

AT 6517

April 6, 1970

To the Addressee:

Enclosed are reprints, in the new size, of Regulation D and of its supplement, both as amended effective February 12, 1970. The reprinted regulation replaces your small-size printing of the regulation, as amended effective January 1, 1967, and the amendments thereto, the last of which was effective February 12, 1970. The reprinted supplement replaces your small-size printing of that document, effective September 4, 1969, and amended February 12, 1970.

Circulars Division
Federal Reserve Bank of New York

**BOARD OF GOVERNORS
of the
FEDERAL RESERVE SYSTEM**

RESERVES OF MEMBER BANKS

REGULATION D

(12 CFR 204)

As amended effective February 12, 1970



Any inquiry relating to this regulation should be addressed to the Federal Reserve Bank of the Federal Reserve District in which the inquiry arises.

CONTENTS

| | Page | | Page |
|--|------|---|------|
| SEC. 204.1—DEFINITIONS | 3 | SEC. 204.2—COMPUTATION OF RESERVES .. | 4 |
| (a) Demand deposits | 3 | (a) Amounts of reserves to be maintained | 4 |
| (b) Time deposits | 3 | (b) Deductions allowed in computing reserves | 5 |
| (c) Time certificates of deposit | 3 | (c) Availability of cash items as reserve | 5 |
| (d) Time deposits, open account | 3 | (d) Reserves against trust funds | 5 |
| (e) Savings deposits | 3 | (e) Continuance of "time deposit" status | 5 |
| (f) Deposits as including certain promis- sory notes and other obligations .. | 4 | SEC. 204.3—DEFICIENCIES IN RESERVES .. | 6 |
| (g) Gross demand deposits | 4 | (a) Computation of deficiencies | 6 |
| (h) Cash items in process of collection .. | 4 | (b) Penalties | 6 |
| (i) Net demand deposits | 4 | (c) Notice to directors of banks deficient in reserves | 6 |
| (j) Currency and coin | 4 | (d) Continued deficiencies | 6 |
| | | STATUTORY APPENDIX | 7 |

REGULATION D

(12 CFR 204)

As amended effective February 12, 1970

RESERVES OF MEMBER BANKS*

SECTION 204.1—DEFINITIONS

(a) **Demand deposits.** The term "demand deposits" includes all deposits except "time deposits" as defined below.

(b) **Time deposits.** The term "time deposits" means "time certificates of deposit", "time deposits, open account", and "savings deposits", as defined below; except that for the purposes of § 204.5(c) "time deposits" shall have the meaning set forth therein.

(c) **Time certificates of deposit.** The term "time certificate of deposit" means a deposit evidenced by a negotiable or nonnegotiable instrument which provides on its face that the amount of such deposit is payable to bearer or to any specified person or to his order:

(1) On a certain date, specified in the instrument, not less than 30 days after the date of deposit, or

(2) At the expiration of a certain specified time not less than 30 days after the date of the instrument, or

(3) Upon notice in writing which is actually required to be given not less than 30 days before the date of repayment,¹ and

(4) In all cases only upon presentation and surrender of the instrument.

* The text corresponds to the Code of Federal Regulations, Title 12, Chapter II, Part 204; cited as 12 CFR 204. The words "this Part", as used herein, mean Regulation D.

¹ A deposit with respect to which the bank merely reserves the right to require notice of not less than 30 days before any withdrawal is made is not a "time certificate of deposit".

(d) **Time deposits, open account.** The term "time deposit, open account" means a deposit, other than a "time certificate of deposit", with respect to which there is in force a written contract with the depositor that neither the whole nor any part of such deposit may be withdrawn, by check or otherwise, prior to the date of maturity, which shall be not less than 30 days after the date of the deposit,² or prior to the expiration of the period of notice which must be given by the depositor in writing not less than 30 days in advance of withdrawal.³

(e) **Savings deposits.** The term "savings deposit" means a deposit—

(1) which consists of funds deposited to the credit of one or more individuals, or of a corporation, association, or other organization operated primarily for religious, philanthropic, charitable, educational, fraternal, or other similar purposes and not operated for profit;⁴ or in which the en-

² Deposits, such as Christmas club accounts and vacation club accounts, which are made under written contracts providing that no withdrawal shall be made until a certain number of periodic deposits have been made during a period of not less than 3 months constitute "time deposits, open account" even though some of the deposits are made within 30 days from the end of the period.

