

**FEDERAL RESERVE BANK  
OF NEW YORK**

[ Circular No. **9563**  
October 11, 1983 ]

**AMENDMENTS TO REGULATIONS Q AND D**

- **Removal of Interest Rate Ceilings on Time Deposits**
- **Reserve Requirements on Nonpersonal Time Deposits**
- **Establishment of Seven-Day Minimum Maturity on Time Deposits**

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

The Board of Governors of the Federal Reserve System has issued technical amendments to its Regulation Q, "Interest on Deposits," effective October 1, 1983, in order to conform that regulation to actions taken by the Depository Institutions Deregulation Committee (DIDC) eliminating interest rate ceilings on most time deposit accounts. The following statement was issued by the Board of Governors announcing that action:

The Federal Reserve Board has amended its Regulation Q (Interest on Deposits) effective October 1, 1983 to incorporate rules relating to the payment of interest on deposits adopted by the Depository Institutions Deregulation Committee.

The DIDC was established by the Depository Institutions Deregulation Act of 1980, which transferred to the Committee the authority of the Board (and similar authority of the Federal Deposit Insurance Corporation and the Federal Home Loan Bank Board) to prescribe interest rate ceilings and other rules relating to the payment of interest on deposits.

The technical amendments to Regulation Q effectuate DIDC actions abolishing ceiling interest rates on most time accounts. The resulting interest rate structure for commercial banks, including member banks, is:

<b>Account</b>	<b>Required Minimum Deposit</b>	<b>Interest Rate Ceiling</b>
All Time Deposits of more than 31 Days	None	None
Money Market Deposit Account	\$2,500	None
Ceiling-Free NOW Accounts	\$2,500	None
Time Deposits of 7 to 31 Days	\$2,500	None
Time Deposits of 7 to 31 Days*	\$0 - \$2,499	5-¼ %
Passbook Savings	None	5-¼ %
NOW Accounts	\$0 - \$2,499	5-¼ %

\* Member banks may continue to issue to governmental units time deposits of less than \$2,500 with maturities or required notice periods of 7 to 31 days, subject to the previous ceiling of eight percent in effect for such deposits.

(OVER)



The Board also revised its Regulation Q to incorporate DIDC actions effective October 1, 1983 that reduce penalties for early withdrawals from contracts entered into, renewed or extended on or after October 1, 1983 as follows:

*For time deposits of 7 to 31 days*, a depositor must forfeit an amount at least equal to the greater of:

- All interest earned on the amount withdrawn during the term of the deposit, or
- All interest that could have been earned on the amount withdrawn in half of the maturity or notice period.

*For time deposits of between 32 days and one year*, a depositor must forfeit an amount at least equal to:

- One month's interest earned, or that could have been earned, on the amount withdrawn at the simple interest rate being paid on the deposit, however long the funds withdrawn had been on deposit.

*For a time deposit of more than one year*, a depositor must forfeit an amount at least equal to:

- Three months' interest earned, or that could have been earned, on the amount withdrawn at the simple interest rate being paid on the deposit, however long the funds withdrawn had been on deposit.

Enclosed — for depository institutions in the Second Federal Reserve District and others maintaining sets of the Board's regulations — is a new Regulation D pamphlet, as amended effective June 20, 1983, together with the text of regulatory amendments to Regulations D and Q, including the amendments to those regulations announced in our Circular No. 9561, dated October 4, 1983. Additional copies of these enclosures are available upon request directed to our Circulars Division.

Also enclosed is the text of a notice issued by the DIDC announcing actions taken at its meeting of September 30, 1983. These actions, which are effective later this year and in 1984-86, involve an increase in the interest rate ceiling on savings and on 7-31 day accounts at commercial banks to eliminate the interest rate differential between commercial banks and thrift institutions, and reductions in minimum denomination requirements.

Questions regarding these regulations 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:**

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 Regulations D and Q:**

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

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ANTHONY M. SOLOMON,  
President.



DEPOSITORY INSTITUTIONS DEREGULATION COMMITTEE

Washington, D.C. 20220

PRESS RELEASE

October 3, 1983

DIDC Actions Taken at the  
September 30, 1983 Quarterly Meeting

At its September 30, 1983 meeting the DIDC took the following actions:

1. As required by the Garn-St Germain Act, the DIDC adopted rules to eliminate the rate differential on passbook savings accounts and 7- to 31-day time deposits of less than \$2,500 effective January 1, 1984. This will be accomplished by increasing the rate ceiling at commercial banks on these deposits from 5-1/4 percent currently to the 5-1/2 percent ceiling which applies at thrift institutions.
2. Effective December 1, 1983 the minimum denominations will be eliminated on those MMDAs, 7- to 31-day ceiling-free time deposits, and Super NOW accounts that are used for IRA/Keogh investment purposes. This will make it easier for IRA/Keogh investors to earn a market rate of return on their funds while they decide on a more permanent investment for retirement purposes.
3. The minimum denominations on MMDAs, Super NOWs and 7- to 31-day ceiling-free time deposits will be phased out in two steps: (a) Effective January 1, 1985 the minimum denominations will be reduced to \$1,000 on these accounts; (b) Effective January 1, 1986 the minimum denominations on these accounts will be eliminated altogether. Therefore, effective January 1, 1986 all small savers without exception will be able to earn a market rate of interest on their savings.

The above actions, combined with removal of all interest rate ceilings for time deposits with a maturity of 32 days or more, which became effective on October 1, 1983, means that the DIDC has come a long way towards fulfilling its Congressional directive to phase out interest rate ceilings on deposits.

The next DIDC meeting is scheduled for Thursday, December 15, 1983 at 3:00 p.m. in the Treasury Cash Room.

[Enc. Cir. No. 9563]

# Regulation D Reserve Requirements of Depository Institutions

12 CFR 204; as amended effective June 20, 1983





Any inquiry relating to this regulation should be addressed to the Federal Reserve Bank of the Federal Reserve District in which the inquiry arises.

September 1983



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# Regulation D

## Reserve Requirements of Depository Institutions

12 CFR 204; revised effective December 24, 1980; as amended effective June 20, 1983

### SECTION 204.1—Authority, Purpose and Scope

(a) *Authority.* This part\* is issued under the authority of section 19 (12 USC 461 et seq.) and other provisions of the Federal Reserve Act and of section 7 of the International Banking Act of 1978 (12 USC 3105).

(b) *Purpose.* This part relates to reserves that depository institutions are required to maintain for the purpose of facilitating the implementation of monetary policy by the Federal Reserve System.

(c) *Scope.* (1) The following depository institutions are required to maintain reserves in accordance with this part:

(i) Any insured bank as defined in section 3 of the Federal Deposit Insurance Act (12 USC 1813(h)) or any bank that is eligible to apply to become an insured bank under section 5 of such act (12 USC 1815);

(ii) Any savings bank or mutual savings bank as defined in section 3 of the Federal Deposit Insurance Act (12 USC 1813(f), (g));

(iii) Any insured credit union as defined in section 101 of the Federal Credit Union Act (12 USC 1752(7)) or any credit union that is eligible to apply to become an insured credit union under section 201 of such act (12 USC 1781);

(iv) Any member as defined in section 2 of the Federal Home Loan Bank Act (12 USC 1422(4)); and

(v) Any insured institution as defined in section 401 of the National Housing Act (12 USC 1724(a)) or any institution which is eligible to apply to become an insured institution under section 403 of such act (12 USC 1726).

(2) Except as may be otherwise provided by the Board, a foreign bank's branch or agency located in the United States is re-

quired to comply with the provisions of this part in the same manner and to the same extent as if the branch or agency were a member bank, if its parent foreign bank (i) has total worldwide consolidated bank assets in excess of \$1 billion; or (ii) is controlled by a foreign company or by a group of foreign companies that own or control foreign banks that in the aggregate have total worldwide consolidated bank assets in excess of \$1 billion. In addition, any other foreign bank's branch located in the United States that is eligible to apply to become an insured bank under section 5 of the Federal Deposit Insurance Act (12 USC 1815) is required to maintain reserves in accordance with this part as a nonmember depository institution.

(3) Except as may be otherwise provided by the Board, an Edge corporation (12 USC 611 et seq.) or an agreement corporation (12 USC 601 et seq.) is required to comply with the provisions of this part in the same manner and to the same extent as a member bank.

(4) This part does not apply to any financial institution that (i) is organized solely to do business with other financial institutions; (ii) is owned primarily by the financial institutions with which it does business; and (iii) does not do business with the general public.

(5) The provisions of this part do not apply to any deposit that is payable only at an office located outside the United States.

### SECTION 204.2—Definitions

For purposes of this part, the following definitions apply unless otherwise specified:

(a) (1) "*Deposit*" means:

(i) the unpaid balance of money or its equivalent received or held by a depository institution in the usual course of business and for which it has given or is obligated to give credit, either conditionally or unconditionally, to an account, includ-

\*The words "this part," as used herein, mean Regulation D (Code of Federal Regulations, title 12, chapter II, part 204).



ing interest credited, or which is evidenced by an instrument on which the depository institution is primarily liable;

(ii) money received or held by a depository institution, or the credit given for money or its equivalent received or held by the depository institution in the usual course of business for a special or specific purpose, regardless of the legal relationships established thereby, including escrow funds, funds held as security for securities loaned by the depository institution, funds deposited as advance payment on subscriptions to United States government securities, and funds held to meet its acceptances;

(iii) an outstanding draft, cashier's check, money order, or officer's check drawn on the depository institution and issued in the usual course of business for any purpose, including payment for services, dividends, or purchases;

(iv) any due bill or other liability or undertaking on the part of a depository institution to sell or deliver securities to, or purchase securities for the account of, any customer (including another depository institution), involving either the receipt of funds by the depository institution, regardless of the use of the proceeds, or a debit to an account of the customer before the securities are delivered.

