 601 *et seq.*), the Board certifies that the proposed amendment will not have a significant economic impact on a substantial number of small entities. The Board does not believe that the proposed amendments would impose any additional reporting or recordkeeping requirements. To the

[1] Weekly reporters generally are depository institutions with total deposits of $44.8 million or more. Required reserves for weekly reporters are assessed based on daily average balances for a period beginning on a Tuesday and ending on the second Monday thereafter. This period is known as the "computation period." Reserves against the daily average balances for the computation period must be maintained throughout the "maintenance period," which begins on the Thursday following the beginning of the computation period and ends on the second Wednesday thereafter. See 12 CFR 204.3(c).

[2] Required clearing balances are set by agreement between a depository institution and its Federal Reserve Bank, based on clearing needs of the depository and its account overdraft record. Information on clearing balance requirements may be obtained from a depository institution's local Reserve Bank.

[3] The required clearing balance penalty-free band is currently equal to the greater of $25,000 or 2 percent of the depository institution's required clearing balance.

extent changes in recordkeeping procedures may be required by the vault cash proposal, this will affect only weekly reporters, that is, depository institutions with total deposits of $44.8 million or more, and should enable these depository institutions to manage their required reserves more efficiently. Smaller institutions, which report only quarterly, will not be affected by the vault cash amendment.

List of Subjects in 12 CFR Part 204

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

For the reasons set forth in the preamble, and pursuant to the Board's authority under section 19 of the Federal Reserve Act, 12 U.S.C. 461 *et seq.*, the Board is proposing to amend 12 CFR part 204 as follows:

PART 204—RESERVE REQUIREMENTS OF DEPOSITORY INSTITUTIONS

1. The authority citation for part 204 continues to read as follows:

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

2. section 204.3 is amended by revising paragraphs (c)(3) and (h) to read as follows:

§ 204.3 Computation and maintenance.

* * * * *

(c) * * *

(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 3 days prior to the beginning of the maintenance period is deducted from the amount of the institution's required reserves.

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(h) *Carryover of excesses or deficiencies.* Any excess or deficiency in a depository institution's account that is held directly or indirectly with a Federal Reserve Bank shall be carried over and applied to that account in the next maintenance period as specified in this paragraph. The amount of any such excess or deficiency that is carried over shall not exceed the greater of:

(1) The amount obtained by multiplying .04 times the sum of the depository institution's required reserves and the depository institution's required clearing balance, if any, and then substracting from this product the depository institution's required clearing balance penalty-free bank, if any; or

(2) $50,000, minus the depository institution's required clearing balance penalty-free band, if any.

Any carryover not offset during the next period may not be carried over to subsequent periods.

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By order of the Board of Governors of the Federal Reserve System, March 2, 1992.

William W. Wiles,

Secretary of the Board.

[FR Doc. 92-5219 Filed 3-5-92; 8:45 am]

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FEDERAL RESERVE BANK OF DALLAS
STATION K
DALLAS, TEXAS 75222