

Federal Reserve Notes

Federal Reserve Bank of San Francisco • August 1984

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POLICY DEVELOPMENTS

Electronic Connection Policies

To provide reliable and secure electronic connection services, the San Francisco Reserve Bank has reiterated standards of compatibility for the three modes of connection to its electronic network. The following provides guidance in cases where depository institutions deviate from Fed-provided hardware or software:

- For FedLine or online services, the connection equipment must be an IBM PC or one capable of accepting and using, without modification, the diskette provided by the Reserve Bank. The compatible configuration must be certified by the Federal Reserve Bank of San Francisco.
- Emulation of FedLine or online connection equipment in any form (hardware and/or software to duplicate their functions) will not be supported by the Reserve Bank because it would limit network design and could severely degrade reliability and service.
- The San Francisco Reserve Bank will make available to qualified depository institutions, upon written request, its computer-to-computer interface protocol specifications and provide reasonable technical assistance in implementing them.

For further information, please contact William V. Ott, Computer Services Group at (415) 974-2415.

NEW SERVICES

Mid-Day Balance Information

Since August 13, 1984, the San Francisco Reserve Bank has made mid-day balance information available to all Twelfth District depository institutions using Funds Transfer on computer-to-computer interface. The information is presented at about 1:30 p.m. every day and includes debit and credit totals. Depository institutions can thus confirm that their mid-day balances agree with the Federal Reserve.

For further information, please contact Susan Andrews in Communications at (415) 974-2317.

FRBSF HOSTS PAYMENTS RISK EDUCATIONAL SEMINARS

During the past few years, the Federal Reserve has become increasingly concerned with interbank risk on large-dollar funds transfer networks. Such networks include Fedwire, CHIPS, Cash Wire, and CHESSE. The growth in the amount of funds transferred over these networks has resulted in some banks having intraday net debit positions far in excess of their capital. If an institution should fail unexpectedly during the course of the day, and thus be unable to cover its position, the Federal Reserve and other network participants could suffer serious financial loss. Moreover, the failure could disrupt the smooth operation of the entire payments system.

The Federal Reserve has requested public comment by October 29, 1984 on possible methods for reducing risk in large-dollar transfer networks. To ensure full understanding of payments risk issues and the methods proposed for comment, the San Francisco Reserve Bank will host a half-day seminar on payment system risks at three locations and times listed below:

Locations and Dates of Payments Risk Educational Seminars

Sheraton Grand Hotel, Los Angeles	September 18	9-11:45 a.m.
Hyatt Regency Embarcadero Hotel, San Francisco	September 19	9-11:45 a.m.
Westin Hotel, Seattle	September 20	9-11:45 a.m.

The seminars are co-sponsored by the American Bankers Association and will include speakers from both correspondent and community banks in addition to representatives of the Federal Reserve. We hope a senior member of your management team can attend. Please notify **Maggie Saunders** by **September 4** at the Federal Reserve Bank of San Francisco, P.O. Box 7702, San Francisco, CA 94120 or call (415) 974-2439.

FOR PUBLIC COMMENT

Capital Adequacy Guidelines

The Federal Reserve Board has requested comment by **September 24, 1984** on a proposed revision of its guidelines regarding capital adequacy for state member banks and bank holding companies and on a supporting regulation to establish procedures for enforcing compliance with capital requirements.

The Board asked that comments focus on the differences between the proposed guidelines and those being proposed by the other federal bank regulators. Specific issues include:

1. Issuing substantive **capital requirements** in a regulation or in the form of guidelines

The Board's proposed capital guidelines increase minimum required primary and total capital for all but smaller member banks and bank holding companies. All state member banks and all bank holding companies would be required to have minimum primary capital equal to 5.5 percent of total assets, and total capital equal to 6 percent of total adjusted assets.

2. Relying upon the concept of **capital zones** as embodied in the Board's guidelines or only on a requirement of a "minimum capital" level. The Board proposed to continue using — at higher levels of capitalization for larger banks and bank holding companies — its "zone" concept of appropriate capital for those institutions under its supervision. The standards are as follows:

Zone 1: Institutions with capital equal to at least 7 percent of total assets would be considered adequately capitalized.

Zone 2: Institutions operating with total capital equal to 6 to 7 percent of their total assets would be considered marginally capitalized, subject to consideration of other financial factors.

Zone 3: Banking organizations with total capital equal to less than 6 percent of their total assets may be considered under-capitalized in the absence of clear extenuating circumstances.

3. Deducting **intangible assets** in deriving primary capital ratios
4. Whether to include **equity commitment notes** as a component of primary capital

The supporting **procedural regulation** proposes a number of supervisory actions such as submission of a plan for achieving capital adequacy and possible administrative enforcement actions, including possible denial of applications, that may be taken if a banking organization falls below required minimum ratios.

The proposed rules emphasize giving the Board flexibility to deal with situations of under-capitalization in particular banks and bank holding companies, while insisting upon current and continued progress toward adequate capitalization.

For copies of the Board's proposal, please contact Corporate Services at (415) 974-2752. For further information, please contact Merle Borchert in Supervision, Regulation, and Credit at (415) 974-2238.

Revised Quarterly Reports of Assets and Liabilities

The Federal Financial Institutions Examination Council (FFIEC) has asked for public comment on a proposed revision of the Quarterly Report of Assets and Liabilities of U.S. branches and agencies of foreign banks (Form FFIEC 002) to become effective with the March 31, 1985 report date. The Council asked for comments by **September 10, 1984**.

Proposed revisions reflect changing needs for information for supervisory purposes and changing banking conditions and practices. Corresponding revisions already have been incorporated in the reports of condition and income required to be filed quarterly by U.S. chartered commercial banks.

MONETARY POLICY OBJECTIVES FOR 1984 AND 1985

On July 25, Federal Reserve Board Chairman Paul Volcker presented a mid-year report to the Congress on the Federal Reserve's monetary policy objectives for the remainder of 1984 and its proposals for 1985. The report includes a review of economic and financial developments in the first half of 1984 and the economic outlook heading into 1985. Single or multiple copies of the report can be obtained upon request from the Public Information Department, Federal Reserve Bank of San Francisco, P.O. Box 7702, San Francisco, CA 94120. Phone (415) 974-2246.