A deposit arises thereafter, if after three business days from the date of issuance of the obligation, the depository institution does not deliver the securities purchased or does not fully collateralize its obligation with securities similar to the securities purchased. A security is similar if it is of the same type and if it is of comparable maturity to that purchased by the customer;

(v) any liability of a depository institution's affiliate that is not a depository institution, on any promissory note, acknowledgment of advance, due bill, or similar obligation (written or oral), with a maturity of less than four years, to the extent that the proceeds are used to supply or to maintain the availability of funds (other than capital) to the depository institution, except any such obligation

that, had it been issued directly by the depository institution, would not constitute a deposit. If an obligation of an affiliate of a depository institution is regarded as a deposit and is used to purchase assets from the depository institution, the maturity of the deposit is determined by the shorter of the maturity of the obligation issued or the remaining maturity of the assets purchased. If the proceeds from an affiliate's obligation are placed in the depository institution in the form of a reservable deposit, no reserves need be maintained against the obligation of the affiliate since reserves are required to be maintained against the deposit issued by the depository institution. However, the maturity of the deposit issued to the affiliate shall be the shorter of the maturity of the affiliate's obligation or the maturity of the deposit;

(vi) credit balances;

(vii) any liability of a depository institution on any promissory note, acknowledgment of advance, banker's acceptance, or similar obligation (written or oral), including mortgage-backed bonds, that is issued or undertaken by a depository institution as a means of obtaining funds, except any such obligation that:

(A) is issued or undertaken and held for the account of:

(1) an office located in the United States of another depository institution, foreign bank, Edge or Agreement Corporation, or New York Investment (Article XII) Company;

(2) the United States government or an agency thereof; or

(3) the Export-Import Bank of the United States, Minbanc Capital Corporation, the Government Development Bank for Puerto Rico, a Federal Reserve Bank, a Federal Home Loan Bank, or the National Credit Union Administration Central Liquidity Facility;

(B) arises from a transfer of direct obligations of, or obligations that are fully guaranteed as to principal and interest by, the United States government or any agency thereof that the de-



pository institution is obligated to repurchase;

(C) is not insured by a federal agency, is subordinated to the claims of depositors, has a weighted average maturity of seven years or more, is not subject to federal interest rate limitations, and is issued by a depository institution with the approval of, or under the rules and regulations of, its primary federal supervisor;

(D) arises from a borrowing by a depository institution from a dealer in securities, for one business day, of proceeds of a transfer of deposit credit in a Federal Reserve Bank or other immediately available funds, (commonly referred to as "federal funds"), received by such dealer on the date of the loan in connection with clearance of securities transactions; or

(E) arises from the creation, discount and subsequent sale by a depository institution of its banker's acceptance of the type described in paragraph 7 of section 13 of the Federal Reserve Act (12 USC 372); or

(viii) any liability of a depository institution that arises from the creation after June 20, 1983, of a bankers acceptance that is not of the type described in paragraph 7 of section 13 of the Federal Reserve Act (12 U.S.C. 372) except any such liability held for the account of an entity specified in section 204.2(a)(1)(vii)(A).

(2) "Deposit" does not include:

(i) trust funds received or held by the depository institution that it keeps properly segregated as trust funds and apart from its general assets or which it deposits in another institution to the credit of itself as trustee or other fiduciary. If trust funds are deposited with the commercial department of the depository institution or otherwise mingled with its general assets, a deposit liability of the institution is created;

(ii) an obligation that represents a conditional, contingent or endorser's liability;

(iii) obligations, the proceeds of which

are not used by the depository institution for purposes of making loans, investments, or maintaining liquid assets such as cash or "due from" depository institutions or other similar purposes. An obligation issued for the purpose of raising funds to purchase business premises, equipment, supplies, or similar assets is not a deposit;

(iv) accounts payable;

(v) hypothecated "deposits" created by payments on an installment loan where (A) the amounts received are not used immediately to reduce the unpaid balance due on the loan until the sum of the payments equals the entire amount of loan principal and interest; (B) and where such amounts are irrevocably assigned to the depository institution and cannot be reached by the borrower or creditors of the borrower;

(vi) dealer reserve and differential accounts that arise from the financing of dealer installment accounts receivable, and which provide that the dealer may not have access to the funds in the account until the installment loans are repaid, as long as the depository institution is not actually (as distinguished from contingently) obligated to make credit or funds available to the dealer;

(vii) a dividend declared by a depository institution for the period intervening between the date of the declaration of the dividend and the date on which it is paid;

(viii) an obligation representing a "pass-through account," as defined in this section;

(ix) an obligation arising from the retention by the depository institution of no more than a 10 percent interest in a pool of conventional one- to four-family mortgages that are sold to third parties;

(x) an obligation issued to a state or municipal housing authority under a loan-to-lender program involving the issuance of tax exempt bonds and the subsequent lending of the proceeds to the depository institution for housing finance purposes;

(xi) shares of a credit union held by the National Credit Union Administration or the National Credit Union Administra-



tion Central Liquidity Facility under a statutorily authorized assistance program; and

(xii) any liability of a United States branch or agency of a foreign bank to another United States branch or agency of the same foreign bank, or the liability of the United States office of an Edge corporation to another United States office of the same Edge corporation.

- (b) (1) “*Demand deposit*” means a deposit that is payable on demand, or a deposit issued with an original maturity or required notice period of less than 14 days, or a deposit representing funds for which the depository institution does not reserve the right to require at least 14 days’ written notice of an intended withdrawal. The term includes all deposits other than time and savings deposits. Demand deposits may be in the form of (i) checking accounts; (ii) certified, cashier’s and officer’s checks (including checks issued by the depository institution in payment of dividends); (iii) traveler’s checks and money orders that are primary obligations of the issuing institution; (iv) checks or drafts drawn by, or on behalf of, a non-United States office of a depository institution on an account maintained at any of the institution’s United States offices; (v) letters of credit sold for cash or its equivalent; (vi) withheld taxes, withheld insurance and other withheld funds; (vii) time deposits that have matured or time deposits upon which the required notice of withdrawal period has expired and which have not been renewed (either by action of the depositor or automatically under the terms of the deposit agreement); and (viii) an obligation to pay on demand or within 14 days a check (or other instrument, device, or arrangement for the transfer of funds) drawn on the depository institution, where the account of the institution’s customer already has been debited. The term does not include an obligation that is a time deposit under section 204.2(c)(1)(ii).

(2) A “demand deposit” does not include—

- (i) checks or drafts drawn by the deposi-

tory institution on the Federal Reserve or on another depository institution;

(ii) a deposit or account issued pursuant to 12 CFR 1204.121, including those with an original maturity or required notice period of 7 to 13 days;

(iii) a deposit or account issued pursuant to 12 CFR 1204.122 under which the depository institution reserves the right to require at least 7 days’ notice of an intended withdrawal before withdrawal is made, including those with an original maturity or required notice period of 1 to 13 days; or

(iv) for depository institutions not subject to the rules of the Depository Institutions Deregulation Committee under 12 USC 3501 et seq.,

(A) a deposit or account issued with an original maturity or required notice period of 7 to 13 days if such deposit or account is nonnegotiable and not otherwise a transaction account under section 204.2(e) of this part; or

(B) a deposit or account under which the depository institution reserves the right to require at least 7 days’ notice of an intended withdrawal before withdrawal is made, including those with an original maturity or required notice period of 1 to 13 days, and not otherwise a transaction account under section 204.2(e) of this part.

- (c) (1) “*Time deposit*” means (i) a deposit that the depositor does not have a right to withdraw for a period of 14 days or more after the date of deposit. “Time deposit” includes funds:

(A) payable on a specified date not less than 14 days after the date of deposit;

(B) payable at the expiration of a specified time not less than 14 days after the date of deposit;

(C) payable upon written notice which actually is required to be given by the depositor not less than 14 days before the date of repayment;

(D) such as “Christmas club” accounts and “vacation club” accounts, that are deposited under written con-



tracts providing that no withdrawal shall be made until a certain number of periodic deposits have been made during a period of not less than three months even though some of the deposits may be made within 14 days from the end of the period; or

(E) that constitute a "savings deposit" which is not regarded as a "transaction account;"

(ii) borrowings, regardless of maturity, represented by a promissory note, an acknowledgment of advance, or similar obligation described in section 204.2(a)(1)

(vii) that is issued to, or any bankers acceptance of the depository institution held by, any office located outside the United States of another depository institution or Edge or agreement corporation organized under the laws of the United States, to any office located outside the United States of a foreign bank, or to institutions whose time deposits are exempt from interest rate limitations under section 217.3(g) of Regulation Q (12 CFR 217.3(g)); and

(iii) a deposit or account issued pursuant to 12 CFR 1204.121, including those with an original maturity or required notice period of 7 to 13 days; or for depository institutions not subject to the rules of the Depository Institutions Deregulation Committee under 12 USC 3501 et seq., a deposit or account issued with an original maturity or required notice period of 7 to 13 days if such deposit or account is nonnegotiable and is not otherwise a transaction account under section 204.2(e) of this part.

