

**FEDERAL RESERVE BANK
OF NEW YORK**

[Circular No. 4952]
October 26, 1960

RESERVE REQUIREMENTS

Amendments to Regulation D

*To All Member Banks of the
Second Federal Reserve District:*

The following statement was made public today:

The Board of Governors of the Federal Reserve System today amended its Regulation D, relating to bank reserves and reserve requirements, in three respects. The amendments will become effective November 24 and December 1, 1960.

The changes, made in further implementation of a 1959 Act of Congress relating to vault cash and reserve requirements, will make available to the System's 6,200 member banks about \$1,300 million of additional reserves as the economy enters, between Thanksgiving and Christmas, the peak season of rising cash and credit needs. The changes are as follows:

1. Effective November 24, all of the System's 6,200 member banks will be authorized to count all their vault cash (i.e., all the coin and currency they hold) in meeting their reserve requirements.
2. Also effective November 24, the reserve requirement of "country banks" (i.e., banks not classified as central reserve city or reserve city banks) against their net demand deposits, now 11 per cent, will become 12 per cent.
3. Effective December 1, the reserve requirements of central reserve city banks against their net demand deposits, now 17½ per cent, will become 16½ per cent. This change is in accordance with a provision of the 1959 Act that would have the effect of eliminating the differential between the requirements of central reserve city banks and reserve city banks by July 28, 1962.

These actions are the third in a series taken over the course of a year to implement the legislation cited. The previous actions, both authorizing member banks to count specified portions of vault cash in meeting reserve requirements, were made effective December 1 and 3, 1959, and August 25 and September 1, 1960.

The actions announced today will release, for loans, investments, and for provision of seasonal cash needs, a net amount of approximately \$1,050 million of reserves on November 24 and \$250 million on December 1. Of the \$1,300 million total, \$400 million will be released at central reserve city banks, \$380 million at reserve city banks, and \$520 million at country banks. The net amount of additional reserves to be made available to country banks reflects the result of a release of \$900 million of vault cash, partly offset by an increase of \$380 million in their reserve requirements.

All member banks are required to set aside a portion of their deposits to meet basic reserve requirements established by the System. Before the 1959 Act of Congress, member banks had to meet these requirements with balances kept at their respective Federal Reserve Banks. They were not permitted to count, as reserves, cash in their own vaults. However, the amount of cash that banks have found it necessary to hold, in relation to their deposits, varied bank by bank depending upon the daily needs of their customers. The legislation adopted by Congress was designed to smooth out the inequities resulting from these operating differences. When the changes announced today become effective, all member banks will be permitted to count all cash on hand, as well as balances kept at their Federal Reserve Bank, in meeting their basic reserve requirements.

Before the 1959 Act, country banks, on the average, were in the position of having 14.5 per cent of their net demand deposits immobilized in the form of reserve balances and needed vault cash. In consequence of the legislation and the series of actions over the last year in relation to it, this amount will be changed to a uniform 12 per cent, after the effective date of today's action.

The corresponding percentages for reserve city banks will be reduced from an average of 18.2 per cent to a uniform figure of 16.5 per cent. For central reserve city banks, the comparable figures are 18.7 and 16.5 per cent.

Enclosed is a printed copy of the Supplement to Regulation D, giving effect to the above amendments.

Additional copies of this circular and of the enclosed supplement will be furnished upon request.

ALFRED HAYES,
President.

SUPPLEMENT TO REGULATION D

Section 204.5—Supplement

ISSUED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Effective as to all member banks at opening of business on November 24, 1960, except as otherwise indicated.

(a) **Reserve percentages.**—Pursuant to the provisions of section 19 of the Federal Reserve Act and §204.2(a), but subject to paragraph (b) of this section, the Board of Governors of the Federal Reserve System hereby prescribes the following reserve balances which each member bank of the Federal Reserve System is required to maintain on deposit with the Federal Reserve Bank of its district:

(1) If not in a reserve or central reserve city—

- (i) 5 per cent of its time deposits, plus
- (ii) 12 per cent of its net demand deposits.

(2) If in a reserve city (except as to any bank located in such a city which is permitted by the Board of Governors of the Federal Reserve System, pursuant to §204.2(a) (2), to maintain the reserves specified in subparagraph (1) of this paragraph)—

- (i) 5 per cent of its time deposits, plus
- (ii) 16½ per cent of its net demand deposits.

(3) If in a central reserve city (except as to any bank located in such a city which is permitted by the Board of Governors of the Federal Reserve System, pursuant to §204.2(a) (2), to maintain the reserves specified in subparagraph (1) or (2) of this paragraph)—

- (i) 5 per cent of its time deposits, plus
- (ii) 17½ per cent of its net demand deposits until the opening of business on December 1, 1960, and 16½ per cent of its net demand deposits thereafter.

(b) **Counting of currency and coin.**—The amount of a member bank's currency and coin shall be counted in partial compliance with the reserve requirements of paragraph (a) of this section.