L C

Federal Reserve Notes

FEDERAL RESERVE BANK OF SAN FRANCISCO • December 1981

Serving Alaska, Arizona, California, Hawaii, Idaho, Nevada, Oregon, Utah & Washington

GRIFFITH, SIMS NAMED TO NEW TOP POSTS

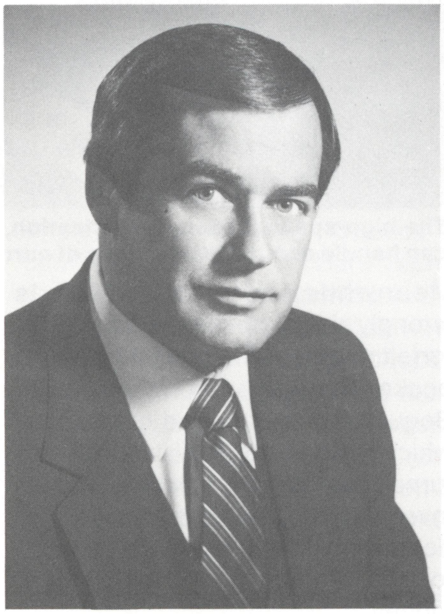
Richard T. Griffith and Kent O. Sims have become the first senior officers of the Federal Reserve Bank of San Francisco to be promoted to the newly created position of executive vice president.

Both are currently senior vice presidents. Griffith is in charge of District Operations, while Sims heads District Departments. Both promotions are effective January 1.

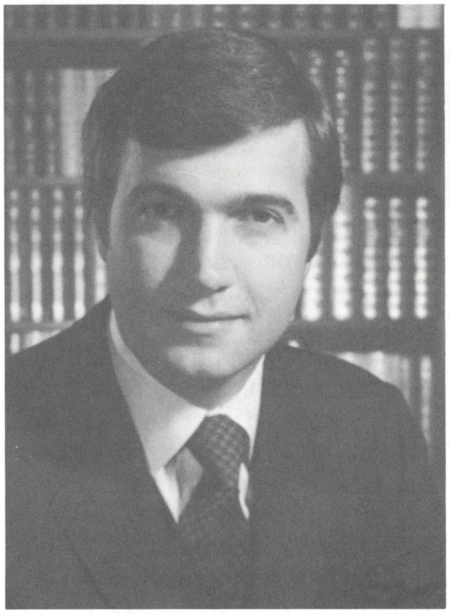
Under the general supervision of the Bank's president, Sims oversees the departments dealing with economic research, monetary policy, public information, statistical operations, bank supervision, regulatory policy, credit policy, consumer banking affairs and legal counsel.

Under the general supervision of the first vice president, Griffith oversees operations in the Bank's five offices dealing with cash, checks, electronic payments and Treasury fiscal-agent operations. Additionally, he is responsible for administration of the Financial Services Group, which the Bank organized last June to develop, price and market various Fed operating services being offered to financial institutions in the 12th Federal Reserve District under the Monetary Control Act of 1980.

Both senior officers are members of the Management Committee, the Reserve Bank's top policy-making body, and advise Bank management on a variety of administrative and policy matters. In making the announcement, Reserve Bank President John J. Balles said the establishment of the new senior-officer classification "recognizes the increasing challenges being faced by our institution."



Richard Griffith



Kent Sims

After joining the San Francisco Fed in 1975, Griffith served as vice president of computer services, senior vice president of the computer services group, and senior vice president of operations. In 1979, he joined Burns International Security as group vice president and chief operating officer of the western group, but then returned to the Fed last July.

Sims joined the Fed as an economist in 1969 and became an assistant vice president in 1971. He was promoted to vice president in charge of research in 1972, to senior vice president of research in 1974, and to senior vice president, District Departments, in 1975.

Prior to joining the Fed, Griffith held managerial positions in data processing, computer systems, bank operations and other corporate-banking during a 10-year stint with Crocker National Bank. He also was executive vice president of the banking division of Teknekron, Inc. of Berkeley. Griffith attended Pepperdine College, California State College at San Luis Obispo, and the Sloan Graduate School of Banking at Stanford.

Before his association with the Fed, Sims served as an economist with the United States Agency for International Development in Washington, D.C., and Pakistan. He also was a research associate and taught at the University of Colorado at Denver and Boulder, and served as an economist for the Urban Renewal Authority of the City and County of Denver. Sims is a graduate of the University of Colorado, where he earned B.A. and Ph.D. degrees.

