Federal Reserve Notes

FEDERAL RESERVE BANK OF SAN FRANCISCO • June 1983

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FEDERAL RESERVE CHECK FLOAT

The Federal Reserve Board has approved procedures to eliminate or price all Federal Reserve check float. Such float is the value of checks for which the Federal Reserve has given credit to the institution that deposited the checks for collection, but for which the Federal Reserve has not yet received payment.

In November 1982, the Board requested public comment on a proposal to charge depository institutions for large ($50,000 or more) interterritory returned checks as a result of a wire notification from the returning Federal Reserve office. Interterritory returned checks cause Federal Reserve float because Reserve Banks are unable to debit immediately the original depositing institution's account for the returned checks.

After reviewing comment received, the Board decided not to adopt the proposal but, instead, to defer credit for interterritory returned items for one day. This one-day deferral of credit will eliminate $130 million of interterritory return-item float; it will be implemented on August 1, 1983. Interterritory returned items will continue to receive immediate availability if deposited in separately-sorted return item letters.

In April 1982, the Board proposed an amendment to *Regulation J* to require paying banks to pay for checks delivered or made available to them on days the paying banks are closed and on which the Reserve Bank is open. Such days consist of regular weekdays on which a depository institution closes as permitted by state law and days on which the paying bank is closed because of a state or local holiday.

In response to comment received, the Board did not adopt the proposed amendment at this time. As an alternative, the Board decided to eliminate or price float arising from midweek closings and nonstandard holidays, beginning in October 1983.

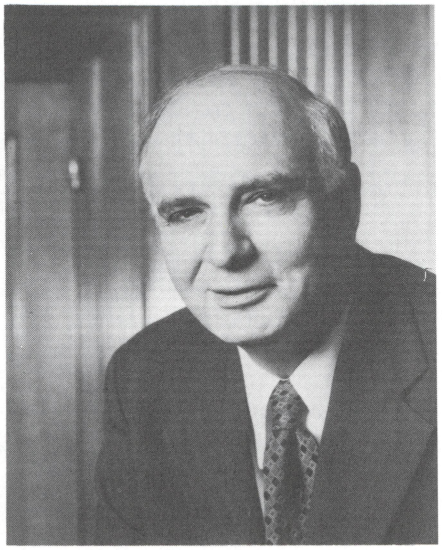
The Board also had requested comment in November 1982 on proposals to price intraterritory transportation float and the other remaining categories of check float. The Board has approved the proposals to price these categories of check float by adding the cost of such float to the cost of the check collection service. This procedure will begin in October 1983.

For further information, please contact the Check Officer of your local Federal Reserve Office.

VOLCKER REAPPOINTED FED CHAIRMAN

In his weekly radio broadcast on June 18, President Ronald Reagan announced his reappointment of Paul Volcker to the chairmanship of the Federal Reserve Board. "I have today asked chairman Paul Volcker to accept reappointment for another term. He's agreed to do so, and I couldn't be more pleased." Later in the day, Volcker expressed his thanks and discussed the economy: "...we now have a rare opportunity to achieve sustained growth on a firm foundation of stability."

Wall Street officials seemed to concur with his assessment as they endorsed Reagan's decision. They had earlier encouraged Volcker's reappointment, citing his efforts to slow inflation and to check the complex problems associated with borrowing by developing countries. In addition to support from market officials, Volcker also received boosts from the cental bankers of other countries and key legislators.



PAUL VOLCKER

Before his first appointment as chairman of the Fed, Volcker had served in three Federal Reseve posts including the presidency of the Federal Reserve Bank of New York. Prior to joining the Fed, he had worked as an economist and long-range planner at Chase Manhattan Bank and, before that, at the U.S. Treasury.

