

FEDERAL RESERVE BANK  
OF NEW YORK

[ Circular No. 7914 ]  
July 8, 1976

INTERPRETATION OF REGULATION D

Automated Payment Arrangements

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

The Board of Governors of the Federal Reserve System has issued an interpretation of its Regulation D, "Reserves of Member Banks," regarding the treatment of certain automated payments in the computation of member bank reserves.

Enclosed is a copy of the interpretation. Any inquiries thereon may be directed to our Bank Regulations Department. Additional copies of the enclosure will be furnished upon request.

PAUL A. VOLCKER,  
*President.*

# Board of Governors of the Federal Reserve System

## RESERVES OF MEMBER BANKS

### INTERPRETATION OF REGULATION D

#### Automated Payment Arrangements and the Use of Cash Items in Process of Collection

##### §204.118 Cash items in process of collection

The Board of Governors has issued the following interpretation regarding the ability of a member bank to include certain automated payments in the account "cash items in process of collection." Such payments are regarded as cash items and are permitted to be deducted from "gross demand deposits" used in computing member bank reserves. The Board has issued the interpretation based upon its statutory authority to define cash items under § 19(g) of the Federal Reserve Act, 12 U.S.C. 465, and its regulatory authority under § 204.2(b) of Regulation D (12 CFR 204.2(b)).

(a) As a result of involvement in automated arrangements in which payment information is contained on magnetic tape, paper listings, etc., rather than checks, a number of member banks have inquired as to the proper reserve requirement treatment for payroll, Federal recurring payments, and other items received for credit to a customer's account in such arrangements.

(b) Where payment information is sent to a member bank prior to the date credit is passed for the item, some banks have been crediting their customers on the date prior to that payment date to ensure that such deposit is available to the depositor at opening of business on the payment date. Such procedure, however, results in an increase in reported member bank deposits

even though the member bank does not itself receive credit for the funds until the next day. Some member banks have inquired as to whether the account "cash items in process of collection" may be debited in an amount equal to the amount credited on the date prior to the payment date.

(c) Section 19(g) of the Federal Reserve Act (12 U.S.C. 465) permits a member bank to deduct "cash items in process of collection" as defined by the Board. Section 204.2(b) of Regulation D provides that cash items may be deducted from gross demand deposits, and § 204.1(h)(3) defines cash items in the process of collection as "those customarily cleared or collected by banks as cash items." The deduction was intended, in part, to avoid the "double counting" by member banks of their deposits subject to reserves. Furthermore, due to the spread of automated arrangements, it has become customary to treat such automated payments as "cash items." Because double counting would arise in circumstances described above, and in view of the fact that automated arrangements are now customary practices, the Board believes that banks are permitted to debit the account "cash items in process of collection" in such amounts.

By order of the Board of Governors, June 16, 1976.

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