FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 7326
January 25, 1974]

PROPOSED LEGISLATION REGARDING
UNIFORM RESERVE REQUIREMENTS

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

Printed below is the text of a statement issued January 25 by the Board of Governors of the Federal Reserve System, the text of a proposed bill sent to the chairmen of the committees responsible for banking legislation in the United States Senate and the House of Representatives, and the text of the Board of Governors' letter transmitting the proposed legislation. I strongly support the proposed legislation and urge you to consider carefully — in the interests of the banking community and the economy — the reasons given for the proposal.

Additional copies of this circular will be furnished upon request.

Alfred Hayes,
President.

Statement by Board of Governors

The Board of Governors of the Federal Reserve System today sent to Congress draft legislation designed to implement its recommendations for uniform reserve requirements. The proposed legislation has the following purposes:

To achieve better management of money and credit, to provide a more equitable system of reserve requirements among financial institutions that offer similar deposit services, and to permit Federal Reserve lending assistance to a broader range of financial institutions when and as they come under unusual liquidity pressures.

The draft legislation would extend reserve requirements set by the Federal Reserve to the demand deposits and Negotiable Orders of Withdrawal (NOWs), at all financial institutions — commercial banks, savings and loan associations and mutual savings banks. The proposal would also provide a widening of the permissible range of reserve requirements.

The Board said the basic principle underlying the proposed legislation is that equivalent cash reserve requirements should apply to all deposits that effectively serve as a part of the public's money balances, regardless of the type institution in which those balances are held.

While providing a greater measure of monetary control in the economy, the draft legislation would at the same time preserve the balance of supervisory powers inherent in a dual banking system. More than 3,000 of the smaller nonmember banks will be effectively exempt from the new requirements. The proposal does not require membership in the Federal Reserve System on the part of State banks. As at present, State-chartered banks may join the Federal Reserve System or not, as they choose. Regardless of their membership status, however, State banks under the legislation would be subject to Federal Reserve reserve requirements on demand deposits and NOW accounts and would have access to Federal Reserve credit at the discount window. Supervision of thrift institutions also would remain unchanged.

Reserve requirements set by State authorities under State law vary from State to State. In about half the States, the percentage requirements for demand deposits are identical or differ very little (except for large banks) from the percentages now set by the Federal Reserve. Percentages in 15 States are higher while in 7 other States they are lower.

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The major difference between State requirements and reserve requirements set by the Federal Reserve, however, is in the form in which requirements are held. Reserve requirements set by the Federal Reserve must be held, under law, in the form of vault cash or funds deposited with a Federal Reserve Bank. State requirements can be satisfied not only by holding cash but also in a number of other ways — by holding deposits with other banks or by holding interest-bearing Federal or State securities. Reserves held in this manner do not contribute to the monetary policy function of reserves, since the funds are available to finance additional deposit and credit expansion. Thus, the principal thrust of the proposed legislation would be to change the form in which nonmember banks hold their reserves — that is, by holding reserves in the form of cash or balances with Federal Reserve Banks.

The proposal, which differs in some details from earlier recommendations by the Board, would provide a four-year transition period — during which reserve requirements would gradually be phased in — for institutions not now subject to Federal Reserve reserve requirements.

Details of the draft legislation are as follows:

1. Demand deposits would be subject to a reserve requirement, set by the Board, ranging from 5 per cent to 22 per cent. The present range is from 7 per cent to 22 per cent — from 10 to 22 per cent at reserve city banks and from 7 to 14 per cent at other banks. Under the proposal, no distinction would be made between reserve city and other banks.

2. Interest-bearing deposits from which withdrawals may be made by negotiable instrument (such as NOWs) would be subject to a reserve requirement ranging from 3 per cent to 20 per cent. NOW accounts at member banks in Massachusetts and New Hampshire — the only States where such accounts are permissible — are at present subject to the reserve requirement that applies to time and savings deposits, which may range from 3 per cent to 10 per cent.

3. There would be no required reserves against the first $2 million of net demand deposits and NOWs at nonmember institutions.