CLEANER CURRENCY ENVISIONED BY FED

By mid-1983, most financial institutions in the West should be receiving crisper, cleaner and higher-quality used currency from the Federal Reserve System for distribution to its customers.

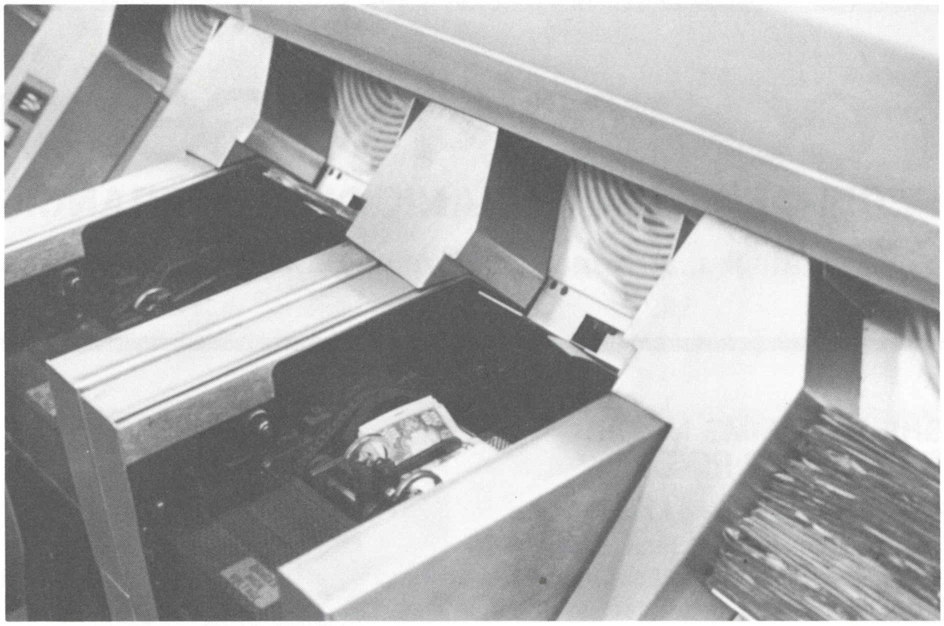
Behind this improvement is the installation of a high-speed Currency Verification, Counting and Sorting (CVCS) System at the five offices of the Federal Reserve Bank of San Francisco. All of these offices now have the equipment with the exception of Salt Lake City, which is scheduled to install its CVCS unit in 1982.

Presently, there are seven CVCS machines processing approximately 50 percent of the bank notes received at the five Fed offices. Douglas O. Knudsen, assistant vice president, cash, at the San Francisco Fed, said that by mid-1983 there will be 14 of these high-speed, optical-scanner machines in operation in the 12th Federal Reserve District, enabling the Fed to process all of the currency it receives.

"These electronic machines sort out the good currency, count it, re-strap it for circulation and destroy the unfit currency on line," said William F. Kress, assistant manager of the cash department at the San Francisco Fed. Each of the San Francisco office's two CVCS units can count and sort up to 70,000 pieces of currency per hour.

Stacks of currency are fed into the machinery and optically scanned. Fit currency suitable for recirculation automatically is strapped and deposited in pockets.

Unfit currency—any bill which is badly soiled, worn or torn—is shredded. Each day, approximately 765,000 pieces of currency worth about $6.8 million are shredded and disintegrated at the San Francisco Fed. The 30 cubic yards of shredded currency are loaded into a dumpster and hauled to a landfill site by a disposal company under contract to the Fed.



The high-speed Currency Verification, Counting and Sorting System of the Fed can handle about 70,000 pieces of currency per hour.

Meanwhile, currency which is wrongly sized, stuck together, counterfeit or defaced drops into a reject pocket for later sorting by hand. Bogus bills and altered currency—which average 16-20 bills daily—are turned over to the Secret Service for investigation, and the accounts of depositing institutions are debited for the amount of the counterfeit money.

Kress said that the Fed installed the CVCS system to prepare for future needs. He noted that cash needs of the financial community have been increasing approximately eight percent per year. "And these financial institutions are demanding more uniform, high-quality currency for their customers, especially for use in their automated-teller machines," he added.