(2) A time deposit may be represented by a transferable or nontransferable, or a negotiable or nonnegotiable, certificate, instrument, passbook, statement, or otherwise. A "time deposit" includes share certificates and certificates of indebtedness issued by credit unions, and certificate accounts and notice accounts issued by savings and loan associations.

(d) (1) "*Savings deposit*" means a deposit or account

(i) (A) with respect to which the de-

positor is not required by the deposit contract but may at any time be required by the depository institution to give written notice of an intended withdrawal not less than 14 days before withdrawal is made, and that is not payable on a specified date or at the expiration of a specified time after the date of deposit; and

(B) for depository institutions subject to 12 CFR 217 or 12 CFR 329, funds deposited to the credit of, or in which any beneficial interest is held by, a corporation, association, partnership or other organization operated for profit do not exceed \$150,000 per depositor at the depository institution; or

(ii) issued pursuant to 12 CFR 1204.122 under which the depository institution reserves the right to require at least 7 days' notice of an intended withdrawal before withdrawal is made, or for depository institutions not subject to the rules of the Depository Institutions Deregulation Committee under 12 USC 3501 et seq., a deposit or account under which the depository institution reserves the right to require at least 7 days' notice of an intended withdrawal before withdrawal is made.

(2) A deposit may continue to be classified as a savings deposit even if the depository institution exercises its right to require notice of withdrawal.

(3) A "savings deposit" includes a regular share account at a credit union and a regular account at a savings and loan association.

(4) "Savings deposit" does not include funds deposited to the credit of the depository institution's own trust department where the funds involved are utilized to cover checks or drafts. Such funds are "transaction accounts."

(e) (1) "*Transaction account*" means a deposit or account on which the depositor or account holder is permitted to make withdrawals by negotiable or transferable instrument, payment orders of withdrawal, telephone transfers, or other similar device for the purpose of making payments or



transfers to third persons or others. "Transaction account" includes:

- (i) demand deposits;
- (ii) deposits or accounts subject to check, draft, negotiable order of withdrawal, share draft, or other similar item;
- (iii) savings deposits or accounts in which withdrawals may be made automatically through payment to the depository institution itself or through transfer of credit to a demand deposit or other account in order to cover checks or drafts drawn upon the institution or to maintain a specified balance in, or to make periodic transfers to, such accounts (automatic transfer accounts);
- (iv) deposits or accounts in which payments may be made to third parties by means of an automated teller machine, remote service unit or other electronic device;
- (v) deposits or accounts in which payments may be made to third parties by means of a debit card;
- (vi) except as provided in subparagraph (2), deposits or accounts under the terms of which, or which by practice of the depository institution, the depositor is permitted or authorized to make more than three withdrawals per month for purposes of transferring funds to another account or for making a payment to a third party by means of preauthorized or telephone agreement, order or instruction. An account that permits or authorizes more than three such withdrawals in a calendar month, or statement cycle (or similar period) of at least four weeks, is a "transaction account" whether or not more than three such withdrawals actually are made during such period. A "preauthorized transfer" includes any arrangement by the depository institution to pay a third party from the account of a depositor upon written or oral instruction (including an order received through an automated clearing house (ACH)), or any arrangement by a depository institution to pay a third party from the account of the depositor at a predetermined time or on a fixed schedule. An account is not a "transaction account" under this subparagraph

(e)(1)(vi), by virtue of an arrangement that permits withdrawals for the purpose of repaying loans and associated expenses at the same depository institution (as originator or servicer);

(vii) deposits or accounts maintained in connection with an arrangement that permits the depositor to obtain credit directly or indirectly through the drawing of a negotiable or nonnegotiable check, draft, order or instruction or other similar device (including telephone or electronic order or instruction) on the issuing institution that can be used for the purpose of making payments or transfers to third persons or others, or to a deposit account of the depositor. Deposits that are subject to arrangements established before October 5, 1982, will not be regarded as transaction accounts (A) until the deposit issued in connection with the line of credit is extended, or matures and is renewed, or (B) if the deposit issued in connection with the line of credit matures and is automatically renewed on or before December 31, 1982; and

(viii) a deposit or account issued pursuant to 12 CFR 1204.122 (or, for a depository institution that is not subject to the rules of the Depository Institutions Deregulation Committee under 12 USC 3501 et seq., a deposit or account under which the depository institution reserves the right to require seven days' notice of an intended withdrawal prior to withdrawal) and under the terms of which, or which by practice of the depository institution, the depositor is permitted or authorized to make more than six transfers per calendar month, or statement cycle (or similar period) of at least four weeks to another account of the same depositor at the same institution, to the institution itself or to a third party by means of preauthorized, automatic, or telephone agreement, order, or instruction or, with-in these transfers, to draw more than three checks or drafts per calendar month or statement cycle (or similar period) of at least four weeks. An account that authorizes transfers in excess of these limits is a transaction account



whether or not the depositor actually makes any transfers.

(2) Notwithstanding subparagraphs (1)(ii), (1)(iii), (1)(iv), and (1)(v) of this paragraph, a "transaction account" does not include a deposit or account issued pursuant to 12 CFR 1204.122 (or, for a depository institution that is not subject to the rules of the Depository Institutions Deregulation Committee under 12 USC 3501 et seq., a deposit or account under which the depository institution reserves the right to require seven days' notice of an intended withdrawal prior to withdrawal) under the terms of which the depositor is not permitted or authorized to make more than six transfers per calendar month, or statement cycle (or similar period) of at least four weeks, to another account of the depositor at the same institution, to the institution itself, or to a third party by means of preauthorized, automatic or telephone agreement, order, or instruction and no more than three of such six transfers may be by checks or drafts drawn by the depositor.

(f) (1) "*Nonpersonal time deposit*" means:

(i) a time deposit, including a savings deposit, that is not a transaction account, representing funds in which any beneficial interest is held by a depositor which is not a natural person;

(ii) a time deposit, including a savings deposit that is not a transaction account, that represents funds deposited to the credit of a depositor that is not a natural person, other than a deposit to the credit of a trustee or other fiduciary if the entire beneficial interest in the deposit is held by one or more natural persons;

(iii) a time deposit that is transferable, except a time deposit originally issued before October 1, 1980, to and held by one or more natural persons, including a deposit to the credit of a trustee or other fiduciary if the entire beneficial interest in the deposit is held by one or more natural persons;

(iv) a time deposit that is transferable, issued on or after October 1, 1980, to and held by one or more natural persons, including a deposit to the credit of a trustee or other fiduciary if the entire beneficial

interest is held by one or more natural persons. A time deposit is transferable unless it contains a specific statement on the certificate, instrument, passbook, statement or other form representing the account that it is not transferable. A time deposit that contains a specific statement that it is not transferable is not regarded as transferable even if the following transactions can be effected: a pledge as collateral for a loan; a transaction that occurs due to circumstances arising from death, incompetency, marriage, divorce, attachment or otherwise by operation of law or a transfer on the books or records of the institution; and

(v) a time deposit represented by a promissory note, an acknowledgment of advance, or a similar obligation described in section 204.2(a)(1)(vii) that is issued to, or any bankers acceptance of the depository institution held by, any office located outside the United States of another depository institution or Edge or agreement corporation organized under the laws of the United States, to any office located outside the United States of a foreign bank, or to institutions whose time deposits are exempt from interest rate limitations under section 217.3(g) of Regulation Q (12 CFR 217.3(g)).

(2) "Nonpersonal time deposit" does not include nontransferable time deposits to the credit of or in which the entire beneficial interest is held by an individual pursuant to an individual retirement account or Keogh (H. R. 10) plan under 26 USC (IRC 1954) 408, 401, or nontransferable time deposits held by an employer as part of an unfunded deferred-compensation plan established pursuant to subtitle D of the Revenue Act of 1978 (Pub. L. No. 95-600, 92 Stat. 2763).

(g) "*Natural person*" means an individual or a sole proprietorship. The term does not mean a corporation owned by an individual, a partnership or other association.

(h) "*Eurocurrency liabilities*" means:

(1) For a depository institution or an Edge or agreement corporation organized under the laws of the United States, the sum, if positive, of the following:



(i) net balances due to its non-United States offices and its international banking facilities ("IBFs") from its United States offices;

(ii) (A) for a depository institution organized under the laws of the United States, assets (including participations) acquired from its United States offices and held by its non-United States offices, by its IBF, or by non-United States offices of an affiliated Edge or agreement corporation;<sup>1</sup> or (B) for an Edge or agreement corporation, assets (including participations) acquired from its United States offices and held by its non-United States offices, by its IBF, by non-United States offices of its U. S. or foreign parent institution, or by non-United States offices of an affiliated Edge or agreement corporation;<sup>1</sup> and

(iii) credit outstanding from its non-United States offices to United States residents (other than assets acquired and net balances due from its United States offices), except credit extended (A) from its non-United States offices in the aggregate amount of \$100,000 or less to any United States resident, (B) by a non-United States office that at no time during the computation period had credit outstanding to United States residents exceeding \$1 million, (C) to an international banking facility, or (D) to an institution that will be maintaining reserves on such credit pursuant to this part. Credit extended from non-United States offices or from IBFs to a foreign branch, office, subsidiary, affiliate, or other foreign establishment ("foreign affiliate") controlled by one or more domestic corporations is not regarded as credit extended to a United States resident if the proceeds will be used to finance the operations outside the United States of the borrower or of other foreign affiliates of

the controlling domestic corporation(s).

