



FEDERAL RESERVE BANK
OF DALLAS

HELEN E. HOLCOMB
FIRST VICE PRESIDENT AND
CHIEF OPERATING OFFICER

July 3, 1996

DALLAS, TEXAS
75265-5906

Notice 96-56

TO: The Cashier or Individual Responsible for
Managing the Reserve/Clearing Account

SUBJECT

**New Account Structure
Under Interstate Branching**

DETAILS

As you know, the Federal Reserve will be implementing a new account structure as of year-end 1997 to support the new interstate branching environment. In anticipation of that new account structure, the Federal Reserve is planning to provide training programs in early 1997. As part of the training program, the Federal Reserve will provide a series of question and answer documents on the new account structure.

ATTACHMENT

The first of this question and answer series is attached. Please let us know if you have any questions that you would like to see specifically addressed in the documents.

MORE INFORMATION

For more information, please contact Lyne Carter, (214) 922-5901, at the Dallas Office; Javier Jimenez, (915) 521-8202, at the El Paso Office; René Gonzales, (713) 652-1543, at the Houston Office; or Karen Salisbury, (210) 978-1403, at the San Antonio Office.

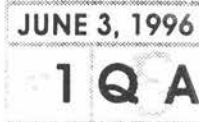
For additional copies of this Bank's notice, please contact the Public Affairs Department at (214) 922-5254.

Sincerely,

Helen E. Holcomb

For additional copies, bankers and others are encouraged to use one of the following toll-free numbers in contacting the Federal Reserve Bank of Dallas: Dallas Office (800) 333-4460; El Paso Branch *Intrastate* (800) 592-1631, *Interstate* (800) 351-1012; Houston Branch *Intrastate* (800) 392-4162, *Interstate* (800) 221-0363; San Antonio Branch *Intrastate* (800) 292-5810.

Interstate Branching: New Account Structure Questions and Answers



Introduction

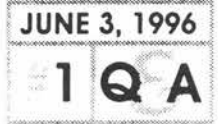
Effective January 1, 1998, the Federal Reserve will implement a flexible new approach to providing accounting services. This approach is geared to meet the needs of depository institutions for consolidated account management and flexible information as they branch interstate. It also will provide improved accounting services for those institutions that do not expect to participate in interstate branching.

The new approach facilitates account management. Under the approach, institutions will be provided with a single (master) account at a designated Reserve Bank. This account is defined to be a record of financial transactions that reflects financial rights and obligations of an account holder and the Reserve Bank with respect to each other, where opening and closing balances are determined. All credits and debits resulting from the use of Federal Reserve services will be booked to this one account at one Reserve Bank for each separately chartered institution. All overnight and daylight credit will be disbursed and repaid through this account, and the Reserve Bank holding the account will manage the credit risk posed by the use of services. Reserve administration also will be managed through this account.

From the institution's perspective, the new account structure preserves a single account management relationship with the Federal Reserve, while continuing to support access to financial services from any location. The new structure replicates the features and flexibility of a multiple account structure through the use of subaccounts, in which information on financial services can be segregated, but which do not reflect actual Reserve Bank balances. In fact, it is precisely because they do not provide balances, and therefore do not raise risk and account management concerns, that these subaccounts ultimately become more flexible than multiple accounts. Subaccounts are basically information subsets and can be organized in any way to meet varying information needs and organizational structures.

The following set of questions and answers are intended to assist depository institutions in preparing for the new account structure. For additional information, please contact your local Federal Reserve Business Development account representative.

Interstate Branching: New Account Structure Questions and Answers



I. General Issues

I-1 When will the new account structure be available? Will a training program be offered?

Answer: Effective January 1, 1998, the Federal Reserve will implement its new account structure. A series of educational materials and training seminars will be offered to depository institutions starting in early 1997.

I-2 Will the new account structure be available to all depository institutions (not just those with interstate branches)?

Answer: The new account structure is applicable to all depository institutions eligible to maintain an account with the Federal Reserve¹ with the exception of those institutions currently required to have multiple accounts pursuant to regulation (e.g., U.S. branches and agencies of foreign banks, Edge and agreement corporations, and correspondents with out-of-District respondents).

I-3 How does the new account structure relate to bank charters?

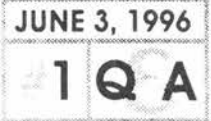
Answer: Under the new account structure, each separately chartered depository institution will be provided with a single (master) account at a designated Reserve Bank, with the exception of those institutions required to maintain multiple accounts pursuant to regulation (refer to Question I-2). Any additional accounts not required pursuant to regulation will be phased out or can be "restructured" as subaccounts. Multiple account arrangements that are not required to support merger-related transition periods (see Question III-1) or that are not required pursuant to regulation must be phased out by no later than December 31, 1998.

I-4 Can a depository institution maintain separate clearing accounts in addition to its single master account?