REGULATIONS AND OPERATIONS UPDATE

Regulation D—Reserve Requirements: The Federal Reserve Board has issued an interpretation on bankers' acceptances (12 CFR 250.164), effective July 30, 1983. The interpretation relates to the recent change in the Bank Export Services Act which raised the limits on the aggregate amounts of eligible bankers' acceptances that may be granted by (individual) member banks and certain U.S. branches and agencies of foreign banks. (Bankers' acceptances are short-term instruments used to facilitate international trade.)

The Board also amended sections 204.2(a)(l)(viii), 204.2(c)(l)(ii), and 204.2(f)(l)(v) of Regulation D, effective June 20, 1983, to treat as a reservable deposit any ineligible bankers' acceptance not held in the creating depository institution's portfolio, regardless of whether the institution that created the ineligible bankers' acceptance subsequently discounts and sells it.

"Eligible" bankers' acceptances are not subject to Federal Reserve requirements. They must meet criteria in Section 13 of the Federal Reserve Act, including requirements that the acceptance (1) grow out of a trade transaction involving exporting, importing or domestic shipment of goods or storage of readily marketable staples and (2) have a maturity of less than six months. "Ineligible" acceptances are those not meeting these requirements.

For further information on ineligible acceptances and associated reserve requirements, please contact Gail Taylor, reports officer, at (415) 974-2055, or Sara Garrison, vice president, at (415) 974-2169. Copies of the Federal Register documents are available from our Corporate Services Department at (415) 974-2752. Other questions concerning bankers' acceptances can be directed to Rodney Reid in Supervision, Regulation, and Credit at (415) 974-2266.

Regulation Q—Interest On Deposits: The Board of Governors has temporarily suspended the Regulation Q penalty for the withdrawal of time deposits prior to maturity from member banks for depositors affected by severe storms, landslides and flooding in the Utah Counties of Carbon, Emery, Utah, Davis, Salt Lake, Sanpete, Juab, Millard, Sevier, and Beaver.

A member bank should obtain from a depositor seeking to withdraw a time deposit pursuant to this action a signed statement describing fully the disaster-related loss. This statement should be approved and certified by an officer of the bank.

This action is retroactive to April 30, 1983 for the Utah counties of Carbon, Emery and Utah; June 3, 1983 for Davis, Salt Lake and Sanpete; and June 7, 1983, for Juab, Millard, Sevier and Beaver. It will remain in effect until 12 midnight, December 2, 1983. For further information, please contact Robert Mulford at (415) 974-2256 or William Cooper at (415) 974-2254.

Regulations E and Z—Electronic Fund Transfers and Truth in Lending: Slipsheets bringing the Regulation E and Regulation Z commentary pamphlets (dated October 1981 and April 1981, respectively) up to date are available from the Corporate Services Department at (415) 974-2752.

Regulation T—Credit by Brokers and Dealers: As part of its regulatory improvement program, the Federal Reserve Board has adopted a completely revised and simplified version of Regulation T. The new regulation will go into effect on November 21, 1983. Brokers and dealers may, however, choose to operate under its terms now. The revised regulation is shortened by approximately a third.

For further information, please contact David Vandre in Consumer Affairs at (415) 974-2965. Copies of the revised Regulation T are available from our Corporate Services Department at (415) 974-2752.

FOR PUBLIC COMMENT

Regulation B—Equal Credit Opportunity: The Federal Reserve Board intends to review Regulation B, Equal Credit Opportunity, as part of its Regulatory Improvement Project, and is asking for comment by August 30, 1983. Since the Equal Credit Opportunity (ECO) Act has not been amended, the Board does not expect extensive changes similar to the revisions of Regulations Z (Truth in Lending) and C (Home Mortgage Disclosure), which followed substantial statutory amendments. The Board wishes to lighten the burden of compliance while preserving the consumer protections mandated by the ECO Act; it therefore contemplates that the principal revisions will be to update Regulation B.

For further information, please contact David Vandre in Consumer Affairs at (415) 974-2965.

Participations in Bankers' Acceptances: The Board has issued a proposed definition of participations in bankers' acceptances with respect to the acceptance limitations in the Bank Export Services Act (refer to discussion of changes in Regulation D, above). Under the proposal, such participations would have to meet certain minimum requirements that are consistent with the Act and the legislative history. The Board has requested comments by August 5, 1983.