(2) For a United States branch or agency of a foreign bank, the sum, if positive, of the following:

(i) net balances due to its foreign bank (including offices thereof located outside the United States) and its international banking facility after deducting an amount equal to 8 percent of the following: the United States branch's or agency's total assets less the sum of (A) cash items in process of collection; (B) unposted debits; (C) demand balances due from depository institutions organized under the laws of the United States and from other foreign banks; (D) balances due from foreign central banks; and (E) positive net balances due from its IBF, its foreign bank, and the foreign bank's United States and non-United States offices; and

(ii) assets (including participations) acquired from the United States branch or agency (other than assets required to be sold by federal or state supervisory authorities) and held by its foreign bank (including offices thereof located outside the United States), by its parent holding company, by non-United States offices or an IBF of an affiliated Edge or agreement corporation, or by its IBFs.<sup>1</sup>

(i) (1) "*Cash item in process of collection*" means:

(i) checks in the process of collection, drawn on a bank or other depository institution that are payable immediately upon presentation in the United States, including checks forwarded to a Federal Reserve Bank in process of collection and checks on hand that will be presented for payment or forwarded for collection on the following business day;

(ii) government checks drawn on the Treasury of the United States that are in the process of collection; and

(iii) such other items in the process of collection, that are payable immediately upon presentation in the United States and that are customarily cleared or collected by depository institutions as cash items, including:

<sup>1</sup> This subparagraph does not apply to assets (1) that were acquired before October 7, 1979, or (2) that were acquired by an IBF from its establishing entity before the end of the fourth reserve computation period after its establishment. [Note: Effective February 2, 1984, this footnote is amended by deleting the word "fourth" and inserting in its place the word "second".]



(A) drafts payable through another depository institution;

(B) redeemed bonds and coupons;

(C) food coupons and certificates;

(D) postal and other money orders, and traveler's checks;

(E) amounts credited to deposit accounts in connection with automated payment arrangements where such credits are made one business day prior to the scheduled payment date to insure that funds are available on the payment date;

(F) commodity or bill of lading drafts payable immediately upon presentation in the United States;

(G) returned items and unposted debits; and

(H) broker security drafts.

(2) "Cash item in process of collection" does not include items handled as noncash collections and credit card sales slips and drafts.

(j) "Net transaction accounts" means the total amount of a depository institution's transaction accounts less the deductions allowed under the provisions of section 204.3.

(k) (1) "Vault cash" means United States currency and coin owned and held by a depository institution that may, at any time, be used to satisfy depositors' claims.

(2) "Vault cash" includes United States currency and coin in transit to a Federal Reserve Bank or a correspondent depository institution for which the reporting depository institution has not yet received credit, and United States currency and coin in transit from a Federal Reserve Bank or a correspondent depository institution when the reporting depository institution's account at the Federal Reserve or correspondent bank has been charged for such shipment.

(3) Silver and gold coin and other currency and coin whose numismatic or bullion value is substantially in excess of face value is not vault cash for purposes of this part.

(l) "Pass-through account" means a balance maintained by a depository institution that is not a member bank, by a U.S. branch or agen-

cy of a foreign bank, or by an Edge or agreement corporation, (1) in an institution that maintains required reserve balances at a Federal Reserve Bank, (2) in a Federal Home Loan Bank, (3) in the National Credit Union Administration Central Liquidity Facility, or (4) in an institution that has been authorized by the Board to pass through required reserve balances if the institution, Federal Home Loan Bank, or National Credit Union Administration Central Liquidity Facility maintains the funds in the form of a balance in a Federal Reserve Bank of which it is a member or at which it maintains an account in accordance with rules and regulations of the Board.

(m) (1) "Depository institution" means:

(i) any insured bank as defined in section 3 of the Federal Deposit Insurance Act (12 USC 1813(h)) or any bank that is eligible to apply to become an insured bank under section 5 of such act (12 USC 1815);

(ii) any savings bank or mutual savings bank as defined in section 3 of the Federal Deposit Insurance Act (12 USC 1813(f), (g));

(iii) any insured credit union as defined in section 101 of the Federal Credit Union Act (12 USC 1752(7)) or any credit union that is eligible to apply to become an insured credit union under section 201 of such act (12 USC 1781);

(iv) any member as defined in section 2 of the Federal Home Loan Bank Act (12 USC 1422(4)); and

(v) any insured institution as defined in section 401 of the National Housing Act (12 USC 1724(a)) or any institution which is eligible to apply to become an insured institution under section 403 of such act (12 USC 1726).

(2) "Depository institution" does not include international organizations such as the World Bank, the Inter-American Development Bank, and the Asian Development Bank.

(n) "Member bank" means a depository institution that is a member of the Federal Reserve System.

(o) "Foreign bank" means any bank or other



similar institution organized under the laws of any country other than the United States or organized under the laws of Puerto Rico, Guam, American Samoa, the Virgin Islands, or other territory or possession of the United States.

(p) "*De novo depository institution*" means a depository institution that was not engaged in business on July 1, 1979, and is not the successor by merger or consolidation to a depository institution that was engaged in business prior to the date of merger or consolidation.

(q) "*Affiliate*" includes any corporation, association, or other organization:

(1) of which a depository institution, directly or indirectly, owns or controls either a majority of the voting shares or more than 50 percent of the numbers of shares voted for the election of its directors, trustees, or other persons exercising similar functions at the preceding election, or controls in any manner the election of a majority of its directors, trustees, or other persons exercising similar functions;

(2) of which control is held, directly or indirectly, through stock ownership or in any other manner, by the shareholders of a depository institution or more than 50 percent of the number of shares voted for the election of directors of such depository institution at the preceding election, or by trustees for the benefit of the shareholders of any such depository institution;

(3) of which a majority of its directors, trustees, or other persons exercising similar functions are directors of any one depository institution; or

(4) which owns or controls, directly or indirectly, either a majority of the shares of capital stock of a depository institution or more than 50 percent of the number of shares voted for the election of directors, trustees or other persons exercising similar functions of a depository institution at the preceding election, or controls in any manner the election of a majority of the directors, trustees, or other persons exercising similar functions of a depository institution, or for the benefit of whose shareholders or members all or substantially all the capital

stock of a depository institution is held by trustees.

(r) "*United States*" means the states of the United States and the District of Columbia.

(s) "*United States resident*" means (1) any individual residing (at the time of the transaction) in the United States; (2) any corporation, partnership, association or other entity organized in the United States ("domestic corporation"); and (3) any branch or office located in the United States of any entity that is not organized in the United States.

(t) "*Any deposit that is payable only at an office located outside the United States*" means

(1) a deposit of a United States resident<sup>2</sup> that is in a denomination of \$100,000 or more, and as to which the depositor is entitled, under the agreement with the institution, to demand payment only outside the United States or (2) a deposit of a person who is not a United States resident<sup>2</sup> as to which the depositor is entitled, under the agreement with the institution, to demand payment only outside the United States.

### SECTION 204.3—Computation and Maintenance

(a) *Maintenance of required reserves.* A depository institution, a U.S. branch or agency of a foreign bank, and an Edge or agreement corporation shall maintain reserves against its deposits and Eurocurrency liabilities in accordance with the procedures prescribed in this section and section 204.4 and the ratios prescribed in section 204.9. Penalties shall be assessed for deficiencies in required reserves in accordance with the provisions of section 204.7. Every depository institution, U.S. branch or agency of a foreign bank, and Edge or agreement corporation shall file reports of deposits in accordance with the instructions of the Board, based on the level of its deposits and reservable liabilities consistent with the

<sup>2</sup> A deposit of a foreign branch, office, subsidiary, affiliate or other foreign establishment ("foreign affiliate") controlled by one or more domestic corporations is not regarded as a deposit of a United States resident if the funds serve a purpose in connection with its foreign or international business or that of other foreign affiliates of the controlling domestic corporation(s).



Board's need for data to carry out its responsibility to monitor and control monetary and credit aggregates. For purposes of this part, the obligations of a majority-owned (50 percent or more) U.S. subsidiary (except an Edge or agreement corporation) of a depository institution shall be regarded as obligations of the parent depository institution.

(1) *United States branches and agencies of foreign banks.*

(i) A foreign bank's United States branches and agencies operating within the same state and within the same Federal Reserve District shall prepare and file a report of deposits on an aggregated basis.

(ii) United States branches and agencies of the same foreign bank shall, if possible, assign the low reserve tranche on transaction accounts (§ 204.9(a)) to only one office or to a group of offices filing a single aggregated report of deposits. If the low reserve tranche cannot be fully utilized by a single office or by a group of offices filing a single report of deposits, the unused portion of the tranche may be assigned to other offices of the same foreign bank until the amount of the tranche or net transaction accounts is exhausted. The foreign bank shall determine this assignment subject to the restriction that if a portion of the tranche is assigned to an office in a particular state, any unused portion must first be assigned to other offices located within the same state and within the same Federal Reserve District, that is, to other offices included on the same aggregated report of deposits. If necessary in order to avoid underutilization of the low reserve tranche, the allocation may be changed at the beginning of a calendar month. Under other circumstances, the low reserve tranche may be reallocated at the beginning of a calendar year.

(2) *Edge and agreement corporations.*

(i) An Edge or agreement corporation's offices operating within the same state and within the same Federal Reserve District shall prepare and file a report of deposits on an aggregated basis.