4. Time and savings deposits of member banks would be subject to a reserve requirement ranging from 1 per cent to 10 per cent (instead of 3 per cent to 10 per cent as at present). Time and savings deposits of nonmember institutions would not be subject to Federal Reserve reserve requirements.

5. Every institution that receives demand deposits or offers NOW accounts would be required to report its deposit liabilities and required reserves, if any, as the Board requested.

6. Nonmember institutions that would be required to maintain Federal Reserve reserve requirements would be able to obtain credit through the Federal Reserve discount window, subject to regulations issued by the Board.

7. A transition period of four years would apply to the total amount of demand deposits held by nonmember institutions at the time of enactment of the new law. During the first calendar year following the date of enactment, an institution would be required to carry 20 per cent of the required reserve on these base period demand deposits, 40 per cent during the second year, 60 per cent during the third year, 80 per cent during the fourth year and 100 per cent after that. Additions to demand deposits beyond the base period amount would be subject to the full reserve requirement.

8. The new law would become effective at the beginning of the first calendar year following its enactment.

The essential function of Federal Reserve reserve requirements is to serve as a fulcrum for monetary policy. Such reserve requirements provide a known and controllable base through which the reserve-supplying and reserve-absorbing actions of the Federal Reserve can affect the supply of money and credit. The different reserve requirements set by the various States do not serve this purpose.

Federal Reserve reserve requirements, however, presently apply only to banks that are members of the Federal Reserve System — about 5,700 out of 14,000 total commercial banks in the country.

The proportion of demand deposits held by member banks has been declining over the years, however, so that the Federal Reserve's control over bank reserves (and the money supply) has been eroding. In 1960, member banks held about 83 per cent of the demand deposits that make up the money supply. Presently, about 75 per cent of the demand deposit component of the money supply is held at member banks. Also, the demand deposit component of the money supply has grown more rapidly at nonmember banks than at member banks, and the rate of growth at nonmember banks has varied much more from year to year. Since 1960, the demand deposit component of the money supply held at nonmember banks has grown by about 164 per cent, while the growth at member banks has been about 61 per cent.

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In a letter transmitting the draft legislation to Congress, Board Chairman Arthur F. Burns described the situation in this way:

"Recent trends in nonmember demand deposits and in the develpoment of NOW accounts surely presage a continued, and perhaps accelerated, growth of money-type deposits at nonmember financial institutions. No one can be certain at what exact point this growth will make control over monetary aggregates ineffective, but erosion of the reserve base progressively weakens the reliability of our present monetary instruments.

"The proposed legislation extends reserve requirements set by the Federal Reserve only to accounts which are directly employed in making money payments — that is, to demand deposits and to savings accounts with third party payment features. The proposal does not recommend applying Federal Reserve reserve requirements to time and savings deposits other than NOW accounts. These deposits do in some degree serve a money-like function, but they are not highly active deposits. Also, under present conditions, there do not appear to be frequent, or large-scale, shifts of funds back and forth between demand and time (or savings) accounts. Shifts among demand deposits, NOW accounts, and other time deposits would become more prevalent in the future, however.

"The proposed legislation is not intended to alter the existing chartering options for banking institutions, to favor or disadvantage different types of institutions, or to change the balance among supervisory authorities. State-chartered institutions may continue either to join the Federal Reserve System or not, as they choose. Whether they do or do not — and it is anticipated that many would remain outside the System — they would become subject to reserve requirements set by the Federal Reserve on demand deposits and on NOW and similar savings accounts.

"Thus, the specific proposals have been drawn in such a way as to achieve more precision in monetary control and more equity in competition without altering the diversified banking and financial structure that now serves the country. . ."

Transmittal Letter to Congress

Dear Mr. Chairman:

The Board of Governors herewith submits for Congressional consideration legislation that would extend reserve requirements set by the Federal Reserve System to nonmember institutions — commercial banks, mutual savings banks, savings and loan associations and the like — to the extent that such institutions issue demand or other types of deposits that perform a checking account function. The proposed bill also makes certain other revisions in related Federal Reserve powers, including a widening of the permissible range of reserve requirements and expanded authority for the Federal Reserve Banks to lend directly to nonmember institutions encompassed by the extended reserve requirement system. The Board strongly recommends adoption of the proposed legislation.

