

FEDERAL RESERVE BANK  
OF NEW YORK

[ Circular No. 7230  
September 12, 1973 ]

PROPOSED AMENDMENT TO REGULATION D

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

The Board of Governors of the Federal Reserve System has proposed an amendment to its Regulation D, "Reserves of Member Banks," that would classify certain "Other liability" accounts — used to balance a member bank's books at the end of a business day after debiting demand deposit accounts or other accounts for the transfer of funds for which settlement has not yet been made — as deposits against which reserves must be maintained.

Printed below is the text of the proposal. Comments thereon should be submitted by October 12, and may be sent to our Regulations and Bank Analysis Department.

ALFRED HAYES,  
President.

(Reg. D)  
RESERVES OF MEMBER BANKS  
Definition of Gross Demand Deposits

The Board of Governors proposes to apply reserve requirements against certain accounts classified among "Other liabilities" against which reserves are presently not maintained. The certain "Other liability" accounts against which reserve requirements will now apply are those accounts which a member bank has created to balance its books after debiting demand deposit accounts (or any other accounts for the transfer of funds).

For example, member banks, at present, sometimes exchange checks in the late afternoon or evening, and may debit an account on the day the checks were received, while not making settlement until the following business day. Some banks balance their books until the next business day by creating an "Other liability" account the night that the debit is posted. On the next business day, the "Other liability" account is debited and the check is paid. The Board of Governors proposes to regard that "Other liability" account as a "deposit" against which reserves must be maintained.

"Other liability" accounts that are used for other purposes would not be affected, e.g. bills payable for services and supplies received and for which payment is not yet due.

There are several reasons why the Board proposes the change. The use of an "Other liability" account for this purpose involves a one business day delay in crediting accounts after debits are posted and the practice may deprive customers of the use of funds in a way that is difficult to detect and is misleading. The Board is also concerned that the practice outlined above can result in understatement of the money supply. Also, a bank that became accustomed to the

practice described may have problems in adapting to any electronic payments mechanism that will require simultaneous credits and debits. Finally, the practice allows the level of required reserves to be lower than the Board intended.

To aid in the consideration of this matter by the Board, interested persons are invited to submit relevant data views, and arguments. Any such material should be submitted in writing to the Secretary, Board of Governors of the Federal Reserve System, Washington, D. C. 20551, to be received not later than October 12, 1973. Such material will be made available for inspection and copying upon request, except as provided in § 261.6(a) of the Board's Rules Regarding Availability of Information.

To implement its proposal, the Board proposes to amend section 204.1(g) of its Regulation D (12 CFR Part 204) by adding a new sentence at the end thereof to read as follows:

SECTION 204.1 — DEFINITIONS.

\* \* \*

(g) Gross demand deposits. \* \* \*

"Gross demand deposits" also includes any obligation to pay a check (or other instrument, device, or arrangement for the transfer of funds) drawn on the Bank, where the account of the bank's customer has already been debited.

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By order of the Board of Governors, September 7, 1973.