³ A deposit with respect to which the bank merely reserves the right to require notice of not less than 30 days before any withdrawal is made is not a "time deposit, open account", within the meaning of the above definition.

⁴ Deposits in joint accounts of two or more individuals may be classified as savings deposits if they meet the other requirements of the above definition, but deposits of a partnership operated for profit may not be so classified. Deposits to the credit of an individual of funds in which any beneficial interest is held by a corporation, partnership, association, or other organization operated for profit or not operated primarily for religious, philanthropic, charitable, educational, fraternal, or other similar purposes may not be classified as savings deposits.

ture beneficial interest is held by one or more individuals or by such a corporation, association, or other organization; and

(2) with respect to which the depositor is not required by the deposit contract but may at any time be required by the bank to give notice in writing of an intended withdrawal not less than 30 days before such withdrawal is made⁵ and which is not payable on a specified date or at the expiration of a specified time after the date of deposit.

(f) **Deposits as including certain promissory notes and other obligations.** For the purposes of this Part, the term "deposits" also includes a member bank's liability on any promissory note, acknowledgment of advance, due bill, or similar obligation (written or oral) that is issued or undertaken by a member bank principally as a means of obtaining funds to be used in its banking business, except any such obligation that:

(1) is issued to (or undertaken with respect to) and held for the account of (i) a domestic banking office^{5a} of another bank or (ii) an agency of the United States or the Government Development Bank for Puerto Rico;

(2) evidences an indebtedness arising from a transfer of direct obligations of, or obligations that are fully guaranteed as to principal and interest by, the United States or any agency thereof that the bank is obligated to repurchase;

(3) has an original maturity of more than two years, is unsecured, and states expressly that it is subordinated to the claims of depositors; or

(4) arises from a borrowing by a member bank from a dealer in securities, for one business day, of proceeds of a transfer of deposit credit in a Federal Reserve Bank (or other immediately available funds), commonly referred to as "Federal funds", received by such dealer on the date of the loan in connection with clearance of securities transactions.

This paragraph shall not, however, affect (i) any instrument issued before June 27, 1966, (ii) any instrument that evidences an indebtedness arising from a transfer of assets under repurchase agreement issued before July 25, 1969, or (iii) any instrument issued to a foreign office of another bank before June 27, 1969.

(g) **Gross demand deposits.** The term "gross demand deposits" means the sum of all demand de-

⁵ The exercise by the bank of its right to require such notice shall not cause the deposit to cease to be a savings deposit.

^{5a} Any banking office in any State of the United States or the District of Columbia of a bank organized under domestic or foreign law.

posits, including demand deposits to the credit of other banks, the United States, States, counties, school districts, and other governmental subdivisions and municipalities, and all outstanding certified and officers' checks (including checks issued by the bank in payment of dividends and checks or drafts drawn by or on behalf of a foreign branch of a member bank on an account maintained by such a branch with a domestic office of the parent bank), and letters of credit and travelers' checks sold for cash.

(h) **Cash items in process of collection.** The term "cash items in process of collection" means:

(1) Checks in process of collection, drawn on a bank, private bank, or any other banking institution, which are payable immediately upon presentation in the United States, including checks with a Federal Reserve Bank in process of collection and checks on hand which will be presented for payment or forwarded for collection on the following business day;

(2) Government checks and warrants drawn on the Treasurer of the United States which are in process of collection;

(3) Such other items in process of collection, payable immediately upon presentation in the United States, as are customarily cleared or collected by banks as cash items.

Items handled as noncash collections may not be treated as "cash items in process of collection" within the meaning of this Part.

(i) **Net demand deposits.** The term "net demand deposits" means gross demand deposits as defined in paragraph (g) of this section less the deductions allowed under the provisions of § 204.2(b).

(j) **Currency and coin.** The term "currency and coin" means United States currency and coin owned and held by a member bank, including currency and coin in transit to or from a Federal Reserve Bank.

