

FEDERAL RESERVE BANK  
OF NEW YORK

[Circular No. 7025  
October 25, 1972]

NOVEMBER 9, 1972 SET AS EFFECTIVE DATE OF AMENDMENTS TO REGULATIONS D AND J

To All Banks in the Second Federal Reserve  
District, and Others Concerned:

Following is the text of a statement issued October 24 by the Board of Governors of the Federal Reserve System:

The Board of Governors of the Federal Reserve System announced today a new effective date--November 9--for implementing amendments to its Regulations D and J relating to a restructuring of reserve requirements and new check collection rules.

The amendments had originally been scheduled to go into effect on September 21 but were delayed as a result of court action. Subsequent developments in the courts, however, now make it possible for the Board to set a new effective date for the regulatory changes which will:

--Apply the same reserve requirements to member banks of like size, regardless of a bank's location (Regulation D).

--Require all banks served by the Federal Reserve check collection system to pay for checks in immediately available funds the same day the checks are presented for payment by the Federal Reserve (Regulation J).

The Regulation J change will go into effect on November 9 while the Regulation D changes will take effect in two steps beginning on that date. The change in Regulation J is part of a program to modernize the Nation's payments mechanism which also includes establishment of Regional Check Processing Centers for the overnight clearing of checks.

The reserve restructuring will apply the following ratios of reserve requirements on net demand deposits to all member banks:

<u>Amount of net demand deposits</u>	<u>Reserve percentages applicable</u>
First \$2 million or less	8 per cent
Over \$2 million to \$10 million	10 per cent
Over \$10 million to \$100 million	12 per cent
Over \$100 million to \$400 million	13 per cent
Over \$400 million	17-1/2 per cent



The first three ratios--8, 10 and 12 per cent--will go into effect beginning in the statement week of November 9 to November 15. In addition, the reserve ratio of 17-1/2 per cent that now applies to demand deposits at present reserve city banks will be reduced to 16-1/2 per cent on net demand deposits between \$100 million and \$400 million as part of step one.

During the statement week of November 16 to November 22, this latter ratio will be reduced from 16-1/2 per cent to 13 per cent.

The revisions are intended to be neutral with respect to monetary policy. The date of implementation has been timed to phase in with seasonal reserve needs, and to give commercial banks time to make necessary adjustments to the revised regulations.

As announced previously, Federal Reserve Banks will grant temporary waivers of penalties on certain deficiencies in reserves attributable to changes in Regulations D and J. These waivers have already been arranged with member banks and will take effect November 9. Also, Federal Reserve credit will be made available to nonmember banks in the event that the new check collection rules result in a significant impairment of liquidity or impair the bank's ability to serve its community.

Action to delay the original effective date of September 21 resulted from the issuance of a temporary restraining order by the U.S. District Court for the District of Columbia on a petition filed by the Independent Bankers Association of America and the Western Independent Bankers.

On October 19, 1972 the U.S. District Court for the District of Columbia denied a motion for a preliminary injunction sought by the plaintiffs on the ground that the plaintiffs had failed to carry the burden of establishing (1) that they would be irreparably injured if the amendments to Regulation J were put into effect, and (2) that they would be likely to succeed on the merits of the case after full trial. This decision was consistent with the decision rendered on October 10, 1972 by the U.S. District Court for the Central District of California in an action brought by a group of California banks seeking to enjoin full implementation of the Board's Regulation J; this court's decision on a motion for preliminary injunction was also based on these same grounds.

Printed at the end of this circular is the text of the Board of Governors' order in this matter.

Regulation J, Collection of Checks and Other Items  
by Federal Reserve Banks

To implement the amendments to Regulation J, we sent you, with our Circular No. 7001, dated September 15, 1972, various documents relating to our Operating Circulars Nos. 4, 5, 6, and 7. When the effective date of those amendments was postponed, we informed you, in our Circular No. 7003, dated September 20, 1972, of changes that should be made in the documents previously sent to you.



In view of the fact that the suspension of the effective date of the Regulation J amendments will terminate shortly, the instructions contained in our Circular No. 7003 are revoked and the provisions of the documents sent to you on September 15, 1972 are reinstated, except that--

(a) The revised Operating Circular No. 6 is effective November 9, 1972; and the revised Operating Circular No. 5, and Appendix No. 1 (New York Head Office Time Schedule) to that circular, are effective November 8, 1972.

(b) The effective dates of the revised Operating Circular No. 7, the Second Supplement to Operating Circular No. 4, and Appendix No. 1-A (Long Island Regional Check Processing Center (LIRCPC) Time Schedule) to Operating Circular No. 5 remain unchanged. However, the changes in credit availability for certain classes of items deposited by participating banks in the LIRCPC that are set forth on page 2 of our Circular No. 7003 will remain in effect until November 8, 1972, at which time credit for such items will be given one business day after receipt.

(c) The instructions in Circular No. 7003 with respect to Appendix No. 2 (Buffalo Branch Time Schedule) to Operating Circular No. 5 will remain in effect until November 8, 1972. A revision of that Appendix, effective November 8, 1972, will be sent to you shortly.