The purposes of the proposed legislation are to make the nation's monetary system more responsive to Federal Reserve actions, to facilitate better management of money and credit, to provide a more equitable system of reserve requirements for financial institutions offering similar deposit services, and to permit Federal Reserve credit assistance to a broader range of financial institutions when and as they come under unusual liquidity pressures. At the same time, it should be noted that the bill does not require membership in the Federal Reserve System on the part of State commercial banks or other nonmember institutions, nor does it contemplate any change in present supervisory arrangements.

Background

The principle that underlies the proposed legislation is simple and straightforward — namely, that equivalent cash reserve requirements should apply to all deposits that effectively serve as a part of the public's money balances, whether held at member banks, nonmember banks or other financial institutions. Recent growth of nonmember banks and recent efforts by nonbank depository institutions to evolve new arrangements for money transfers make adoption of this principle a matter of some urgency.

Proposals for uniform reserve requirements are not new. Comparable reserve treatment for member and nonmember banks was embodied in the recommendations of a Congressional committee chaired by Senator Douglas in 1950, repeated in 1952 in the recommendations of a Congressional committee chaired by Congressman Patman, endorsed by the Commission on Money and Credit in 1961, reaffirmed by the President's Committee on Financial Institutions in 1963, and urged again in the 1971 report of the President's Commission on Financial Structure and Regulation.

Since 1964 the Board has repeatedly urged the application of reserve requirements set by the Federal Reserve to nonmember banks as well as member banks. In 1970 the Board requested that such reserve requirements be placed on deposits subject to withdrawal by check at all financial institutions. By 1972 the rapid

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evolution of the financial system made it clear that reserve requirements set by the Federal Reserve would need also to be extended to so-called NOW (negotiable order of withdrawal) accounts, which serve a function similar to demand deposits.

A main benefit to be derived from the legislation proposed by the Board is that it would buttress the basic role of reserve requirements in the functioning of monetary and credit policy. Before the Federal Reserve System was founded, reserve requirements were imposed by legislation at the national and State levels as a means of protecting bank liquidity. That philosophy was reflected in the original structure of reserve requirements established for Federal Reserve member banks. Higher requirements were set for reserve city banks than for country members, and still higher requirements were imposed on central reserve city banks. Vestiges of that initial structure remain, even today.

Required reserves, however, have not proved in practice to be an important source of operating liquidity for banks, except as they can be used within the weekly reserve acounting period to absorb large fluctuations in check clearings. The reserves required to bank deposits cannot be withdrawn to finance a rise in loan demand, and they are available to supply only a small portion of the funds needed to accommodate deposit losses. The essential function of reserve requirements today is not to provide liquidity, but to serve as a fulcrum for monetary policy — that is, to provide a known and controllable base through which the reserve-supplying and reserve-absorbing actions of the Federal Reserve can affect the supply of money and credit.

To achieve good management over the supply of money and credit, reserve requirements must be met by holding assets which are outside the payments stream and whose aggregate volume is under the control of the Federal Reserve. Whatever their role may be in protecting bank liquidity, the reserve requirements set by the various States do not meet this test.

State-determined reserve requirements on nonmember banks vary from one jurisdiction to another, ranging for net demand deposits around the level of reserve requirements set by the Federal Reserve. More important, however, is the form in which these reserves are held. State requirements can be satisfied not only by the holding of cash but also in a number of other ways — for example, by holding deposits with other banks or by holding interest-bearing securities. Holdings in the last two forms do not contribute to the monetary policy function of reserves, since the funds so used remain available to finance additional deposit and credit expansion. When a nonmember bank satisfies all or part of its State reserve requirement by holding deposits at a member bank, that member bank is of course required by the Federal Reserve to hold cash reserves at a Federal Reserve Bank or in the bank vault against these deposits in the same way as for any of its deposits. But, in this case, the size of cash reserve held by the member bank is quite small relative to the initial deposit at the nonmember bank. The minor degree to which deposits in nonmember institutions are indirectly backed by reserves that satisfy reserve requirements of the Federal Reserve — as well as the lack of uniformity in reserve requirements among the States — complicates the task and reduces the precision of monetary control. Thus, the principal thrust of the proposed legislation is to change the form in which nonmember banks may hold their reserves — that is, by meeting Federal Reserve regulations with respect to vault cash and reserve balances held with Federal Reserve Banks.