SECTION 204.2—COMPUTATION OF RESERVES

(a) **Amounts of reserves to be maintained.** (1) Every member bank shall maintain on deposit with the Federal Reserve Bank of its district an actual net balance equal to 3 per cent of its time deposits, plus 7 per cent of its net demand deposits if it is not located in a reserve city or 10 per cent of its net demand deposits if it is located in a reserve city, or such different percentages of its time deposits and net demand deposits as the Board of Governors of the Federal Reserve Sys-

tem, pursuant to and within the limitations contained in section 19 of the Federal Reserve Act, may prescribe from time to time in § 204.5 (the Supplement to this Part): *Provided*, That a member bank's currency and coin shall be counted as reserves in determining compliance with such requirements to such extent as the Board of Governors of the Federal Reserve System, pursuant to section 19 of the Federal Reserve Act, may permit from time to time in § 204.5.

(2) Notwithstanding the provisions of subparagraph (1) of this paragraph, a member bank located in a reserve city may hold and maintain the reserve balances which are in effect for member banks not located in reserve cities if, upon application to the Board of Governors, the Board grants permission for the holding and maintaining of such lower reserve balances after consideration of all factors relating to the character of such bank's business, including, but not limited to, the amount of such member bank's total assets, the amount of its total deposits, the amount of its total demand deposits, the amount of its demand deposits owing to banks, the nature of its depositors and borrowers, the rate of activity of its demand deposits, its geographical location within the city, and its competitive position with relation to other banks in the city. Any such permission shall be subject to revocation by the Board at any time in the light of changed circumstances, and all such grants of permission may be subject to annual review by the Board.

(3) For the purposes of this Part, a member bank shall be considered to be in a reserve city if the head office or any branch thereof is located in a reserve city.

(b) **Deductions allowed in computing reserves.** In determining the reserve balances required under the terms of this Part, member banks may deduct from the amount of their gross demand deposits the amounts of balances subject to immediate withdrawal due from other banks and cash items in process of collection as defined in § 204.1(h). Balances "due from other banks" do not include balances due from Federal Reserve Banks, balances (payable in dollars or otherwise) due from foreign banks or branches thereof wherever located, or balances due from foreign branches of domestic banks.⁹

⁹ A member bank exercising fiduciary powers may not include in balances "due from other banks" amounts of trust funds deposited with other banks and due to it as trustee or other fiduciary. If trust funds are deposited by

(c) **Availability of cash items as reserve.** Cash items forwarded to a Federal Reserve Bank for collection and credit cannot be counted as part of the minimum reserve balance to be carried by a member bank with its Federal Reserve Bank until the expiration of such time as may be specified in the appropriate time schedule referred to in Part 210 of this chapter. If a member bank draws against items before such time, the draft will be charged against its reserve balance if such balance be sufficient in amount to pay it; but any resulting impairment of reserve balances will be subject to the penalties provided by law and by this Part: *Provided, however*, That the Federal Reserve Bank may, in its discretion, refuse at any time to permit the withdrawal or other use of credit given in its reserve account for any item for which the Federal Reserve Bank has not received payment in actually and finally collected funds.

(d) **Reserves against trust funds.** A member bank exercising trust powers need not maintain reserves against trust funds which it keeps properly segregated as trust funds and apart from its general assets or which it deposits in another institution to the credit of itself as trustee or other fiduciary. If, however, such funds are mingled with the general assets of the bank, a deposit liability thereby arises against which reserves must be maintained.

(e) **Continuance of "time deposit" status.** A deposit which at the time of deposit was a "deposit evidenced by a time certificate of deposit", "time deposit, open account", or "savings deposit" continues to be a "time deposit" until maturity or the expiration of the period of notice of withdrawal, although it has become payable within 30 days. After the date of maturity of any time deposit, such deposit is a demand deposit. After the expiration of the period of notice given with respect to the repayment of any savings deposit or other time deposit, such deposit is a demand deposit, except that, if the owner of such deposit advise the bank in writing that the deposit will not be withdrawn pursuant to such notice or that the deposit will thereafter again be subject to the contract or requirements applicable to such deposit, the deposit will again constitute a savings deposit or other time deposit, as the case may be, after

the trust department of a member bank in its commercial or savings department and are then redeposited in another bank subject to immediate withdrawal they may be included by the member bank in balances "due from other banks", subject to the provisions of § 204.2(b).

the date upon which such advice is received by the bank.

SECTION 204.3—DEFICIENCIES IN RESERVES

(a) **Computation of deficiencies.** (1) Reserve requirements of all member banks shall be determined on the basis of average daily net deposit balances and average daily currency and coin covering 7-day computation periods which shall end at the close of business on Wednesday of each week.

