FEDERAL RESERVE BANK
OF NEW YORK

Circular No. **8844-a**
June 6, 1980

RESERVE REQUIREMENTS OF DEPOSITORY INSTITUTIONS

Comment Invited on Proposed Regulation D
To Implement Monetary Control Act of 1980

To All U.S. Branches and Agencies of Foreign Banks
in the Second Federal Reserve District:

Enclosed are a press release and a proposed revision of Federal Reserve Regulation D. The proposed regulation presents changes in the reserve requirement structure and the computation of reserve requirements arising from the Monetary Control Act of 1980.

Comments on the proposed regulation may be sent to our Legal Department and should be submitted by July 15, 1980. Following a review of comments received by the Federal Reserve, issuance of a final regulation is expected in August 1980.

The provisions of the Monetary Control Act do not affect the authority of the Federal Reserve Board under the International Banking Act of 1978 (IBA). The general principle adopted by the Board in its Regulation D amendments issued under the IBA on March 19, 1980, that is, treating branches and agencies as member banks to the extent possible, will remain unchanged. The special provisions that the Board adopted to reflect the operational and structural differences between branches and agencies and member banks also are unaffected by the proposed regulations issued under the Monetary Control Act.

There are, however, two areas in which the amendments adopted on March 19 would be affected by the Monetary Control Act: (1) the treatment of the $25 million low-reserve tranche on transactions accounts; and (2) the phase-in of reserve requirements for branches and agencies.

The Monetary Control Act provides for a reserve requirement ratio of 3 percent on the first $25 million of an institution's transactions accounts and 12 percent on the amount in excess of $25 million. While the system of statewide aggregation for reserve computation and maintenance for branches and agencies adopted under the March 19 amendments would not be affected by the proposed regulation, the Board is proposing that only one low-reserve tranche of $25 million be permitted on the total transactions accounts for all branches and agencies of the same foreign bank. Since the branches and agencies compete primarily with domestic money center banks, which will have only one low-reserve tranche, the proposed treatment is consistent with the IBA's goal of promoting competitive equality between branches and agencies and domestic depository institutions.

Under the March 19 amendments, branches and agencies were given two years, beginning September 4, 1980, to phase in to the existing member bank reserve requirement structure. In order to simplify the phase-in for the branches and agencies, the Board now proposes to phase these institutions directly into the Monetary Control Act reserve requirement structure over a two-year period. This direct phase-in to the Monetary Control Act reserve requirement structure means that branches and agencies, unlike member banks, will not have to compute their reserve requirements under the old reserve requirement structure as well as under the new structure. We will provide reporting forms and instructions for reports of deposits as soon as possible following the issuance of the final regulation.

The Monetary Control Act also requires that the Federal Reserve price its services; pricing prinicples and a schedule for pricing of Federal Reserve services will be published for comment by September 1980. The general policy announced on March 19 with regard to the provision of Federal Reserve services to branches and agencies will, however, remain in effect.

We look forward to working with you during the implementation of the International Banking Act and the Monetary Control Act.

ANTHONY M. SOLOMON,
President.