The task of monetary policy is complicated because shifts in deposits between member banks and nonmember institutions alter the relationship between reserves under the control of the Federal Reserve and the nation's deposits. For example, if the Federal Reserve is attempting to restrain monetary growth during an inflationary period, it will be providing bank reserves more slowly. If the public's preferences for deposits at nonmember institutions as compared with member banks were unchanged, the increase in the nation's bank deposits and money supply would be about in line with the slower growth in bank reserves. But if the public is at the same time shifting deposits into nonmember banks — as has often occurred, and to a large and unpredictable extent — there would be a greater monetary expansion than desired. This would happen because deposits at nonmember institutions require less cash reserves than at member banks, and thus the total of deposits that could be supported by the available total of cash reserves would be enlarged.

The growing dimension of this problem can be indicated statistically. Since 1960 the demand deposit component of the nation's money supply held at nonmember banks has grown by 164 per cent, while such deposits held at member banks have grown by only 61 per cent. By the end of 1973, about 25 per cent of demand deposits in the money supply were held at nonmember banks.

Not only are the demand deposits at nonmember banks growing more rapidly than at member banks, but the available evidence indicates that deposit growth at nonmember banks has varied much more from year to year than at member banks. This is shown in the attached Table 1. The more erratic growth rates at nonmember banks compound the difficulties of monetary control under the prevailing reserve structure.

The net increase in the number of nonmember banks is shown in Table 2. Overall since 1960, about 750 banks have left the Federal Reserve System through withdrawal or mergers. About 140 State-chartered banks have elected to join the System since 1960. Just over 1,700 others receiving new State charters chose to remain outside the System. The increase in relative importance of both the number of nonmember banks and their deposit holdings has accelerated since 1968, with growth particularly rapid in the past three years.

The main reason for this trend toward avoidance of Federal Reserve membership is the earnings loss that

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banks conclude they suffer in meeting Federal Reserve reserve requirements. Banks must forego earning assets to build up a reserve balance in the Federal Reserve. That reserve balance pays no interest, although member banks do receive some services from the Federal Reserve.

The potential development at thrift institutions of savings accounts with transfer features similar to checking accounts poses a new risk of slippage in monetary control. In 1973, experimentation with NOW accounts was authorized by the Congress under certain regulatory conditions in two States. These accounts in important degree are capable of substituting for demand deposits, since, unlike ordinary savings or time accounts, depositors can make payment to third parties on the basis of withdrawals in the form of transferable or negotiable instruments. It may well come to the point where the average householder makes a sizable share of his ordinary payments through these accounts. Under present law, these accounts are not subject to reserve requirements set by the Federal Reserve, except at member banks. But in the two States affected, all kinds of depository institutions are authorized to issue these accounts.

Recent trends in nonmember demand deposits and in the development of NOW accounts surely presage a continued, and perhaps accelerated, growth of money-type deposits at nonmember financial institutions. No one can be certain at what exact point this growth will make control over monetary aggregates ineffective, but erosion of the reserve base progressively weakens the reliability of our present monetary instruments.

The proposed legislation extends reserve requirements set by the Federal Reserve only to accounts which are directly employed in making money payments —that is, to demand deposits and to savings accounts with third party payment features. The proposal does not recommend applying Federal Reserve reserve requirements to time and savings deposits other than NOW accounts. These deposits do in some degree serve a money-like function, but they are not highly active deposits. Also, under present conditions, there do not appear to be frequent, or large-scale, shifts of funds back and forth between demand and time (or savings) accounts. Shifts among demand deposits, NOW accounts, and other time deposits would become more prevalent in the future, however.