In our Circular No. 7003, dated September 20, 1972, the effective date of the Immediate Payment Agreements also was postponed pending judicial determination and subsequent action by the Board of Governors. If your bank has entered into an Immediate Payment Agreement with this Bank and that agreement is not in effect as of this time, that agreement shall be effective with respect to cash letters received by you on and after November 9, 1972. Accordingly, your or your correspondent's account on our books will be charged on November 9 for the cash letter sent by us to your bank on November 8. The Immediate Payment Agreements entered into by banks participating in this Bank's Long Island and Western New York Regional Check Processing Centers remain unchanged.

This circular constitutes our notice that if there is an Automatic Charge Agreement in effect between us, that agreement shall be terminated on November 8, 1972; however, such termination shall not affect this Bank's right to make debits and credits required by, or incidental to, said agreement relating to any cash letter received by you on or before November 8, 1972. Pursuant to the terms of the Automatic Charge Agreement, your or your correspondent's reserve account will also be charged on November 9, for the cash letter sent by us to your bank on November 7. Accordingly, we remind you that your bank will be faced with a need to pay for both cash letters on November 9.



Regulation D, Reserves of Member Banks

The changes in reserve requirements on net demand deposits of member banks will go into effect as indicated in the Board of Governors' statement quoted above.

The dates of the periods during which waivers of certain penalties for deficiencies in reserves have been authorized by the Bank remain unchanged--the first period will terminate on December 27, 1972 and the last period will terminate on June 30, 1974.

Availability of Federal Reserve credit

This Bank will continue to be receptive to requests from member banks in need of temporary credit to tide them over the period of adjustment to the new check collection rules. Also, in the event that the regulatory changes result in a significant impairment of the liquidity of any nonmember bank or impair its ability to serve its community, Federal Reserve credit will be made available for such nonmember bank on substantially the same terms as are applied to member banks for as long as may be necessary to enable such a bank to adjust to the new situation.

Inquiries to this Bank

If you are in the Head Office territory and you have any questions regarding the matters referred to in this circular, you may contact the following officers of this Bank (Telephone No. 212-732-5700):

Check collection matters ..... James O. Aston, Assistant Vice  
President, Extension 8412  
Karl L. Ege, Assistant Vice  
President, Extension 8322

Waivers of penalties and other  
reserve account matters .... Walter S. Rushmore, Assistant Vice  
President, Extension 8061

Credit accommodation ..... Herbert H. Ruess, Manager, Credit  
and Discount Department,  
Extension 8091



If you are in the Buffalo Branch territory, you may contact either of the following officers of the Branch (Telephone No. 716-853-1700):

Ronald B. Gray, Assistant Vice President and Cashier,  
Extension 204

Peter D. Luce, Assistant Cashier  
Extension 206

Additional copies of this circular will be furnished upon request.

Alfred Hayes,  
*President.*

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(Regs. D and J)

12 CFR PART 204--RESERVES OF MEMBER BANKS

12 CFR PART 210--COLLECTION OF CHECKS AND OTHER ITEMS  
BY FEDERAL RESERVE BANKS

Effective Dates of Amendments

As a result of the temporary restraining order entered September 19, 1972, by the U.S. District Court for the District of Columbia upon petition filed by the Independent Bankers Association of America and the Western Independent Bankers, the effective dates for amendments to the Board's Regulation D (12 CFR Part 204) as set forth in the Federal Register of June 28, 1972 (37 Federal Register 12713), and for amendments to the Board's Regulation J (12 CFR Part 210) as set forth in the Federal Register of June 28, 1972 (37 Federal Register 12714), were postponed by the Board of Governors on September 20, 1972 pending judicial determination and subsequent action by the Board.

On October 19, 1972, the U.S. District Court for the District of Columbia denied a motion for a preliminary injunction sought by the plaintiffs on the grounds that plaintiffs had failed to carry the burden of establishing (1) that they would be irreparably injured if the amendments to Regulation J were put into effect, and (2) that they would be likely to succeed on the merits of the case after full trial. The decision of the U.S. District Court for the District of Columbia was consistent with the decision rendered on October 10, 1972 by the U.S. District Court for the Central District of California in an action brought by a group of California banks seeking to enjoin full implementation of the Board's Regulation J; this court's decision on a motion for preliminary injunction was also based on these same grounds.



As a result of these court determinations, the Board has decided to implement the amendments to Regulation D and Regulation J.

The amendments to Regulation J, which were scheduled to become effective on September 21, 1972, are effective November 9, 1972.

The amendments to Regulation D which were scheduled to become effective September 21, 1972 are effective November 9, 1972. The amendments to Regulation D which were scheduled to be effective for the period September 21, 1972 to September 27, 1972 are effective for the period November 9, 1972 to November 15, 1972. The amendments to Regulation D which were scheduled to become effective on September 28, 1972 are effective November 16, 1972. It should be noted that the date "September 21, 1972" appearing in Paragraph 204.5(a)(1)(iii) of Regulation D--in the amendments previously scheduled to become effective for the period September 21, 1972 to September 27, 1972--should now read "November 9, 1972".

By order of the Board of Governors, October 24, 1972.