The San Francisco office's electronic sorters, each costing about $300,000, are operated 16 hours a day, five days a week, by 16 operator-reconcilors and two supervisors. Prior to the installation of the first machines in 1979, 43 additional employees performed the same operation.

In 1983, when the Fed occupies a new headquarters building in San Francisco, that office will have four CVCS machines to handle the flow of circulated currency.

HAWAII RESERVE RULE

Under an amendment to the Federal Reserve's Regulation D (reserves of depository institutions), certain nonmember institutions with offices in Hawaii will have a five-year exemption from Federal Reserve reserve requirements.

The law previously provided such an exemption only for certain state-chartered institutions. The revised law and regulation apply the five-year exemption to deposits held or maintained in Hawaii by all institutions that were required to maintain Federal reserves for the first time under the provisions of the Monetary Control Act of 1980.

For additional information about cash services of the Federal Reserve Bank of San Francisco and its branches, please refer to Operating Circular 9 titled "Currency and Coin," or contact the Cash Department at the following Federal Reserve offices:

San Francisco	(415) 544-2449
Los Angeles	(213) 683-8466
Portland	(503) 221-5964
Salt Lake City	(801) 322-7815
Seattle	(206) 442-7763

REGULATORS DECIDE ON CAPITAL POLICY

The Federal Reserve and the Comptroller of the Currency have agreed on a uniform policy to assess the adequacy of bank capital, while the third federal bank regulator—the Federal Deposit Insurance Corporation—has adopted slightly different guidelines.

In determining the minimum capital requirements for a banking institution, the Comptroller and the Federal Reserve will consider two principal ratios—primary capital to total assets and total capital to total assets.

Primary capital is defined as common stock, perpetual preferred stock, capital surplus, undivided profits, contingency and other capital reserves, mandatory convertible instruments and loan-loss reserves. Total capital includes these items plus limited-life preferred stock and qualifying subordinated notes and debentures.

Under the Comptroller-Fed guidelines, institutions are split into three categories: multinational, regional, and community. The multinational group consists at present of 17 institutions with assets of more than $15 billion. The remaining institutions with assets of more than $1 billion are designated regional organizations, and those with less than $1 billion are designated community organizations.

The guidelines are designed to require multinationals to improve their capital positions over time, while permitting smaller banks to maintain lower ratios than most of them currently possess. For financially sound and well-managed institutions, the minimum level of primary capital to total assets will be 5 percent for regional and 6 percent for community institutions. However, regional and community institutions are generally expected to operate above these levels.

Meanwhile, the guidelines adopted by the FDIC, which regulates thousands of state-chartered non-member banks, stresses equity capital as the major element in determining capital adequacy, with uniform capital standards regardless of an institution's size. The FDIC also does not include limited-life instruments in its definition of capital.

The new supervisory approach of the Comptroller and the Fed will apply to national banks, state-chartered member banks, and bank holding companies. The three federal regulators had tried without success for more than a year to agree on one set of capital-adequacy guidelines based on the definition of capital proposed by the Federal Financial Institutions Examination Council.

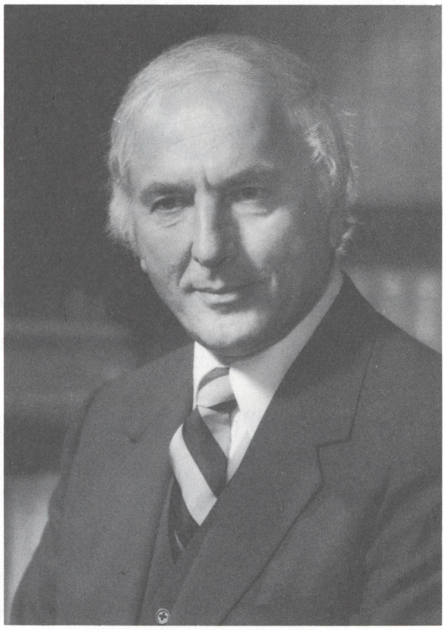
PINOLA NAMED TO FED COUNCIL

Joseph J. Pinola, board chairman and chief executive officer of First Interstate Bancorporation of Los Angeles, has been appointed to the Federal Advisory Council for 1982 by the board of directors of the Federal Reserve Bank of San Francisco.