Answer: No. Under the new account structure, there will no longer be a distinction between "clearing accounts" and "reserve accounts." Reserve balances and clearing balances (to the extent required) will be commingled in one master account held with one Reserve Bank. As such, all "commingled" balances maintained in this one account will be used by an institution to satisfy its reserve requirement as well as any clearing balance requirement.

¹ The Depository Institutions Deregulation and Monetary Control Act of 1980 (MCA) is the principal statute governing access to Federal Reserve services and, by extension, the types of institutions eligible to hold a Federal Reserve account. Other relevant statutes/regulations are the Federal Reserve Act, Regulation D and the International Banking Act of 1978.

Interstate Branching: New Account Structure Questions and Answers



- I-5 If we are no longer allowed to maintain clearing accounts, how will earnings credits be generated to pay for the use of Federal Reserve financial services?

Answer: Depository institutions will still be permitted, and in some cases required, to maintain clearing balances in a commingled (master) account with reserve balances. If the depository institution is not bound by required reserves, it may still establish a master account for the purpose of maintaining clearing balances with a Federal Reserve Bank. The calculation and application of earnings credits will not change under the new account structure. Earnings credits will be calculated based on the level of clearing balances maintained in the master account and may continue to be used to pay for Federal Reserve financial services.

- I-6 Is there a maximum number of subaccounts a depository institution may own? Are there restrictions per Federal Reserve Office territory or per Federal Reserve District?

Answer: There is no plan to restrict the number of subaccounts that a depository institution may own. However, this issue may be revisited as experience is gained under the new account structure. Beyond a certain number of subaccounts, depository institutions may find that the difficulty in reconciling subaccount information outweighs the benefits of the additional transaction information. Industry feedback has indicated that ten or fewer subaccounts should be sufficient.

- I-7 Will the current three-tier limitation on correspondent/respondent relationships continue to apply under the new account structure?

Answer: Yes. The current limitation of supporting up to three tiers of correspondent/respondent relationships still applies under the new account structure.

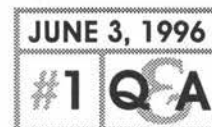
- I-8 Can a subaccount serve to segregate information on respondent activity?

Answer: Yes. Information on respondent activity may be segregated by "attaching" respondent relationships to subaccounts, as long as the respondent does not, in turn, act as correspondent for other respondents (which would result in four tiers of relationships).

- I-9 How does the new account structure apply to foreign banking entities?

Answer: U.S. branches and agencies of foreign banks and Edge and agreement corporations must continue to maintain one account per state in which they have a presence. This requirement is being reevaluated in light of the changing interstate branching environment.

Interstate Branching: New Account Structure Questions and Answers



I-10 Is the ABA's proposed ABA Routing Transit Number Policy consistent with the new account structure?

Answer: Yes. The ABA's Routing Transit Number Policy is consistent with the new account structure, particularly with respect to the allowable number of additional presentment points and the use of multiple numbers for a single presentment point.

I-11 Will Thomson Financial allow non-surviving RTNs to remain active for use as subaccounts, or will Thompson continue its policy of requiring non-surviving RTNs to be eliminated?

Answer: The ABA's Routing Transit Number Policy provides the latitude for allowing the RTNs of non-surviving entities to be used indefinitely to identify subaccounts.

II. Accounting Information

II-1 Will the statements of subaccount activity be delivered to any organizational unit identified by the depository institution as being responsible for that subaccount?

Answer: The entity representing the subaccount can receive a summary or detail of items processed through its master account. In addition, a subaccount can receive information on any of their respective respondents as applicable (limited to three tiers—the correspondent, or ultimate settlement point, plus two additional tiers). These statements are formatted the same as the account holder statement, except that subaccount statements only include debit and credit totals, since account balances are not relevant.

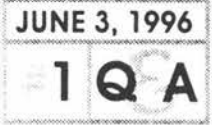
II-2 We currently are limited to three destinations for electronic statement delivery. Will this limit continue to exist?

Answer: This limit will be reevaluated based on evolving information requirements in an interstate branching environment.

II-3 We would like to sort our financial transaction accounting information according to geographic region. If multiple accounts are not available under the new account structure, how will we segregate transaction information?

Answer: Subaccounts may be used to segregate financial transactions according to geographic region, business type, or other criteria.

Interstate Branching: New Account Structure Questions and Answers



III. Transition Issues

III-1 Following mergers, institutions may find it necessary to retain the non-surviving entity's account for an interim period while "back-office" systems are consolidated. This temporary account arrangement is needed primarily to receive and route incoming wire transfers to the proper DDA system. Will these arrangements still be made available under the new account structure?

Answer: Yes. Transitional multiple account arrangements will be offered for a period of up to one year to support organizational and operational restructuring in the aftermath of bank mergers, whether in-state or interstate. To support transition periods, the surviving entity will be allowed to operate the non-surviving entity's account as an independent account for a period of up to one year, subject to a zero or other allocated cap for risk management daylight overdraft purposes. The 12 month transition period will be triggered by each merger/acquisition. Transition periods will begin on the effective date of the merger/acquisition. Alternatively, the surviving institution may set the non-survivor up as a subaccount.