

**FEDERAL RESERVE BANK
OF NEW YORK**

[Circular No. 9443]
[January 25, 1983]

AMENDMENTS TO REGULATION D

Exemption of Money Market Deposit Accounts from Reserve Requirement Phase-In

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

Following is the text of a statement issued by the Board of Governors of the Federal Reserve System announcing certain amendments to its Regulation D, "Reserve Requirements of Depository Institutions," regarding the new federally insured Money Market Deposit Account:

The Federal Reserve Board has amended its Regulation D — Reserve Requirements of Depository Institutions — to implement congressional action exempting Money Market Deposit Accounts from the phase-in reserve requirements of the Monetary Control Act of 1980.

The revision makes all depository institutions covered by the rules of the Depository Institutions Deregulation Committee subject (without the phase-down requirements of MCA for member banks and the phase-up requirements for non-member institutions) to a reserve requirement of 3 percent on all nonpersonal MMDA accounts and to a zero percent requirement on all personal MMDAs.

The Board also modified the procedure for allocating the statutory exemption from reserve requirements for the first \$2.1 million of an institution's deposits on accounts that are subject to reserve requirements, in order to provide maximum benefit to institutions in light of the legislation exempting MMDA accounts from phase-in provisions.

The reduction in reserve requirements for member banks was effective as of December 14, 1982. For non-member institutions that report deposits weekly, the changes in Regulation D are effective January 13 and apply first to the maintenance period beginning January 27, 1983. For nonmembers that report their deposits quarterly, the changes affect reserves required to be maintained on the basis of deposit reports submitted in December 1982, or in January or February 1983, depending on the institution's reporting group.

Enclosed is the text of the amendments to Regulation D. Questions regarding that regulation may be directed to the following:

Reporting Requirements:

Richard J. Gelson, Vice President (Tel. No. 212-791-8225)
Nancy Bercovici, Manager, Statistics Department (Tel. No. 212-791-8227)
Paula B. Schwartzberg, Chief, Deposit Reports Division (Tel. No. 212-791-8590)

Maintenance Requirements:

John M. Eighmy, Assistant Vice President (Tel. No. 212-791-7768)
Kathleen A. O'Neil, Manager, Accounting Department (Tel. No. 212-791-5250)
Patricia Hilt-Lupack, Chief, Accounting Control Division (Tel. No. 212-791-7791)

Interpretation of Regulation D:

Joyce E. Motylewski, Assistant Counsel, Legal Department (Tel. No. 212-791-5024)
James M. McNeil, Chief, Regulations Division (Tel. No. 212-791-5914)

ANTHONY M. SOLOMON,
President.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

RESERVE REQUIREMENTS OF DEPOSITORY INSTITUTIONS

AMENDMENTS TO REGULATION D

MONEY MARKET DEPOSIT ACCOUNTS

(effective January 13, 1983)

FEDERAL RESERVE SYSTEM

12 CFR Part 204

[Docket No. R-0446]

Reserve Requirements of Depository Institutions; Money Market Deposit Accounts

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Final rule.

SUMMARY: The Board of Governors has amended Regulation D—Reserve Requirements of Depository Institutions (12 CFR Part 204) to implement Section 13 of Senate Joint Resolution 271, which exempts Money Market Deposit Accounts ("MMDAs") from the phase-in of reserve requirements under the Monetary Control Act of 1980 (Pub. L. 96-221; 12 U.S.C. 461(b)(8)). MMDAs were authorized by the Depository Institutions Deregulation Committee ("DIDC"), effective December 14, 1982, pursuant to section 327 of the Garn-St Germain Depository Institutions Act of 1982 (Pub. L. 97-320; 96 Stat. 1501) ("Garn-St Germain Act"). Under this action, all depository institutions will be subject, without application of the phase-in provisions, to a reserve requirement of three percent on all nonpersonal MMDAs and to a zero percent reserve requirement on all

personal MMDAs. The Board also has modified the procedure for allocating the exemption from reserve requirements for the first \$2.1 million of an institution's reservable liabilities in order to provide the most benefit to depository institutions in light of the legislation exempting MMDAs from the phase-in of reserve requirements.

DATES: Effective January 13, 1983. The first reserve maintenance period to which these amendments apply begins on January 27, 1983.