(ii) An Edge or agreement corporation

shall, if possible, assign the low reserve tranche on transaction accounts (§ 204.9(a)) to only one office or to a group of offices filing a single aggregated report of deposits. If the low reserve tranche cannot be fully utilized by a single office or by a group of offices filing a single report of deposits, the unused portion of the tranche may be assigned to other offices of the same institution until the amount of the tranche or net transaction accounts is exhausted. An Edge or agreement corporation shall determine this assignment subject to the restriction that if a portion of the tranche is assigned to an office in a particular state, any unused portion must first be assigned to other offices located within the same state and within the same Federal Reserve District, that is, to other offices included on the same aggregated report of deposits. If necessary in order to avoid underutilization of the low reserve tranche, the allocation may be changed at the beginning of a calendar month. Under other circumstances, the low reserve tranche may be reallocated at the beginning of a calendar year.

(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 section 204.9(a) and then to succeeding lower reserve ratios.

(ii) A depository institution, United States branches and agencies of the same foreign bank, or an Edge or agreement corporation shall, if possible, assign the reserve requirement exemption of section 204.9(a) to only one office or to a group



of offices filing a single aggregated report of deposits. If the reserve requirement exemption cannot be fully utilized by a single office or by a group of offices filing a single report of deposits, the unused portion of the exemption may be assigned to other offices of the same institution until the amount of the exemption or reservable liabilities is exhausted. A depository institution, foreign bank, or Edge or agreement corporation shall determine this assignment subject to the restriction that if a portion of the exemption is assigned to an office in a particular state, any unused portion must first be assigned to other offices located within the same state and within the same Federal Reserve District, that is, to other offices included on the same aggregated report of deposits. The exemption may be reallocated at the beginning of a calendar year, or, if necessary to avoid underutilization of the exemption, at the beginning of a calendar month. The amount of the reserve requirement exemption allocated to an office or group of offices may not exceed the amount of the low reserve tranche allocated to such office or offices under this paragraph.

(b) *Form of reserves.* Reserves shall be held in the form of (i) vault cash, (ii) a balance maintained directly with the Federal Reserve Bank in the District in which it is located, or (iii) a pass-through account. Reserves held in the form of a pass-through account shall be considered to be a balance maintained with the Federal Reserve.

(c) *Computation of required reserves for institutions that report on a weekly basis.\** Required reserves are computed on the basis of the daily average deposit balances during a seven-day period ending each Wednesday (the "computation period"). Reserve requirements are computed by applying the ratios prescribed in section 204.9 to the classes of deposits and Eurocurrency liabilities of the institution. In determining the reserve balance that is required to be maintained with the Federal Reserve, the average daily vault cash held during the computation period is deducted from the amount of the institution's re-

quired reserves. The reserve balance that is required to be maintained with the Federal Reserve shall be maintained during a corresponding seven-day period (the "maintenance period") which begins on the second Thursday following the end of a given computation period.

(d) *Computation of required reserves for institutions that report on a quarterly basis.\** For a depository institution that is permitted to report quarterly, required reserves are computed on the basis of the depository institution's daily average deposit balances during a seven-day computation period that begins on the third Thursday of March, June, September,

\* Effective February 2, 1984, paragraphs (c) and (d) of section 204.3 are amended to read as follows:

(c) *Computation of required reserves for institutions that report on a weekly basis.*

(1) Required reserves are computed on the basis of daily average balances of deposits and Eurocurrency liabilities during a 14-day period ending every second Monday (the "computation period"). Reserve requirements are computed by applying the ratios prescribed in section 204.9 to the classes of deposits and Eurocurrency liabilities of the institution. The reserve balance that is required to be maintained with the Federal Reserve shall be maintained during a 14-day period (the "maintenance period") which begins on a Thursday and ends on the second Wednesday thereafter.

(2) A reserve balance shall be maintained during a given maintenance period, based—

(i) on the daily average net transaction accounts held by the depository institution during the computation period that began immediately prior to the beginning of the maintenance period; and

(ii) on the daily average nonpersonal time deposits and daily average Eurocurrency liabilities held by the depository institution during the computation period that ended 17 days prior to the beginning of the maintenance period.

(3) In determining the reserve balance that is required to be maintained with the Federal Reserve, the daily average vault cash held during the computation period that ended 17 days prior to the beginning of the maintenance period is deducted from the amount of the institution's required reserves.

(d) *Computation of required reserves for institutions that report on a quarterly basis.* For a depository institution that is permitted to report quarterly, required reserves are computed on the basis of the depository institution's daily average deposit balances during a seven-day computation period that begins on the third Tuesday of March, June, September, and December. In determining the reserve balance that such a depository institution is required to maintain with the Federal Reserve, the daily average vault cash held during the computation period is deducted from the amount of the institution's required reserves. The reserve balance that is required to be maintained with the Federal Reserve shall be maintained during a corresponding period that begins on the fourth Thursday following the end of the institution's computation period and ends on the fourth Wednesday after the close of the institution's next computation period.



and December. In determining the reserve balance that such a depository institution is required to maintain with the Federal Reserve, the average daily vault cash held during the computation period is deducted from the amount of the institution's required reserves. The reserve balance that is required to be maintained with the Federal Reserve shall be maintained during a corresponding period that begins on the fourth Thursday following the end of the institution's computation period and ends on the third Wednesday after the close of the institution's next computation period. Such reserve balance shall be maintained in the amount required on a daily average basis during each week of the quarterly reserve maintenance period.

(e) *Computation of transaction accounts.* Overdrafts in demand deposit or other transaction accounts are not to be treated as negative demand deposits or negative transaction accounts and shall not be netted since overdrafts are properly reflected on an institution's books as assets. However, where a customer maintains multiple transaction accounts with a depository institution, overdrafts in one account pursuant to a bona fide cash management arrangement are permitted to be netted against balances in other related transaction accounts for reserve requirement purposes.

(f) *Deductions allowed in computing reserves.*

(1) In determining the reserve balance required under this part, the amount of cash items in process of collection and balances subject to immediate withdrawal due from other depository institutions located in the United States (including such amounts due from United States branches and agencies of foreign banks and Edge and agreement corporations) may be deducted from the amount of gross transaction accounts. The amount that may be deducted may not exceed the amount of gross transaction accounts. However, if a depository institution maintains any transaction accounts that are first authorized under federal law after April 1, 1980, it may deduct from these balances cash items in process of collection and balances subject to immediate withdrawal due from other depository institutions located in the United States only to

the extent of the proportion that such newly authorized transaction accounts are of the institution's total transaction accounts. The remaining cash items in process of collection and balances subject to immediate withdrawal due from other depository institutions located in the United States shall be deducted from the institution's remaining transaction accounts.

(2) United States branches and agencies of a foreign bank may not deduct balances due from another United States branch or agency of the same foreign bank, and United States offices of an Edge or agreement corporation may not deduct balances due from another United States office of the same Edge corporation.

(3) Balances "due from other depository institutions" do not include balances due from Federal Reserve Banks, pass-through accounts, or balances (payable in dollars or otherwise) due from banking offices located outside the United States. An institution exercising fiduciary powers may not include in "balances due from other depository institutions" amounts of trust funds deposited with other banks and due to it as a trustee or other fiduciary.

(g) *Availability of cash items as reserves.* Cash items forwarded to a Federal Reserve Bank for collection and credit shall not be counted as part of the reserve balance to be carried with the Federal Reserve until the expiration of the time specified in the appropriate time schedule established under Regulation J, "Collection of Checks and Other Items and Transfers of Funds" (12 CFR part 210). If a depository institution draws against items before that time, the charge will be made to its reserve account if the balance is sufficient to pay it; any resulting impairment of reserve balances will be subject to the penalties provided by law and by this part. However, the Federal Reserve Bank may, at its discretion, refuse to permit the withdrawal or other use of credit given in a reserve account for any time for which the Federal Reserve bank has not received payment in actually and finally collected funds.

(h) *Carryover of deficiencies.* Any excess or



deficiency in a required reserve balance for any maintenance period that does not exceed 2 percent of institution's required reserves shall be carried forward to the next maintenance period. Any carryover not offset during the next period may not be carried forward to additional periods.†

(i) *Pass-through rules.*

(1) *Procedure.*

(i) A nonmember depository institution required to maintain reserve balances ("respondent") may select only one institution to pass through its required reserves. Eligible institutions through which respondent required reserve balances may be passed ("correspondents") are Federal Home Loan Banks, the National Credit Union Administration Central Liquidity Facility, and depository institutions that maintain required reserve balances at a Federal Reserve office. In addition, the Board reserves the right to permit other institutions, on a case-by-case basis, to serve as pass-through correspondents. The correspondent chosen must subsequently pass through the required reserve balances of its respondents

† Effective February 2, 1984, paragraph (h) of section 204.3 is amended to read as follows:

(h) *Carryover of excesses or deficiencies.* (1) For a depository institution computing required reserves under paragraph (c) of this section, any excess or deficiency in a required reserve balance for any maintenance period that does not exceed the greater of the percentage set forth in the schedule below of the institution's required reserves (including required clearing balances) or \$25,000, shall be carried forward to the next maintenance period.

<i>Reserve maintenance periods occurring between</i>	<i>Percentage applied to determine allowable carryover</i>
February 2, 1984 and August 1, 1984	3
August 2, 1984 and January 30, 1985	2½
January 31, 1985 and forward	2

(2) For a depository institution reporting deposits and maintaining required reserves under paragraph (d) of this section, any excess or deficiency in a required reserve balance for any maintenance period that does not exceed the greater of 2 percent of the institution's required reserves (including required clearing balances) or \$25,000, shall be carried forward to the next maintenance period.