Pinola succeeds Chauncey E. Schmidt on the panel, which provides a link between the banking and financial community and the Federal Reserve Board of Governors. Schmidt, chairman, president and chief executive officer of the Bank of California, N.A., has served on the Council for three years.

The Federal Advisory Council is composed of 12 members representing each of the districts in the Federal Reserve System. It advises the Board on a wide range of topics including overall banking and monetary objectives, the Fed's regulation of depository institutions, and the effects of monetary policy on financial institutions and the money market.

A former director of the Los Angeles branch of the San Francisco Fed, Pinola joined First Interstate Bank of California (formerly United California Bank) as president and chief operating officer in 1976 after 23 years with the Bank of America. At B of A, he had risen to executive vice president of the North American Division.



Joseph Pinola

A veteran of World War II with added service in the Navy during the Korean conflict, Pinola earned a degree in economics from Bucknell. He is also a graduate of Dartmouth College's Graduate School of Financial Management and the Advanced Management Program at Harvard's Graduate School of Business Administration.

Pinola is director of the Los Angeles World Affairs Council, the Los Angeles Philharmonic Association, and the National Conference of Christians and Jews (Southern California Region), and is vice president and director of the Los Angeles Area Chamber of Commerce. Active in community activities, he is general chairman of the 1981-82 United Way campaign for Los Angeles County.

RATE-CEILING ACTION DELAYED BY DIDC

At its December meeting, the Depository Institutions Deregulation Committee postponed action on several proposals that had been raised at earlier meetings. One would have eliminated interest-rate ceilings on some time deposits, and the other would have created a new deposit instrument to help depository institutions compete against money-market mutual funds.

Upon the urging of congressional leaders, the Committee voted four to zero to delay consideration of the issues until at least its next meeting on March 22. William M. Isaac, chairman of the Federal Deposit Insurance Corporation, abstained from the vote. Spokesmen for Congressional committees said they wanted to study the matters more fully after Congress' year-end recess.

The U.S. League of Savings Associations had lobbied against the removal of interest-rate ceilings because of the resultant increase in the cost of funds for thrifts, which are currently experiencing earnings pressures.

More than 1,000 comment letters received by the DIDC revealed that both the banking and thrift industries are split on the entire issue of creating a new instrument. Many smaller banks argued against any new deposit instrument, while some larger savings-and-loan associations said they would welcome an instrument to help them compete against money-market funds.

FED SETS RESERVE REQUIREMENT RULES

The Federal Reserve Board of Governors has adjusted the amount of net transaction accounts to which the lowest—3 percent—reserve requirement will apply in 1982. Under this change, the amount to which the 3-percent requirement applies will rise from $25 million to $26 million in any one depository institution.

The Board made the changes in accordance with the Monetary Control Act of 1980, which requires an annual amendment to the Fed's Regulation D (Reserves of Depository Institutions). Under the law, the amount of transaction accounts against which the 3-percent reserve requirement will apply in the next calendar year is increased by 80 percent of the percentage increase in transaction accounts held by all depository institutions on the previous June 30.

Total net transaction accounts of all depository institutions increased 5.25 percent from June 30, 1980 to June 30, 1981. The statutory rule thus requires an increase of 4.2 percent, or to $26 million.

TRAVELERS CHECKS OK

Issuance of travelers checks has been added to the list of nonbank activities permitted under Regulation Y. This action by the Board of Governors allows the use of simplified notification procedures and thereby makes it easier for bank holding companies to issue travelers checks. Previously, the Board had approved the formation of travelers check subsidiaries on a case-by-case basis and had required submission of a full application. In making this decision, the Board said it expected public benefits through increased competition and reduced rates.

PUBLICATION AVAILABLE

"Statfacts"—is a new publication which will help in understanding Federal Reserve statistical reports. It is not a substitute for technical instruction booklets provided to depository institutions but provides a general explanation of the meaning of terms used in major Federal Reserve statistical releases.

For a copy of this publication contact the Publications Section, Federal Reserve Bank of San Francisco, P.O. Box 7702, San Francisco, CA 94120 or (415) 544-2184.

Federal Reserve Bank of San Francisco

400 Sansome St., San Francisco, CA 94120

Federal Reserve Notes is produced by William Burke, Ron Supinski and Karen Rusk. The publication is distributed to depository institutions by the Public Information Section, Federal Reserve Bank of San Francisco, P.O. Box 7702, San Francisco, California, 94120.

Phone (415) 544-2184