The proposed legislation is not intended to alter the existing chartering options for banking institutions, to favor or disadvantage different types of institutions, or to change the balance among supervisory authorities. State-chartered institutions may continue either to join the Federal Reserve System or not, as they choose. Whether they do or do not — and it is anticipated that many would remain outside the System — they would become subject to reserve requirements set by the Federal Reserve on demand deposits and on NOW and similar savings accounts.

Thus, the specific proposals have been drawn in such a way as to achieve more precision in monetary control and more equity in competition without altering the diversified banking and financial structure that now serves the country. Key specific proposals, and their purposes, are indicated below.

Provisions of the proposed legislation

Apart from exemptions of importance to small nonmember institutions, the bill proposes that every institution receiving demand deposits be required to maintain reserves as determined by the Board of Governors of the Federal Reserve System in a ratio of not less than 5 per cent nor greater than 22 per cent of such deposits. With regard to interest-bearing deposits from which the depositor is allowed to make withdrawals by negotiable or transferable instrument, the reserve requirement range would be from 3 per cent to 20 per cent, as determined by the Board.

Institutions covered would include member and nonmember banks and savings and depository institutions generally. Also included would be U.S. located, foreign-owned banking institutions that accept demand deposits. This would encompass institutions chartered under State or Federal law and owned by foreign individuals or by foreign banks and U.S. branches of foreign banks. All of these institutions would be required to hold reserves on demand deposits or NOW accounts at Federal Reserve Banks or in the form of vault cash.

The proposed range of reserve requirements for demand deposits is slightly wider than the present range of requirements permitted by law. The present range of net demand deposits is from 7 per cent to 22 per cent. The Board's effective reserve requirements are currently graduated by size of deposit, so that smaller banks have lower reserve requirements than larger banks with generally more active accounts.

A wide range within which the Board can set reserve requirements permits maximum flexibility in the use of the reserve requirement instrument. The structure of reserve requirements can be more readily keyed to the size of bank, with reserve requirements graduated by size of deposit. Moreover, with reserve requirements applicable to both member and nonmember institutions, it would be practical for changes in reserve requirements to be utilized more frequently as an instrument of policy. This instrument has the advantage of permitting monetary policy to affect the reserve position of all banks immediately and thus to attain a prompt change in bank credit availability. In the past, use of the reserve requirement instrument has been quite limited, in part because it applied only to member banks and changes would therefore tend to distort existing competitive relationships between member and other banks.

The lower range of reserve requirements proposed for savings accounts with third-party transfer privileges would permit lower reserve requirements on these accounts than on demand deposits with full checking account powers. Whether there should be such a reserve requirement differential, and the extent of it, would depend on experience with NOW accounts and,

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in particular, with the degree to which they begin to assume the function of active money. At present the Federal Reserve cannot set reserve requirements on such accounts at nonmember institutions. Reserve requirements on NOW accounts at member banks in the two States where they currently can be offered are the same as the reserve requirement on ordinary savings deposits at member banks.

The Board recognizes that uniform reserve requirements may impose some burden on nonmember institutions, depending on the level at which requirements are set and on the extent to which they are not satisfied by existing vault cash holdings. This is so because under the proposed legislation, more of the assets of such institutions may need to be held in non-interest-bearing form.

In recognition of this possible impact on the earnings of nonmember institutions, the legislation includes a provision which effectively exempts the first $2 million of the total of net demand deposits and NOW accounts at these institutions from reserve requirements set by the Federal Reserve. For nonmember banks, which hold sizeable amounts of time and savings deposits in addition to their demand accounts, the average size of institution below which there will be a total exemption from reserve requirements set by the Federal Reserve is on the order of $4 million. Nonmember institutions this small are very numerous, but they hold so little of the nation's demand deposits (only about 2½ per cent) that their exemption from reserve requirements of the Federal Reserve would not be a significant handicap for monetary policy.