(3) Any carryover not offset during the next period may not be carried forward to additional periods.

directly to the appropriate Federal Reserve office. The correspondent placing funds with the Federal Reserve on behalf of respondents will be responsible for reserve account maintenance as described in subparagraphs (3) and (4) below.

(ii) Respondent depository institutions or pass-through correspondents may institute, terminate, or change pass-through arrangements for the maintenance of required reserve balances by providing all documentation required for the establishment of the new arrangement and/or termination of the existing arrangement to the Federal Reserve Bank in whose territory the respondent is located. The time period required for such a change to be effected shall be specified by each Reserve Bank in its operating circular.

(iii) U.S. branches and agencies of foreign banks and Edge and agreement corporations may (a) act as pass-through correspondents for any nonmember institution required to maintain reserves or (b) pass their own required reserve balances through correspondents. In accordance with the provision set forth in subparagraph (3) below, the U.S. branches and agencies of a foreign bank or offices of an Edge and agreement corporation filing a single aggregated report of deposits may designate any one of the other U.S. offices of the same institution to serve as a pass-through correspondent for all of the offices filing such a single aggregated report of deposits.

(2) *Reports.*

(i) Every depository institution that maintains transaction accounts or nonpersonal time deposits is required to file its report of deposits (or any other required form or statement) directly with the Federal Reserve Bank of its District, regardless of the manner in which it chooses to maintain required reserve balances.

(ii) The Federal Reserve Bank receiving such reports shall notify the reporting depository institution of its reserve requirements. Where a pass-through arrangement exists, the Reserve Bank will also



notify the correspondent passing respondent reserve balances through to the Federal Reserve of its respondent's required reserve balances.

(iii) The Federal Reserve will not hold a correspondent responsible for guaranteeing the accuracy of the reports of deposits submitted by its respondents to their local Federal Reserve Banks.

(3) *Account Maintenance.*

(i) A correspondent that passes through required reserve balances of respondents whose main offices are located in the same Federal Reserve territory in which the main office of the correspondent is located shall have the option of maintaining such required reserve balances in one of two ways: (a) A correspondent may maintain such balances, along with the correspondent's own required reserve balances, in a single commingled account at the Federal Reserve Bank office in whose territory the correspondent's main office is located, or (b) A correspondent may maintain its own required reserve balance in an account with the Federal Reserve Bank office in whose territory its main office is located. The correspondent, in addition, would maintain in a separate commingled account the required reserve balances passed through for respondents whose main offices are located in the same Federal Reserve territory as that of the main office of the correspondent.

(ii) A correspondent that passes through required reserve balances of respondents whose main offices are located outside the Federal Reserve territory in which the main office of the correspondent is located shall maintain such required reserve balances in a separate commingled account at each Federal Reserve office in whose territory the main offices of such respondents are located.

(iii) A Reserve Bank may, at its discretion, require a pass-through correspondent to consolidate in a single account the reserve balances of all of its respondents whose main offices are located in any territory of that Federal Reserve District.

(4) *Responsibilities of parties.*

(i) Each individual depository institution is responsible for maintaining its required reserve balance with the Federal Reserve Bank either directly or through a pass-through correspondent.

(ii) A pass-through correspondent shall be responsible for assuring the maintenance of the appropriate aggregate level of its respondents' required reserve balances. A Reserve Bank will compare the total reserve balance required to be maintained in each reserve account with the total actual reserve balance held in such reserve account for purposes of determining required reserve deficiencies, imposing or waiving penalties for deficiencies in required reserves, and for other reserve maintenance purposes. A penalty for a deficiency in the aggregate level of the required reserve balance will be imposed by the Reserve Bank on the correspondent maintaining the account.

(iii) Each correspondent is required to maintain detailed records for each of its respondents in a manner that permits Reserve Banks to determine whether the respondent has provided a sufficient required reserve balance to the correspondent. A correspondent passing through a respondent's reserve balance shall maintain records and make such reports as the Federal Reserve System requires in order to insure the correspondent's compliance with its responsibilities for the maintenance of a respondent's reserve balance. Such records shall be available to the Federal Reserve Banks as required.

(iv) The Federal Reserve Bank may terminate any pass-through relationship in which the correspondent is deficient in its recordkeeping or other responsibilities.

(v) Interest paid on supplemental reserves (if such reserves are required under section 204.6 of this part) held by respondent(s) will be credited to the commingled reserve account(s) maintained by the correspondent.

(5) *Services.*

(i) A depository institution maintaining its reserve balances on a pass-through basis may obtain available Federal Reserve System services directly from its local



Federal Reserve office. For this purpose, the pass-through account in which a respondent's required reserve balance is maintained may be used by the respondent for the posting of entries arising from transactions involving the use of such Federal Reserve services, if the posting of these types of transactions has been authorized by the correspondent and the Federal Reserve. For example, access to the wire transfer, securities transfer, and settlement services that involve charges to the commingled reserve account at the Reserve Bank will require authorization from the correspondent and the Reserve Bank for the type of transaction that is occurring.

(ii) In addition, in obtaining Federal Reserve services, respondents maintaining their required reserves on a pass-through basis may choose to have entries arising from the use of Federal Reserve services posted to: (a) with the prior authorization of all parties concerned, the reserve account maintained by any institution at a Federal Reserve Bank, or (b) an account maintained for clearing purposes at a Federal Reserve Bank by the respondent.

(iii) Accounts at Federal Reserve Banks consisting only of respondents' reserve balances that are passed through by a correspondent to a Federal Reserve Bank may be used only for transactions of respondents. A correspondent will not be permitted to use such pass-through accounts for purposes other than serving its respondents' needs.

(iv) A correspondent may not apply for Federal Reserve credit on behalf of a respondent. Rather, a respondent should apply directly to its Federal Reserve Bank for credit. Any Federal Reserve credit obtained by a respondent may be credited, at the respondent's option and with the approval of the parties concerned, to the reserve account in which its required reserves are maintained by a correspondent, to a clearing account maintained by the respondent, or to any account to which the respondent is authorized to post entries arising from the use of in Federal Reserve services.

## SECTION 204.4—Transitional Adjustments

The following transitional adjustments for computing federal reserve requirements shall apply to all member and nonmember depository institutions, except for reserves imposed under sections 204.5 and 204.6.

(a) *Nonmembers.* Except as provided below, the required reserves of a depository institution that was engaged in business on July 1, 1979, but was not a member of the Federal Reserve System on or after that date shall be determined by reducing the amount of required reserves computed under section 204.3 in accordance with the following schedule:

<i>Reserve maintenance periods occurring between</i>	<i>Percentage that computed reserves will be reduced</i>
November 13, 1980 to September 2, 1981	87.5
September 3, 1981 to September 1, 1982	75
September 2, 1982 to August 31, 1983	62.5
September 1, 1983 to September 12, 1984	50
September 13, 1984 to September 11, 1985	37.5
September 12, 1985 to September 10, 1986	25
September 11, 1986 to September 9, 1987	12.5
September 10, 1987 forward	0

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) *Members and former members.* The required reserves of any depository institution that is a member bank on September 1, 1980, or withdraws from membership after March 31, 1980, shall be determined as follows:

(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) shall reduce the amount of its required reserves on all other deposits computed under section 204.3 by an amount determined by multiplying the amount by which required reserves computed under section 204.3 exceed the amount of required reserves computed using the reserve ratios that were in effect on August 31, 1980 (§ 204.9(b)), times the appropriate percentage specified below in accordance with the following schedule:

<i>Reserve maintenance periods occurring between</i>	<i>Percentage applied to difference to compute amount to be subtracted</i>
November 13, 1980 to September 2, 1981	75
September 3, 1981 to September 1, 1982	50
September 2, 1982 to August 31, 1983	25
September 1, 1983 forward	0

(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

(ii) shall increase the amount of its required reserves on all other deposits computed under section 204.3 by an amount determined by multiplying the amount by which required reserves computed using the reserve ratios that were in effect on August 31, 1980 (§ 204.9(b)), exceed the amount of required reserves computed under section 204.3, times the appropriate percentage specified below in accordance with the following schedule:

<i>Reserve maintenance periods occurring between</i>	<i>Percentage applied to difference to compute amount to be added</i>
November 13, 1980 and September 2, 1981	75
September 3, 1981 and March 3, 1982	62.5
March 4, 1982 and September 1, 1982	50
September 2, 1982 and March 2, 1983	37.5
March 3, 1983 and August 31, 1983	25
September 1, 1983 and February 1, 1984	12.5
February 2, 1984 and forward	0

(c) *Certain former member banks.* The required reserves of any depository institution that was a member bank on July 1, 1979, and withdrew from membership during the period beginning on July 1, 1979, and ending on March 31, 1980, shall be determined by reducing the amount of required reserves computed under section 204.3 in accordance with the following schedule:

<i>Reserve maintenance periods occurring between</i>	<i>Percentage that computed reserves will be reduced</i>
October 28, 1982 and October 26, 1983	50
October 27, 1983 and October 24, 1984	33.3
October 25, 1984 and October 23, 1985	16.7
October 24, 1985 and forward	0

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.