FOR FURTHER INFORMATION CONTACT:

Gilbert T. Schwartz, Associate General Counsel (202/452-3625), or Paul S. Pilecki, Senior Attorney (202/452-3281), Legal Division, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

SUPPLEMENTARY INFORMATION: Effective December 14, 1982, federally-insured commercial banks, savings and loan associations, and mutual saving banks were authorized by the DIDC, pursuant to section 327 of the Garn-St Germain Act, to offer MMDAs. The MMDA has the following principal characteristics: (1) An initial and average balance requirement of \$2,500; (2) no minimum maturity requirement, but institutions are required to reserve the right to require at least seven days' notice prior to withdrawal; (3) no interest rate ceiling on deposits that satisfy the initial

and average balance requirements, and (4) no more than six preauthorized, automatic, or other transfers per month, of which no more than three can be checks. The Board of Governors amended Regulation D—Reserve Requirements of Depository Institutions (12 CFR Part 204) on December 1, 1982, to subject MMDAs that are authorized to have no more than six transfers per month to the same reserve requirements as savings deposits (47 FR 55207, December 8, 1982). Such an MMDA in which any beneficial interest is held by a depositor that is not a natural person or that is transferable is subject to reserve requirements as a *nonpersonal time deposit* with a maturity of less than 3½ years, which presently has a reserve requirement of three percent. Under the Board's action, such an MMDA in which the entire beneficial interest is held by natural persons and that is not transferable is regarded as a *personal time deposit* not subject to basic reserve requirements of the Monetary Control Act of 1980 ("MCA").

In determining the application of reserve requirements to the MMDA, the Board determined that the transitional adjustment provisions of the MCA applied. In this regard, nonmember depository institutions generally are phasing in to the reserve requirements of the MCA over an eight-year period. Member banks generally are phasing in

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For this Regulation to be complete, retain:

- 1) Regulation D pamphlet, amended effective December 31, 1981.
- 2) Amendments effective April 28, 1982, April 29, 1982, September 1, 1982, October 28, 1982, December 9, 1982, December 14, 1982, December 30, 1982, December 31, 1982, January 5, 1983, and February 2, 1984
- 3) This slip sheet

to the reserve requirements of the MCA, which are lower than pre-MCA requirements, over a four-year period. As a result, the effective reserve requirements that applied to MMDAs were as follows:

EFFECTIVE RESERVE RATIOS ON MMDAs (12/14/82)

	Non-members 8-yr phase-in	Members (4-yr phase-in to lower Reserves)
Personal MMDAs.....	0	1.125
Nonpersonal MMDAs.....	1.125	3

On January 12, 1983, Senate Joint Resolution 271 was enacted. In order to provide competitive equity among depository institutions, section 13 of this legislation exempts MMDAs from the transitional adjustments of the Monetary Control Act. Since MMDAs are now exempt from the reserve requirement phase-in, member banks (and Edge and Agreement corporations and certain former member banks) will have a reduction in effective reserve requirements to zero percent on personal MMDAs. On the other hand, the reserve requirement on nonpersonal MMDAs for nonmember depository institutions will rise to an effective ratio of three percent. Nonmembers will continue to be subject to a zero percent reserve requirement on personal MMDAs, and members will continue to be subject to a three percent reserve requirement on nonpersonal MMDAs.

The Board of Governors has amended Regulation D to implement section 13 of the Senate Joint Resolution 271. For member banks, and other institutions subject to reserve requirements in the same manner as member banks, the reduction in reserve requirements on *personal* MMDAs shall be effective from December 14, 1982, the date on which such accounts were first offered. The Board believes that making the reduction in reserve requirements for member banks retroactive to December 14, 1982, is consistent with congressional intent in exempting MMDAs from the reserve requirement phase-in. Member banks will be reimbursed for reserve balances that have been maintained against personal MMDAs through "as of" adjustments to be calculated and administered by the Federal Reserve Banks.

Nonmember depository institutions will be subject to a full reserve requirement of 3 percent on all

nonpersonal MMDAs. The change in reserve requirements on nonpersonal MMDAs for nonmember depository institutions will be effective for the reserve computation period that begins January 13, 1983, which is the reserve computation period that begins after the date on which the bill is enacted. The first reserve maintenance period to which this change applies begins on January 27, 1983.

The change in reserve requirements on MMDAs will first apply to depository institutions that report deposits and maintain reserves on a quarterly basis starting with the reserve maintenance period that begins on January 27, 1983, for such institutions that submitted a Report of Transaction Accounts, Other Deposits, and Vault Cash (Form FR 2900) for the computation period of December 16-22, 1982. The exemption from the reserve requirements phase-in for MMDAs for other quarterly reporters will be effective with the reserves required to be maintained based on deposit reports to be submitted in either January 1983 or February 1983.

The exemption from reserve requirement phase-ins for MMDAs does not apply in the case of the phase-in for *de novo* institutions and has no effect in the case of those institutions that are now subject to full reserve requirements under the reserve requirement structure in the Monetary Control Act. In addition, this action does not affect nonmember depository institutions in Hawaii that do not begin maintaining reserves until January 1986; however, when such institutions begin to maintain reserves at that time, nonpersonal MMDAs will be subject to a three percent reserve requirement without the benefit of a phase-in. Depository institutions that are not subject to the jurisdiction of the DIDC, such as credit unions and certain non-federally insured savings and loan associations, also are not affected by this action.

Eliminating the phase-in on MMDAs will make it generally most beneficial to depository institutions to apply the exemption from reserve requirements for \$2.1 million of reservable liabilities to nonpersonal MMDAs first. Accordingly, as indicated below, the Board also has revised the procedure for allocating the \$2.1 million exemption in order to assure institutions subject to DIDC rules the maximum benefit of the reserve exemption.