(2) In determining whether a member bank has maintained a reserve balance that is in excess of or less than its required reserve balance for any computation period:

(i) The required reserve balance of such bank shall be based upon the average daily net deposit balances held by the member bank at the close of business each day during the second computation period prior to the computation period for which the computation is made.

(ii) The reserve balance of such bank shall consist of the average daily balance with the Federal Reserve Bank of its District held by the member bank at the close of business of each day during the computation period for which the computation is made and the average daily currency and coin held by the member bank at the close of business each day during the second computation period prior to the computation period for which the computation is made.

(3) Any excess or deficiency in a member bank's required reserve balance for any computation period, determined as provided in subparagraph (2) above, will be carried forward to the next following computation period to the extent that such excess or deficiency does not exceed 2 per cent of such required reserves, except that any portion of such excess or deficiency not offset in the next period may not be carried forward to additional computation periods.

(b) **Penalties.** (1) Deficiencies in reserve balances remaining after the application of subparagraph (3) of paragraph (a) above will be subject to penalties, assessed monthly on the basis of aver-

age daily deficiencies during each of the computation periods ending in the preceding calendar month.

(2) Any such penalty will be assessed at a rate of 2 per cent per annum above the lowest rate applicable to borrowings by each member bank from its Federal Reserve Bank on the first day of the calendar month in which the deficiencies occurred.

(c) **Notice to directors of banks deficient in reserves.** Whenever it shall appear that a member bank is not paying due regard to the maintenance of its reserves, the Federal Reserve Bank shall address a letter to each director of such bank calling attention to the situation and advising him of the requirements of the law and of this Part regarding the maintenance of reserves.

(d) **Continued deficiencies.** If, after the notice provided for in paragraph (c) of this section has been given, it shall appear that the member bank is continuing its failure to pay due regard to the maintenance of its reserves, the Federal Reserve Bank shall report such fact to the Board of Governors of the Federal Reserve System with a recommendation as to whether or not the Board should:

(1) In the case of a national bank, direct the Comptroller of the Currency to bring suit to forfeit the charter of such national bank pursuant to section 2 of the Federal Reserve Act (38 Stat. 252; 12 U.S.C. 501a); or

(2) In the case of a State member bank, institute proceedings to require such bank to surrender its stock in the Federal Reserve Bank and to forfeit all rights and privileges of membership pursuant to section 9 of the Federal Reserve Act (46 Stat. 251; 12 U.S.C. 327); or

(3) In either case, take such other action as the Federal Reserve Bank may recommend or the Board of Governors of the Federal Reserve System may consider advisable.

(SECTION 204.5—SUPPLEMENT, containing reserve percentages and use of vault cash in meeting reserve requirements, is printed separately.)

STATUTORY APPENDIX

Section 19 of the Federal Reserve Act provides in part as follows:

(a) The Board is authorized for the purposes of this section to define the terms used in this section, to determine what shall be deemed a payment of interest, to determine what types of obligations, whether issued directly by a member bank or indirectly by an affiliate of a member bank or by other means, shall be deemed a deposit, and to prescribe such regulations as it may deem necessary to effectuate the purposes of this section and to prevent evasions thereof.

(b) Every member bank shall maintain reserves against its deposits in such ratios as shall be determined by the affirmative vote of not less than four members of the Board within the following limitations:

(1) In the case of any member bank in a reserve city, the minimum reserve ratio for any demand deposit shall be not less than 10 per centum and not more than 22 per centum, except that the Board, either in individual cases or by regulation, on such basis as it may deem reasonable and appropriate in view of the character of business transacted by such bank, may make applicable the reserve ratios prescribed for banks not in reserve cities.

(2) In the case of any member bank not in a reserve city, the minimum reserve ratio for any demand deposit shall be not less than 7 per centum and not more than 14 per centum.

(3) In the case of any deposit other than a demand deposit, the minimum reserve ratio shall be not less than 3 per centum and not more than 10 per centum.

The Board may, however, prescribe any reserve ratio, not more than 22 per centum, with respect to any indebtedness of a member bank that arises out of a transaction in the ordinary course of its banking business with respect to either funds received [from] or credit extended by such bank to a bank organized under the law of a foreign country or a dependency or insular possession of the United States.

(c) Reserves held by any member bank to meet the requirements imposed pursuant to subsection (b) of this section shall be in the form of—

(1) balances maintained for such purposes by such bank in the Federal Reserve bank of which it is a member, and

(2) the currency and coin held by such bank, or such part thereof as the Board may by regulation prescribe.