(d) *New members.* The required reserves of a nonmember depository institution that was engaged in business but was not a member bank during the period between July 1, 1979 and September 1, 1980, inclusive, and which becomes a member of the Federal Reserve System after September 1, 1980, shall be de-



terminated under paragraph (a) or (c), as applicable, as if it had remained a nonmember and adding to this amount an amount determined by multiplying the difference between its required reserves computed using the ratios specified in section 204.9(a) and its required reserves computed as if it had remained a nonmember times the percentage specified below in accordance with the following schedule:

<i>Maintenance periods occurring during successive quarters after becoming a member bank</i>	<i>Percentage applied to difference to compute amount to be added</i>
1	12.5
2	25.0
3	37.5
4	50.0
5	62.5
6	75.0
7	87.5
8 and succeeding	100.0

(e) *De novo institutions.* (1) The required reserves of any depository institution that was not engaged in business on September 1, 1980, shall be computed under section 204.3 in accordance with the following schedule:

<i>Maintenance periods occurring during successive quarters after entering into business</i>	<i>Percentage of reserve requirement to be maintained</i>
1	40
2	45
3	50
4	55
5	65
6	75
7	85
8 and succeeding	100

This paragraph shall also apply to a United States branch or agency of a foreign bank if such branch or agency is the foreign bank's first office in the United States. Additional branches or agencies of such a foreign bank shall be entitled only to the remaining phase-in available to the initial office.

(2) Notwithstanding subparagraph (1), the required reserves of any depository institution that—

(i) was not engaged in business on November 18, 1981 and

(ii) has \$50 million or more in daily average total transaction accounts, nonpersonal time deposits and Eurocurrency liabilities for any computation period after commencing business

shall be 100 percent of the required reserves computed under section 204.3 starting with the maintenance period that begins eight days after the computation period during which such institution has daily average total transaction accounts, nonpersonal time deposits and Eurocurrency liabilities of \$50 million or more.

(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. Beginning January 2, 1986, the required reserves on deposits held or maintained at offices located in Hawaii of such a depository institution shall be determined by reducing the amount of required reserves under section 204.3 in accordance with the following schedule:

<i>Maintenance periods occurring between</i>	<i>Percentage that computed reserves will be reduced</i>
January 2 to December 31, 1986	87.5
January 1, 1987 to January 6, 1988	75
January 7, 1988 to January 4, 1989	62.5
January 5, 1989 to January 3, 1990	50
January 4, 1990 to January 2, 1991	37.5
January 3, 1991 to January 1, 1992	25
January 2, 1992 to January 6, 1993	12.5
January 7, 1993 forward	0



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.

(g) *Mergers and consolidations.* The following rules concerning transitional adjustments apply to mergers and consolidations of depository institutions:

(1) Where all depository institutions involved in a merger or consolidation are subject to the same paragraph of the transitional adjustment rules contained in paragraphs (a) through (f) of this section during the reserve computation period immediately preceding the merger, the surviving institution shall continue to compute its transitional adjustment of required reserves under such applicable paragraph, except that the amount of reserves which shall be maintained shall be reduced by an amount determined by multiplying the amount by which the required reserves during the computation period immediately preceding the date of the merger (computed as if the depository institutions had merged) exceed the sum of the actual required reserves of each depository institution during the same computation period, times the appropriate percentage as specified in the following schedule:

<i>Maintenance periods occurring during quarterly periods following merger</i>	<i>Percentage applied to difference to compute amount to be subtracted</i>
1	87.5
2	75.0
3	62.5
4	50.0
5	37.5
6	25.0
7	12.5
8 and succeeding	0

(2) (i) Where the depository institutions involved in a merger or consolidation are not subject to the same paragraph of the transitional adjustment rules contained in paragraphs (a) through (f) of this section and such merger or consolidation occurs—

(A) on or after July 1, 1979, between a nonmember bank and a bank that

was a member bank on or after July 1, 1979, and the survivor is a nonmember bank;

(B) on or after March 31, 1980, between a member bank and a nonmember bank and the survivor is a member bank; or

(C) on or after September 1, 1980, between any other depository institutions,

the required reserves of the surviving institution shall be computed by allocating its deposits, Eurocurrency liabilities, other reservable claims, balances due from other depository institutions and cash items in process of collection to each depository institution involved in the merger transaction and applying to such amounts the transitional adjustment rule of paragraphs (a) through (f) of this section to which each such depository institution was subject during the reserve computation period immediately prior to the merger or consolidation.

(ii) The deposits of the surviving institution shall be allocated according to the ratio that daily average total required reserves of each depository institution involved in the merger were to the sum of daily average total required reserves of all institutions involved in the merger or consolidation during the reserve computation period immediately preceding the date of the merger.

(A) If the merger occurs before November 6, 1980, such ratio of daily average total required reserves shall be computed using the reserve requirement ratios in section 204.9(b).

(B) If the merger occurs on or after November 6, 1980, such ratio of daily average total required reserves shall be computed using the reserve requirement ratios in section 204.9(a) without regard to the transitional adjustments of this section.

(iii) The low reserve tranche on transaction accounts (section 204.9(a)) shall be allocated to each institution involved in the merger or consolidation using the ratio computed in subparagraph (2)(ii) and the reserve requirement tranches on



demand deposits (section 204.9(b)) shall be allocated to member bank deposits using such ratio of daily average total required reserves.

(iv) The vault cash of the surviving depository institution also will be allocated to each institution involved in the merger or consolidation according to the ratio that daily average total required reserves of each depository institution involved in the merger was to the sum of daily average total required reserves of all institutions involved in the merger or consolidation during the reserve computation period immediately preceding the date of the merger.

(v) The amount of reserves which shall be maintained shall be reduced by an amount determined by multiplying the amount by which the required reserves during the computation period immediately preceding the date of the merger (computed as if the depository institutions had merged) exceed the sum of the actual required reserves of each depository institution during the same computation period, times the appropriate percentage as specified in the following schedule:

<i>Maintenance periods occurring during quarterly periods following merger</i>	<i>Percentage applied to difference to compute amount to be subtracted</i>
1	87.5
2	75.0
3	62.5
4	50.0
5	37.5
6	25.0
7	12.5
8 and succeeding	0

#### SECTION 204.5—Emergency Reserve Requirement

(a) *Finding by Board.* The Board may impose, after consulting with the appropriate committees of Congress, additional reserve requirements on depository institutions at any ratio on any liability upon a finding by at least five members of the Board that extraordinary circumstances require such action.

(b) *Term.* Any action taken under this section shall be valid for a period not exceeding 180 days, and may be extended for further periods of up to 180 days each by affirmative action of at least five members of the Board for each extension.

(c) *Reports to Congress.* The Board shall transmit promptly to Congress a report of any exercise of its authority under this paragraph and the reasons for the exercise of authority.

(d) *Reserve requirements.* At present, there are no emergency reserve requirements imposed under this section.

#### SECTION 204.6—Supplemental Reserve Requirement

(a) *Finding by Board.* Upon the affirmative vote of at least five members of the Board and after consultation with the Board of Directors of the Federal Deposit Insurance Corporation, the Federal Home Loan Bank Board, and the National Credit Union Administration Board, the Board may impose a supplemental reserve requirement on every depository institution of not more than 4 percent of its total transaction accounts. A supplemental reserve requirement may be imposed if:

- (1) the sole purpose of the requirement is to increase the amount of reserves maintained to a level essential for the conduct of monetary policy;
- (2) the requirement is not imposed for the purpose of reducing the cost burdens resulting from the imposition of basic reserve requirements;
- (3) such requirement is not imposed for the purpose of increasing the amount of balances needed for clearing purposes; and
- (4) on the date on which supplemental reserve requirements are imposed, the total amount of basic reserve requirements is not less than the amount of reserves that would be required on transaction accounts and nonpersonal time deposits under the initial reserve ratios established by the Monetary Control Act of 1980 (Pub. L. 96-221) in effect on September 1, 1980.



(b) *Term.*

(1) If a supplemental reserve requirement has been imposed for a period of one year or more, the Board shall review and determine the need for continued maintenance of supplemental reserves and shall transmit annual reports to the Congress regarding the need for continuing such requirement.

(2) Any supplemental reserve requirement shall terminate at the close of the first 90-day period after the requirement is imposed during which the average amount of supplemental reserves required are less than the amount of reserves which would be required if the ratios in effect on September 1, 1980, were applied.

(c) *Earnings participation account.* A depository institution's supplemental reserve requirement shall be maintained by the Federal Reserve Banks in an earnings participation account. Such balances shall receive earnings to be paid by the Federal Reserve Banks during each calendar quarter at a rate not to exceed the rate earned on the securities portfolio of the Federal Reserve System during the previous calendar quarter. Additional rules and regulations may be prescribed by the Board concerning the payment of earnings on earnings participation accounts by Federal Reserve Banks.

(d) *Report to Congress.* The Board shall transmit promptly to the Congress a report stating the basis for exercising its authority to require a supplemental reserve under this section.

(e) *Reserve requirements.* At present, there are no supplemental reserve requirements imposed under this section.

## SECTION 204.7—Penalties

(a) *Penalties for deficiencies.*

(1) *Assessment of Penalties.* Deficiencies in a depository institution's required reserve balance, after application of the 2 percent carryover provided in section 204.3(f) are subject to penalties. Federal Reserve Banks are authorized to assess penalties for deficiencies in required reserves at a rate of 2

percent per year above the lowest rate in effect for borrowings from the Federal Reserve Bank on the first day of the calendar month in which the deficiencies occurred. Penalties shall be assessed on the basis of daily average deficiencies during each computation period.† Reserve Banks may, as an alternative to levying monetary penalties, after consideration of the circumstances involved, permit a depository institution to eliminate deficiencies in its required reserve balance by maintaining additional reserves during subsequent reserve maintenance periods.