Given this exemption provision, only about 38 per cent of present nonmember banks would be subject, under the proposed legislation, to reserve requirements that exceeded their own vault cash holdings. Assuming prevailing reserve requirements of the Federal Reserve on demand deposits, the excess of required reserves over vault cash for all nonmembers taken together is estimated to aggregate about $2.3 billion, or less than 1½ per cent of their total resources.

As a further measure to ease any burden on nonmember financial institutions from the transition to uniform requirements, the required reserves on demand deposits over $2 million existing at the time of enactment of the legislation would be phased in over a 4-year period — at the rate of 20 per cent of the total requirement per year, so that by the fifth year the bank would be meeting the full reserve requirement. Any increase in deposits above those existing at time of enactment would, however, be immediately subject to the full reserve requirement. The latter provision is essential because it would promptly permit more effective control by the Federal Reserve over the rate at which the nation's money supply increases.

Nonmember institutions and their communities would also benefit from a provision that permits Federal Reserve credit to be made available to institutions that maintain reserves with Federal Reserve Banks, subject to such limitations as the Board may by regulation prescribe. Under present law, credit to nonmembers is extended only in highly unusual circumstances, and under restrictive conditions as to the type of collateral that may be accepted by the Federal Reserve Bank. The proposed legislation would make it possible for nonmember institutions to have greater access to the Federal Reserve discount window, particularly at times of strong pressures on their liquidity positions. In developing regulations governing such borrowing, however, it would be fair and proper for the Board to give recognition to the remaining differences in the amounts of reserves held at Federal Reserve Banks as between member and nonmember institutions.

The legislation does not propose extension to nonmember institutions of reserve requirements on time and savings deposits apart from NOW accounts. The Board proposes, however, that the lower end of the permissible range within which those requirements can be set for member banks be reduced from the present 3 per cent to 1 per cent, with the upper end remaining at 10 per cent. This change would provide needed flexibility in the administration of reserve requirement policy, since the reserve percentage for passbook savings accounts has been at the permissible minimum for a number of years. Whether and to what extent the Board might use this additional latitude would depend on the evolving structure of the deposit system and the impact that various kinds of deposits are judged to have on public behavior with regard to spending and saving.

The legislation also contains a provision that would require reporting of deposit liabilities by member and nonmember institutions subject to reserve requirements set by the Federal Reserve. This information is needed for monitoring purposes and will permit comparative analysis of the various financial institutions as the proposed reserve structure goes into effect.

I and other members of the Board would be pleased to discuss these proposals more fully with you and other members of your Committee. I urge that you consider scheduling public hearings on the matter at an early date.

Sincerely yours,

ARTHUR F. BURNS

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DRAFT

A BILL

To modify reserve requirements of member banks of the Federal Reserve System; to extend such requirements to other institutions that accept demand deposits or certain other types of deposits; to authorize Federal Reserve Banks to extend credit to such institutions; and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States in Congress assembled,

Short Title

Section 1. This Act may be cited as the Reserve Requirements Act of 1974.

Reserve Requirements for Member Banks and Other Institutions

Section 2. The last sentence of subsection (b) of section 19 of the Federal Reserve Act (12 U.S.C. 461) is designated as paragraph (6) and that part of such subsection (b) that precedes such sentence is amended to read as follows:

"(b)(1) Every institution that receives demand deposits shall maintain reserves against such deposits in such ratio, not less than 5 per centum nor more than 22 per centum, as may be determined by the Board.

"(2) Every institution that receives interest-bearing deposits from which the depositor is allowed to make withdrawals by negotiable or transferable instrument for the purpose of making payments to third persons (referred to in this Act as 'negotiable order of withdrawal accounts') shall maintain reserves against such deposits in such ratio, not less than 3 per centum nor more than 20 per centum, as may be determined by the Board.

"(3) Notwithstanding the foregoing provisions, for each institution that is not a member bank or a corporation operating or organized under section 25 or section 25(a) of this Act there shall be no required reserves against the first $2 million of its net demand deposits or of its negotiable order of withdrawal accounts or of a combination of both.

"(4) Every member bank shall maintain reserves against its time deposits and its savings deposits (other than negotiable order of withdrawal accounts) in such ratio, not less than 1 per centum nor more than 10 per centum, as may be determined by the Board.