For further information on this proposal (12 CFR 250.165), please contact Rodney Reid in Supervision, Regulation, and Credit at (415) 974-2266. Copies of this proposal are available from the Corporate Services Department at (415) 974-2752.

Regulation Y—Bank Holding Companies: The Board has extended its deadline for public comment on a proposed complete overhaul and updating of Regulation Y (Docket R-0470) from July 18, 1983 to August 1, 1983.

FED APPROVES SEAFIRST TAKEOVER

On June 22, the Federal Reserve Board announced its approval of the application of BankAmerica Corporation, based in San Francisco, to acquire Seafirst Corporation, Seattle. Seafirst's shareholders, on June 28, gave their approval to the merger by a 79 percent vote of outstanding shares. Only 66 percent approval was needed according to Seafirst Chairman Richard P. Cooley. The shareholders' favorable vote was the third and final step needed to complete the merger that is the largest bank acquisition ever across state lines.

The first step was completed on June 2, when the State Banking Supervisor of Washington found that the proposed acquisition of Seafirst met the requirements of the April 1983 amendment to the State's banking laws. Approval by the Board of Governors of the Federal Reserve System constituted the second step. In announcing its decision, the Board referred to the State of Washington's earlier decision, saying that it satisfied the criterion set out by the Douglas Amendment to the Bank Holding Company Act governing interstate bank acquisitions. The amendment allows such acquisitions only if the state in which the operations of the bank and bank subsidiaries to be acquired are principally conducted allows them.

BankAmerica Corporation is the largest commercial banking organization in California and the second largest banking institution in the United States. Seafirst Corporation is the largest commercial banking organization in the State of Washington. Taking their sizes into account, the Board stated that it believed the public benefits to result from the acquisition "are substantial and mitigate the effects of any increase in concentration of resources resulting from the proposed acquisition."

The Board added that since neither operates subsidiary banks in the same markets, the transaction would have no adverse effects on existing competition in any relevant market. With regard to BankAmerica's application to acquire the nonbanking subsidiaries of Seafirst Corporation, the Board came to the same conclusion.

BALLES ON SUSTAINING THE RECOVERY

To sustain the economic recovery and to allow further progress in lowering interest rates, the president of the Federal Reserve Bank of San Francisco again stressed that record government deficits must be curbed. In a speech before approximately 250 community leaders at a luncheon on June 10, 1983 in Los Angeles, John J. Balles said that the biggest threat to prolonged recovery was government borrowing, which is expected to reach $208 billion in fiscal 1983 and range between $150 and $202 billion in fiscal 1984:

"These deficits could amount to as much as 85 percent of available net savings from the private sector and the surpluses of state and local governments...This will leave little room for net private investment, which is the key to growth in new housing and business capital."

Balles said that the United States is on its way to "a solid recovery this year, but certainly no boom." He forecast an increase in real GNP for 1983 close to 5 percent. Most of the strength, he believed, would come from consumer spending as declining inflation and the 1983 income tax cut add to consumers' purchasing power. In contrast, Balles cited possible declines in capital spending and exports because of excess plant capacity and a strong U.S. dollar.

For the non-inflationary recovery to continue, the Fed official warned, "will be almost impossible if Congress and the Administration fail to curb the enormous budget deficits which threaten either to short-circuit the recovery or to unleash a new round of inflation."

Slowing M1 Growth

Balles also discussed monetary policy in the context of the rapid rise in M1 (cash and checkable deposits) experienced since last year. Speaking in early June, when money supply figures for early May were showing very rapid money growth, he cautioned against focusing too heavily on week-to-week movements in the money supply: "They can often be misleading. In addition, there can be serious technical problems with interpreting April and May money data because of the movements of funds during the tax-payment and tax-refund season."