For institutions subject to DIDC rules that are not allowed a phase-in on NOW accounts (except U.S. branches and agencies of foreign banks).

1. Nonpersonal MMDAs
 2. Net NOW accounts (NOW accounts less allowable deductions)
 3. Net other transaction accounts (other transaction accounts less allowable deductions)
 4. Nonpersonal time and savings deposits with maturities of less than 3 years—excluding nonpersonal MMDAs
 5. Eurocurrency liabilities
- For all other institutions subject to DIDC rules (including U.S. branches and agencies of foreign banks).*
1. Nonpersonal MMDAs
 2. Net transaction accounts
 3. Nonpersonal time and savings deposits with maturities of less than 3½ years—excluding nonpersonal MMDAs
 4. Eurocurrency liabilities.

The provisions of 5 U.S.C. 553(b) relating to notice and public participation have not been followed in connection with adoption of these amendments because the change involves the implementation of a statutory provision that is effective upon enactment and does not provide the Board with discretion to modify its terms. Thus, the Board has determined that notice and public participation is unnecessary. The effective date of the amendment has not been deferred pursuant to 5 U.S.C. 553(d), since deferring the effective date would be inconsistent with section 13 of Senate Joint Resolution 271.

List of Subjects in 12 CFR Part 204

Banks, banking, Currency, Federal Reserve System, Penalties, Reporting requirements.

Pursuant to its authority under section 19 of the Federal Reserve Act (12 U.S.C. 461 *et seq.*) and under section 13 of Senate Joint Resolution 271 (S.J. Res. 271, 97th Cong., 2d Sess. section 13 (1982)), the Board amends Regulation D (12 CFR Part 204) effective January 13, 1983, as follows:

PART 204—[AMENDED]

1. In § 204.3, by revising paragraph (a)(3)(i) to read as follows:

§ 204.3 Computation and maintenance.

- (a) * * *
- (3) *Allocation of exemption from reserve requirements.* (i) In determining the reserve requirements of a depository institution, the exemption provided for in section 204.9(a) shall apply in the following order of priorities: (A) First, to nonpersonal time deposits representing deposits or accounts issued pursuant to 12 CFR 1204.122; (B) second, to net

transaction accounts that are first authorized by Federal law in any state after April 1, 1980; (C) third, to other net transaction accounts; and (D) fourth, to other nonpersonal time deposits or Eurocurrency liabilities starting with those with the highest reserve ratio under § 204.9(a) and then to succeeding lower reserve ratios.

* * * * *

2. In § 204.4, the last sentence of paragraph (a), paragraphs (b)(1) introductory text, (b)(1)(i), (b)(2) introductory text, and (b)(2)(i), and the last sentence of paragraph (c) are revised and paragraph (f) is amended by revising the first sentence and adding a sentence at the end to read as follows:

§ 204.4 Transitional adjustments.

* * * * *

(a) * * * However, an institution shall not reduce the amount of required reserves on any category of deposits or accounts that are first authorized under Federal law in any state after April 1, 1980, or on deposits or accounts issued pursuant to 12 CFR 1204.122.

(b) * * *

(1) A depository institution whose

required reserves are higher using the reserve ratios in effect during a given computation period (§ 204.9(a)) than its required reserves using the reserve ratios in effect on August 31, 1980 (§ 204.9(b)) (without regard to required reserves on deposits or accounts issued pursuant to 12 CFR 1204.122):

(i) Shall maintain the full amount of required reserves on deposits or accounts issued pursuant to 12 CFR 1204.122; and

(ii) * * *

(2) A depository institution whose required reserves are lower using the reserve ratios in effect during a given computation period (§ 204.9(a)) than its required reserves computed using the reserve ratios in effect on August 31, 1980 (§ 204.9(b)) (without regard to required reserves on deposits or accounts issued pursuant to 12 CFR 1204.122):

(i) Shall maintain the full amount of required reserves on deposits or accounts issued pursuant to 12 CFR 1204.122; and

* * * * *

(c) * * * However, an institution shall not reduce the amount of required

reserves on any category of deposits or accounts that are first authorized under Federal law in any state after April 1, 1980, or on deposits or accounts issued pursuant to 12 CFR 1204.122.

* * * * *

(f) *Nonmember depository institutions with offices in Hawaii.* Any depository institution that, on August 1, 1978, (i) was engaged in business as a depository institution in Hawaii, and (ii) was not a member of the Federal Reserve System at any time on or after such date shall not maintain reserves imposed under this part against deposits, including deposits or accounts issued pursuant to 12 CFR 1204.122, held or maintained at its offices located in Hawaii until January 2, 1986. * * * However, after January 1, 1986, an institution shall not reduce the amount of required reserves on any deposits or accounts issued pursuant to 12 CFR 1204.122.

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By order of the Board of Governors,
January 13, 1983.

William W. Wiles,

Secretary of the Board.

[FR Doc. 83-1486 Filed 1-18-83; 8:45 am]