

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 8885]
July 28, 1980

SCHEDULE FOR IMPLEMENTATION OF MONETARY CONTROL ACT

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

The Board of Governors of the Federal Reserve System has announced a tentative schedule to be followed in carrying out the provisions of the Monetary Control Act of 1980. The following is quoted from the text of the Board's announcement:

Included in the schedule is a 60-day grace period for the posting of reserve requirements by nonmember institutions.

Enacted last March 31, the Act is designed to improve the effectiveness of monetary policy by applying new reserve requirements set by the Federal Reserve for commercial banks, savings banks, savings and loan associations, and credit unions that offer transactions accounts or nonpersonal time deposits.

The act also provides access to Federal Reserve services for all institutions subject to reserve requirements, and requires the Board to publish a set of pricing principles and a proposed schedule of fees for services by September 1, 1980. The Board is required to begin actual pricing of services by September 1, 1981.

Three proposals — on reserve requirements, the discount window, and pass-through arrangements for reserve maintenance — have already been issued by the Board. However, substantial effort will still be required to complete and distribute reporting forms, prepare operations manuals, and familiarize a large number of depository institutions with the new requirements and procedures.

Consequently, instead of the originally planned September 1 start for implementing the new reserve requirements, an alternative timetable has been adopted which provides for large nonmember institutions to begin posting required reserves by early November. Member banks [*and Edge Act and Agreement Corporations*] would continue to post reserves under existing rules until that time. Reserves for member banks — which will be reduced under the program — will be adjusted later to ensure that reserves posted over the first year will be the same as if the reduction had started in September. [*The Federal Reserve anticipates delaying reserve maintenance by depository institutions with less than \$1 million in assets until late December. The delay until early November does not apply to branches and agencies of foreign banks required to keep reserves pursuant to the International Banking Act, but a similar delay may be considered by the Board of Governors.*]

Following is the overall tentative schedule for implementing the Act:

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| July 29 | Board considers a policy on pricing services, pricing schedules, access and related clearing balance policies. |
| July 31 | Comment period ends on "pass-through" proposal. (The comment period on proposals for phasing in the new reserve requirement and on the use of discount window ended July 15.) |
| Week of August 4 | Board considers the final form of Regulation D (reserve requirements) and Regulation A (discount window). |

Week of August 11	Formal publication of Regulations A and D. Final guidelines on pass-through of reserves will be announced shortly thereafter.
Week of September 1	Publication for comment of pricing principles and preliminary schedule of prices.
Week of September 8	Reserve Banks send reporting forms, manuals and other materials to all depository institutions.
September 15 and beyond	Reserve Bank meetings with depository institutions to familiarize them with the new regulations and procedures.
October 30	Reporting procedures begin.
October 31	Deadline for comments on pricing proposals.
November 13	Posting of reserves by large nonmember institutions begins.
January 5	Publication of final regulations on pricing.
January 19	Phased implementation of pricing begins with wire transfer and settlement services.

Printed on the following page is the text of a letter on the subject sent by Paul A. Volcker, Chairman, Board of Governors of the Federal Reserve System, to the Chairmen of the Senate and House Banking Committees.

Questions regarding these matters may be directed to one of the following officers of this Bank:

Richard J. Gelson, Assistant Vice President (Tel. No. 212-791-6312), for questions on reserve reporting procedures.

Thomas J. Campbell, Accounting Officer (Tel. No. 212-791-7769), for questions on reserve requirements and reserve account maintenance.

Eugene P. Emond, Manager, Credit and Discount Department (Tel. No. 212-791-6146), for questions on the discount window.

Bradley K. Sabel, Assistant Counsel and Assistant Secretary (Tel. No. 212-791-5033), for questions on reserve requirements — interpretative and technical issues.

ANTHONY M. SOLOMON,
President.

**Text of Letter Sent by Chairman Volcker
to the Chairmen of the Senate and
House Banking Committees**

During the past few days, my staff has had discussions with your Committee staff about our programs on the implementation of the Monetary Control Act. Overall, the effort is coming along quite well. Three proposed regulations on reserve requirements, the discount window, and pass-through arrangements for reserve maintenance have been put out for public comment, good progress is being made on the development of internal operating procedures, and work on the pricing of services is easily within the schedule.

Public comment on the proposed regulations will be received this month and we will then have the task of analyzing the comments and adopting final regulations. However, substantial effort will still be required to complete and distribute reporting forms, prepare operations manuals, and familiarize a large number of depository institutions of various types with the new requirements and procedures.

It is clear to us that the smooth and orderly implementation of the Monetary Control Act could be at some risk if we attempt to complete all of these efforts — particularly the educational needs — by September 1. Consequently, an alternative timetable that we believe is realistic has been discussed with your staff.

We feel that it is very important that the institutions affected by the Monetary Control Act understand fully all of the new requirements and procedures. Consequently, as soon as the reporting forms and instructional manuals are completed, we plan to hold meetings with all of the affected institutions. This will be done in two stages. The first set of meetings will be held with institutions with \$1 million or more in assets, with the objective that the new reserve requirements for these member and nonmember institutions will be in place by early November. In order to conform to the provisions of the Act, member bank reserves would be adjusted so that reserves for the full year would be the same as if the reduction of reserves had started in September.

In the case of very small depository institutions — institutions of less than \$1 million in assets — we are contemplating a bit more time since it is unlikely that any of these institutions would have to post reserves at the Fed in the time frame of the next few months. Specifically, we plan to meet with them later in the year so that reporting can begin in late December prior to the authorization for nationwide NOW accounts.

These relatively minor accommodations in the implementation schedule would greatly ease the adjustment for all of the affected institutions (including the Federal Reserve), and I understand that your staff was generally receptive to this schedule.

In closing, let me add that we are progressing very well in the pricing for services area. We expect to publish for public comment a set of pricing principles and a proposed schedule of fees for Federal Reserve services by September, and our current plan is to begin the phase-in of actual pricing by January 1981, ahead of the date required by the legislation. Indeed, I am reasonably confident that we will be well along the path to full implementation by September 1, 1981, the date when the Act directs us to begin the process of putting into effect a schedule of fees for services.