The Fed president said he expected M1 to grow at a slower rate for the remainder of 1983. "If that does not appear to be happening, then the Federal Reserve, in my opinion, should take steps to assure that it does, even at the expense of some moderate rise in interest rates. Failure to do this could result in an intensification of inflationary expectations and an even bigger increase in interest rates later on."

Retaining a Flexible Policy

In conclusion, Balles argued that it was important that the Federal Reserve System retain its flexibility in setting monetary policy "and not be endangered by either rigid interest-rate targeting or rigid money-growth targeting."

He noted that this flexibility had been critical in 1982 to allowing monetary policy to stay on course when the public's demand for money unexpectedly rose. He said that this episode illustrated again the case for a strong, independent central bank *within* government:

"The technical complexities of adjusting the nation's monetary and credit needs to a fast-changing financial environment and payments system cannot be handled well by a large deliberative body such as Congress." He added that Congress was correct 70 years ago when it delegated authority over the conduct of monetary policy to the central bank "while keeping ultimate control over the Fed's actions."

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S.F. FED OFFERS AUTOMATED CASH ORDERING

Since July 1, 1983, the San Francisco Fed has been offering automated cash ordering services to all Twelfth District depository institutions through FedLine. Automated cash ordering is the latest in a series of enhancements to the FedLine system and allows a depository institution to send its coin and currency orders on-line directly to the Federal Reserve Bank. Cash ordering is not a priced service, and is therefore available at no additional cost to FedLine users.

Automated cash ordering should save time by allowing institutions to place orders up to 12:00 noon one and one-half business days in advance of the scheduled dispatch date, allow closer coordination of orders to transportation and delivery schedules, provide immediate verification of orders, eliminate the need for paper forms and manual filing, and afford a high level of built-in security.

FedLine was introduced in the spring of 1982 and is an inexpensive means to access Federal Reserve services on-line via an IBM personal computer that can currently be leased from the Federal Reserve Bank of San Francisco for $175 per month. Experienced installers provide training as needed for both new and existing FedLine customers who desire to add the on-line cash ordering enhancement. In addition, the Bank provides an easy-to-read User Guide.

Please contact the Financial Services Officer in your zone, at the number listed below, to request further information on ordering FedLine or requesting the cash ordering enhancement: San Francisco — (415) 974-2127, Los Angeles — (213) 683-8318, Portland — (503) 221-5909, Salt Lake City — (801) 322-7927, Seattle—(206) 442-2754.

NEW INSTRUCTIONS FOR FR2900 AND FR2950

Because of extensive changes associated with the revision to the Report of Transaction Accounts, Other Deposits and Vault Cash (form FR2900), revised versions of the instructions booklets for preparing the FR2900 and the Report of Certain Eurocurrency Transactions (form FR2950) have been developed.

These booklets and additional information are available through Darlene Choy at (415) 974-3083 or Cameron Lundstrom at (415) 974-3104. Outside California, their toll-free numbers are (800) 227-4133, extensions 3083 and 3104, respectively.

NEW ACCOUNTING FOR CASH SHIPMENTS

New accounting procedures for cash order and cash deposit entries were adopted by the Federal Reserve Bank of San Francisco and took effect July 1, 1983. When a depository institution orders coin or currency from the S.F. Fed, the Bank will debit the amount of the order to the institution's reserve, clearing, or designated correspondent account on the anticipated delivery date instead of on the dispatch date.

Also effective July 1, 1983, the Bank changed its procedures for giving credit for deposits of currency or coin from certain institutions. A depository institution that is exempt from reserve requirements, or whose vault cash exceeds reserve requirements, may be eligible to receive credit for a cash shipment on the day it sends the cash to the Bank. Institutions meeting these requirements and wishing to participate in the early credit arrangement should contact their local Financial Services Representative to determine eligibility.

These provisions on debits and credits do not alter the risk-of-loss provisions in Circular 9. For further information on these new procedures, please contact the Cash Services Department or Financial Services representative at your local Federal Reserve Office.