[U.S.C., title 12, sec. 461.]

* * *

(f) The required balance carried by a member bank with a Federal Reserve bank may, under the regulations and subject to such penalties as may be prescribed by the Board of Governors of the Federal Reserve System, be checked against and withdrawn by such member bank for the purpose of meeting existing liabilities.

[U.S.C., title 12, sec. 464.]

(g) In estimating the reserve balances required by this Act, member banks may deduct from the amount to their gross demand deposits the amounts of balances due from other banks (except Federal Reserve banks and foreign banks) and cash items in process of collection payable immediately upon presentation in the United States, within the meaning of these terms as defined by the Board of Governors of the Federal Reserve System.

[U.S.C., title 12, sec. 465.]

Section 11 of the Federal Reserve Act provides in part as follows:

The Board of Governors of the Federal Reserve System shall be authorized and empowered:

* * *

(c) To suspend for a period not exceeding thirty days, and from time to time to renew such suspensions for periods not exceeding fifteen days, any reserve requirements specified in this Act.

[U.S.C., title 12, sec. 248(c).]

* * *

(e) To add to the number of cities classified as reserve cities under existing law in which national banking associations are subject to the reserve requirements set forth in section [nineteen] of this Act; or to reclassify existing reserve cities or to terminate their designation as such.

[U.S.C., title 12, sec. 248(e).]

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BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

SUPPLEMENT TO REGULATION D

As amended effective February 12, 1970

SECTION 204.5—SUPPLEMENT

(a) **Reserve percentages.** Pursuant to the provisions of section 19 of the Federal Reserve Act and § 204.2(a) and subject to paragraphs (b) and (c) 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 city—**

(i) 3 per cent of (a) its savings deposits and (b) its time deposits, open account, that constitute deposits of individuals, such as Christmas club accounts and vacation club accounts, that are made under written contracts providing that no withdrawal shall be made until a certain number of periodic deposits have been made during a period of not less than 3 months; plus

(ii) 3 per cent of its other time deposits up to \$5 million, plus 6 per cent of such deposits in excess of \$5 million; plus

(iii) 12½ per cent of its net demand deposits up to \$5 million, plus 13 per cent of such deposits in excess of \$5 million.

(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) 3 per cent of (a) its savings deposits and (b) its time deposits, open account, that constitute deposits of individuals, such as Christmas club accounts and vacation club accounts, that are made under written contracts providing that no withdrawal shall be made until a certain number of periodic deposits have been made during a period of not less than 3 months; plus

(ii) 3 per cent of its other time deposits up to \$5 million, plus 6 per cent of such deposits in excess of \$5 million; plus

(iii) 17 per cent of its net demand deposits up to \$5 million, plus 17½ per cent of such deposits in excess of \$5 million.

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

(c) **Reserve percentages against certain deposits by foreign banking offices.** Deposits represented by promissory notes, acknowledgments of advance, due bills, or similar obligations described in § 204.1(f) to foreign offices of other banks,⁸ or institutions the time deposits of which are exempt from the rate limitations of Regulation Q pursuant to § 217.3(g) thereof, shall not be subject to paragraph (a) of this section or to § 204.3(a)(1) and (2); but during each week of the four-week period beginning October 16, 1969, and during each week of each successive four-week ("maintenance") period, a member bank shall maintain with the Reserve Bank of its district a daily average balance equal to 10 per cent of the daily average amount of such deposits during the four-week ("computation") period ending on the Wednesday fifteen days before the beginning of the maintenance period; except that only 3 per cent need be so maintained against such deposits which are time deposits⁹ aggregating not more than 4 per cent of such member bank's daily average deposits subject to paragraph (a) of this section during the computation period. An excess or deficiency in reserves in any week of a maintenance period under this paragraph shall be subject to § 204.3(a)(3), as if computed under § 204.3(a)(2), and deficiencies under this paragraph shall be subject to § 204.3(b).¹⁰

⁸ I.e., offices of other banks not covered by § 204.1(f)(1).

⁹ For the purposes of this paragraph, "time deposits" means any deposit having a maturity of one day or more.

¹⁰ The term "computation period" in § 204.3(a)(3) and (b) shall, for this purpose, be deemed to refer to each week of a maintenance period under this paragraph.