

**FEDERAL RESERVE BANK
OF NEW YORK**

[Circular No. 9488
April 29, 1983]

REGULATION D
Treatment of Failed Book-Entry Securities Transactions

*To All Depository Institutions in the
Second Federal Reserve District:*

For your information and guidance, in March 1983 this Bank received a letter from the Secretary of the Board of Governors of the Federal Reserve System concerning a Board staff interpretation of Regulation D, "Reserve Requirements of Depository Institutions" (12 CFR Part 204). The Board staff indicates that, if a depository institution fails to deliver book-entry securities and does not receive the corresponding payment but credits the amount of the anticipated payment to its customer(s), a "cash item in process of collection" (CIPC) deduction from gross transaction accounts in calculating required reserves is not permissible.

Regulation D defines "cash item in process of collection" to include (1) checks in the process of collection that will be presented for payment or forwarded for collection on the following business day, (2) Government checks, and (3) "such other items in the process of collection, that are payable immediately in the United States and that are customarily cleared or collected by depository institutions as cash items" (12 CFR Section 204.2(i)). Included in the last category are amounts credited to deposit accounts in connection with certain automated payment arrangements and brokers' securities drafts (12 CFR Section 204.2(1)(iii)(E) and (H)).

Since 1961, brokers' securities drafts have been regarded as CIPCs in order to avoid imposition of the burden of reserve requirements on deposit liabilities arising from the deposit of items that must be physically collected.

The treatment of certain automated payment arrangements stems from an interpretation issued by the Board in 1976 (formerly codified as 12 CFR Section 204.118). The purpose of this interpretation was to conform the treatment of automated clearing house (ACH) items to the treatment given to checks and to permit depository institutions to handle ACH payments more efficiently. While treatment of such arrangements as CIPCs may demonstrate the Board's willingness to expand the CIPC definition to fit situations that are analogous to the check collection process, the Board has not specifically permitted failed securities transactions to be regarded as CIPCs.

As a result of previous uncertainty concerning this issue, depository institutions that have reported CIPC deductions in instances of book-entry securities fails in the past will not be requested to submit revised "Report(s) of Transaction Accounts, Other Deposits and Vault Cash" for the affected reporting periods. Nevertheless, CIPC deductions in a book-entry securities fail situation will not be permitted in the future.

(OVER)

Questions concerning reserve requirements may be directed to the following persons at the Head Office:

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. Eighthy, Assistant Vice President (Tel. No. 212-791-7768)

Kathleen A. O'Neil, Manager, Accounting Department (Tel. No. 212-791-5250)

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Interpretation of Regulation D:

Joyce E. Motylewski, Assistant Counsel, Legal Department (Tel. No. 212-791-5024)

Ann Calabrese, Chief, Regulations Division (Tel. No. 212-791-5914)

Institutions in the Buffalo Branch territory may also contact Robert J. McDonnell, Operations Officer (Tel. No. 716-849-5022), or Philip Coletti, Chief, Accounting Division (Tel. No. 716-849-5064).

ANTHONY M. SOLOMON,
President.