

**FEDERAL RESERVE BANK
OF NEW YORK**

[Circular No. **9186**
November 13, 1981]

**Proposal to Establish
Contemporaneous Reserve Requirements**

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

Enclosed is a copy of a press release issued by the Board of Governors of the Federal Reserve System, requesting comment on a staff proposal to introduce essentially contemporaneous reserve requirements on transactions accounts maintained by medium-size and large depository institutions. This would replace the "lagged reserve system" now in effect.

Comments on the proposal may be sent to our Legal Department and should be submitted by January 15, 1982.

ANTHONY M. SOLOMON,
President.

FEDERAL RESERVE press release



For immediate release

November 9, 1981

The Federal Reserve Board today requested public comment on a staff proposal to change the way depository institutions maintain reserves. Comment should be received by January 15, 1982.

The proposed change, if adopted by the Board, would introduce essentially contemporaneous reserve requirements on transactions accounts for medium-size and larger depository institutions instead of the lagged reserve system now in effect. Transactions accounts include checking, NOW, and automatic transfer accounts.

Specific comment was requested by the Board on the implications of the proposed change for the functioning of the money markets and the operations of depository institutions, including the probable impact on reserve management and deposit monitoring systems. Where possible, the Board would like specific estimates of the costs involved, both start-up and continuing.

The Board emphasized that its decision to seek public comment on the proposal in no way commits it to approve a final rule at some time in the future.

Under the present lagged reserve system, depository institutions must post their required reserves in any given week, based on their deposit levels two weeks earlier.

Contemporaneous reserve requirements (CRR) have some potential for improving the implementation of monetary policy by strengthening the linkage between the reserves held by depository institutions and the money supply.

There is some question, however, whether such potential gains would increase short-run volatility in the money market. The Board noted that any potential gains in monetary control should not be exaggerated, in view of the sizable remaining slippages between reserves and money, and in view of the inherent volatility of short-run money flows.

There are also added costs to depository institutions in shifting to CRR--the cost of altering deposit information systems and the complications that might result in reserve management. Consequently, the design and desirability of a CRR system must balance gains in monetary control against potential costs.

Comments are requested on the following proposal which is depicted in the attached chart:

--CRR would apply only to institutions that report their deposit levels weekly to the Federal Reserve. Certain institutions with \$15 million or less in total deposits may report quarterly, while certain others with deposits under \$2 million do not report.

--Reserves would be maintained over two-week periods. These periods would continue to end on Wednesday, and all institutions would settle their reserve accounts at the same time.

--Required reserves would be computed on the basis of average deposit levels over a two-week period ending on Monday. Reserves required against transactions deposits would be maintained in the two-week maintenance period ending on the Wednesday two days after the end of the computation period. This two-day interval is provided to facilitate the computation of required reserves by affected institutions.

--Required reserves for other reservable liabilities would also be computed for two-week periods ending on Monday, but the actual reserves would

be posted in the two-week maintenance period beginning 17 days later, on a Thursday.

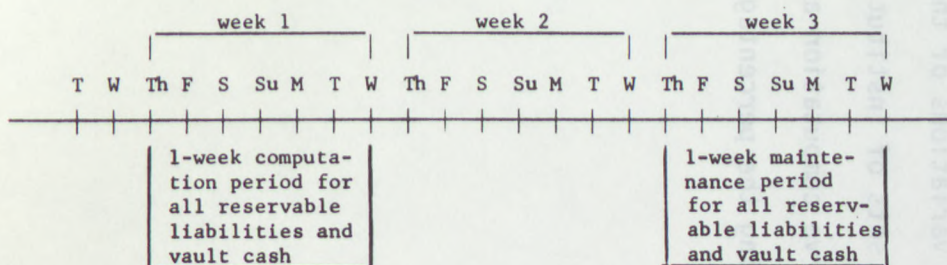
--Vault cash eligible to be counted as a reserve in a maintenance period would continue to be lagged and would be equal to vault cash holdings during the computation period ending 17 days prior to the beginning of that maintenance period.

--No change would be made in the current limit of plus or minus 2 percent of daily average required reserves that applies to the carry-over of reserve surpluses or deficiencies into the next reserve period. However, lengthening the reserve period from one week to two weeks provides the same additional flexibility for managing reserve positions as would a doubling of the carry-over limit with a one-week period.

The Board also desires comment on variations of the proposal such as staggering reserve periods for different sets of institutions with half settling every other week, lengthening reserve computation and maintenance periods to three or four weeks, and increasing the percentage of allowable carry-over.

PRESENT AND PROPOSED RESERVE ACCOUNTING SYSTEMS

Present Reserve Accounting System



Proposed Reserve Accounting System