"(5) Every institution that receives demand deposits or offers negotiable order of withdrawal accounts shall make reports concerning its deposit liabilities and required reserves at such times and in such manner and form as the Board may require."

Credit to Nonmember Institutions

Section 3. Section 13 of the Federal Reserve Act is amended by adding at the end thereof the following new paragraph:

"Each Federal Reserve Bank may make advances to any nonmember institution in its district that maintains reserves as prescribed by section 19(b) of this Act with due regard to the proportion of its assets held as such reserves and subject to such limitations as the Board may by regulation prescribe."

Conforming Amendments

Section 4. Subsection (c) of section 19 of the Federal Reserve Act is amended by striking "member bank" and inserting "institution"; by striking "of which it is a member" and inserting "of the Federal Reserve district in which its head office is located or such other Federal Reserve Bank as the Board may designate"; and by striking "such bank" each time it appears and inserting "such institution". Subsection (f) of that section is amended by striking out "a member bank" and inserting "an institution" and by striking out "such member bank" and inserting "such institution". Subsection (g) of that section is amended by striking out "member banks" and inserting "institutions". Section 11(e) of the Federal Reserve Act, relating to reclassification of reserve cities, is repealed.

Transition Provisions

Section 5. With respect to any institution, other than a corporation operating or organized under section 25 or section 25(a) of the Federal Reserve Act, that is not a member of the Federal Reserve System and was not a member on January 31, 1974, the reserve against its base demand deposits otherwise required by reason of the enactment of this Act shall be reduced by 80 per centum during the first calendar year that begins after its enactment, 60 per centum during the second year, 40 per centum during the third year, and 20 per centum during the fourth year. For the purposes of this section, the term "base demand deposits" means that portion of an institution's demand deposits that does not exceed the average daily amount of its demand deposits during the calendar month immediately preceding the date of enactment of this Act.

Section 6. This Act shall take effect on the first day of the first calendar year beginning after the date of its enactment.

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Table 1

Member and Nonmember Demand Deposit Components of the Money Supply

4th Quarter	*Member* Amount[1] ($ billions)	*Member* Growth[2] (per cent)	*Nonmember* Amount[1,3] ($ billions)	*Nonmember* Growth[2] (per cent)
1960	96.2	0.4	20.1	1.3
1961	99.2	3.1	21.0	4.2
1962	99.2	0.0	22.1	5.3
1963	102.0	2.9	23.6	6.6
1964	105.7	3.6	25.2	7.1
1965	109.0	3.1	27.1	7.4
1966	110.4	1.3	28.2	3.9
1967	117.7	6.6	30.2	7.1
1968	125.3	6.5	33.4	10.9
1969	128.1	2.2	36.5	9.0
1970	135.2	5.5	38.4	5.3
1971	142.1	5.1	43.1	12.3
1972	149.9	5.5	49.1	14.1
1973[4]	154.5	3.1	53.0	7.9

[1] Average of daily figures, not seasonally adjusted.

[2] Fourth quarter to fourth quarter annual rate of growth.

[3] Nonmember data are based on the ratios of member to nonmember deposits at Call dates and interpolated between such dates.

[4] Partially estimated.

Table 2

Nonmember Banks Compared to All Commercial Banks

	Number of Nonmember Banks (As of December 31)	*Per cent of Number of All Commercial Banks* (As of December 31)	*Per cent of Demand Deposits in Money Supply at Nonmembers* (December Average)
1960	7,300	54.2	17.2
1961	7,320	54.5	17.5
1962	7,380	55.0	18.1
1963	7,458	55.0	18.7
1964	7,536	54.8	19.2
1965	7,583	54.9	19.9
1966	7,617	55.3	20.2
1967	7,651	55.8	20.3
1968	7,701	56.3	21.0
1969	7,792	57.0	22.1
1970	7,919	57.9	22.1
1971	8,056	58.4	23.3
1972	8,223	59.0	24.6
1973	8,412[1]	59.5[1]	25.4[2]

[1] As of October 31.

[2] Partially estimated.

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