(2) *Waivers.* (i) Reserve Banks may waive the penalty for reserve deficiencies except when the deficiency arises out of a depository institution's gross negligence or conduct that is inconsistent with the principles and purposes of reserve requirements. Each Reserve Bank has adopted guidelines that provide for waivers of small penalties. The guidelines also provide for waiving the penalty once during a two-year period for any deficiency that does not exceed a certain percentage of the depository institution's required reserves. Decisions by Reserve Banks to waive penalties in other situations are based on an evaluation of the circumstances in each individual case and the depository institution's reserve maintenance record. If a depository institution has demonstrated a lack of due regard for the proper maintenance of required reserves, the Reserve Bank may decline to exercise the waiver privilege and assess all penalties regardless of amount or reason for the deficiency.

(ii) In individual cases, where a federal supervisory authority waives a liquidity requirement, or waives the penalty for failing to satisfy a liquidity requirement, the Reserve Bank in the District where the involved depository institution is located shall waive the reserve requirement imposed under this part for such depository institution when requested by the federal supervisory authority involved.

† Effective February 2, 1984, the third sentence of section 204.7(a)(1) is amended by deleting the word "computation" and inserting the word "maintenance" in its place.



(b) *Penalties for Violations.* Violations of this part may be subject to assessment of civil money penalties by the Board under authority of section 19(1) of the Federal Reserve Act (12 USC 505) as implemented in 12 CFR part 263. In addition, the Board and any other federal financial institution supervisory authority may enforce this part with respect to depository institutions subject to their jurisdiction under authority conferred by law to undertake cease and desist proceedings.

## SECTION 204.8—International Banking Facilities

(a) *Definitions.* For purposes of this part, the following definitions apply:

(1) “*International banking facility*” or “*IBF*” means a set of asset and liability accounts segregated on the books and records of a depository institution, United States branch or agency of a foreign bank, or an Edge or agreement corporation that includes only international banking facility time deposits and international banking facility extensions of credit.

(2) “*International banking facility time deposit*” or “*IBF time deposit*” means a deposit, placement, borrowing or similar obligation represented by a promissory note, acknowledgment of advance, or similar instrument that is not issued in negotiable or bearer form, and

(i) (A) that must remain on deposit at the IBF at least overnight; and

(B) that is issued to—

(1) any office located outside the United States of another depository institution organized under the laws of the United States or of an Edge or agreement corporation;

(2) any office located outside the United States of a foreign bank;

(3) a United States office or a non-United States office of the entity establishing the IBF;

(4) another IBF; or

(5) an institution whose time deposits are exempt from interest rate limitations under section 217.3(g)

of Regulation Q (12 CFR 217.3(g)); or

(ii) (A) that is payable—

(1) on a specified date not less than two business days after the date of deposit;

(2) upon expiration of a specified period of time not less than two business days after the date of deposit; or

(3) upon written notice that actually is required to be given by the depositor not less than two business days prior to the date of withdrawal;

(B) that represents funds deposited to the credit of a non-United States resident or a foreign branch, office, subsidiary, affiliate, or other foreign establishment (“foreign affiliate”) controlled by one or more domestic corporations provided that such funds are used only to support the operations outside the United States of the depositor or of its affiliates located outside the United States; and

(C) that is maintained under an agreement or arrangement under which no deposit or withdrawal of less than \$100,000 is permitted, except that a withdrawal of less than \$100,000 is permitted if such withdrawal closes an account.

(3) “*International banking facility extension of credit*” or “*IBF loan*” means any transaction where an IBF supplies funds by making a loan, or placing funds in a deposit account. Such transactions may be represented by a promissory note, security, acknowledgment of advance, due bill, repurchase agreement, or any other form of credit transaction. Such credit may be extended only to—

(i) any office located outside the United States of another depository institution organized under the laws of the United States or of an Edge or agreement corporation;

(ii) any office located outside the United States of a foreign bank;

(iii) a United States or a non-United States office of the institution establishing the IBF;



- (iv) another IBF;
- (v) an institution whose time deposits are exempt from interest rate limitations under section 217.3(g) of Regulation Q (12 CFR 217.3(g)); or
- (vi) a non-United States resident or a foreign branch, office, subsidiary, affiliate or other foreign establishment ("foreign affiliate") controlled by one or more domestic corporations provided that the funds are used only to finance the operations outside the United States of the borrower or of its affiliates located outside the United States.

(b) *Acknowledgment of use of IBF deposits and extensions of credit.* An IBF shall provide written notice to each of its customers (other than those specified in section 204.8(a)(2)(i)(B) and section 204.8(a)(3)(i) through (v)) at the time a deposit relationship or a credit relationship is first established that it is the policy of the Board of Governors of the Federal Reserve System that deposits received by international banking facilities may be used only to support the depositor's operations outside the United States as specified in section 204.8(a)(2)(ii)(B) and that extensions of credit by IBFs may be used only to finance operations outside of the United States as specified in section 204.8(a)(3)(vi). In the case of loans to or deposits from foreign affiliates of U. S. residents, receipt of such notice must be acknowledged in writing whenever a deposit or credit relationship is first established with the IBF.

(c) *Exemption from reserve requirements.* An institution that is subject to the reserve requirements of this part is not required to maintain reserves against its IBF time deposits or IBF loans. Deposit-taking activities of IBFs are limited to accepting only IBF time deposits and lending activities of IBFs are restricted to making only IBF loans.

(d) *Establishment of an international banking facility.* A depository institution, an Edge or agreement corporation or a United States branch or agency of a foreign bank may establish an IBF in any location where it is legally authorized to engage in IBF business. However, only one IBF may be established for each reporting entity that is required to submit a Report of Transaction Accounts, Other

Deposits and Vault Cash (Form F.R. 2900).

(e) *Notification to Federal Reserve.* At least 14 days prior to the first reserve computation period that an institution intends to establish an IBF it shall notify the Federal Reserve Bank of the District in which it is located of its intent. Such notification shall include a statement of intention by the institution that it will comply with the rules of this part concerning IBFs, including restrictions on sources and uses of funds, and recordkeeping and accounting requirements. Failure to comply with the requirements of this part shall subject the institution to reserve requirements under this part and to interest payment limitations that may be applicable under Regulation Q (12 CFR part 217) on its IBF time deposits, or result in the revocation of the institution's ability to operate an IBF.

(f) *Recordkeeping requirements.* A depository institution shall segregate on its books and records the asset and liability accounts of its IBF and submit reports concerning the operations of its IBF as required by the Board.

#### SECTION 204.9—Supplement: Reserve Requirement Ratios

(a) *Reserve percentages.* (1) The following reserve ratios are prescribed for all depository institutions, Edge and agreement corporations and United States branches and agencies of foreign banks:

Category	Reserve requirement
<b>NET TRANSACTION ACCOUNTS</b>	
\$0-\$26.3 million	3% of amount
Over \$26.3 million	\$789,000 plus 12% of amount over \$26.3 million
<b>NONPERSONAL TIME DEPOSITS</b>	
By original maturity (or notice period):	
less than 2½ years	3%
2½ years or more	0%
<b>EUROCURRENCY LIABILITIES</b>	3%



(2) *Exemption from reserve requirements.* Each depository institution, Edge or agreement corporation, and U.S. branch or agency of a foreign bank is subject to a zero percent reserve requirement on an amount of its transaction accounts subject to the low reserve tranche in paragraph (a)(1), nonpersonal time deposits, or Eurocurrency liabilities or any combination thereof not in excess of of \$2.1 million determined in accordance with section 204.3(a)(3) of this part.

(b) *Reserve ratios in effect during last computation period prior to September 1, 1980.*

Category	Reserve requirement
<b>NET DEMAND DEPOSITS</b>	
Deposit tranche:	
\$0-\$2 million	7%
over \$2 million-\$10 million	$\$140,000 + 9\frac{1}{2}\%$ of amount over \$2 million
over \$10 million-\$100 million	$\$900,000 + 11\frac{3}{4}\%$ of amount over \$10 million
over \$100 million-\$400 million	$\$11,475,000 + 12\frac{3}{4}\%$ of amount over \$100 million
over \$400 million	$\$49,725,000 + 16\frac{1}{4}\%$ of amount over \$400 million
<b>SAVINGS DEPOSITS</b>	3%
<b>TIME DEPOSITS</b> (subject to 3% minimum specified by law)	
By initial maturity:	
less than 180 days	
\$0-5 million	3%
over \$5 million	6%
180 days to four years	2½%
four years or more	1%
Accounts authorized pursuant to section 303 of Pub. L. 96-221 offered by member banks located in states outside Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Rhode Island and Vermont	12%
Club accounts	3%

For purposes of computing the reserves under this part, that would have been required using the reserve ratios that were in effect on August 31, 1980, the reserve ratio on time deposits of a member bank shall be the average time deposit ratio of the member bank during the 14-day period ending August 6, 1980, except that the reserve ratio on time deposits of a nonmember bank that was a member bank on or after July 1, 1979, but which became a nonmember bank before March 31, 1980, may be the average time deposit ratio of the nonmember during the 14-day period ending August 27, 1980.



# Statutory Provisions

## FEDERAL RESERVE ACT

### SECTION 19—Bank Reserves

(a) The Board is authorized for the purposes of this section to define the terms used in this section, to determine what shall be deemed a payment of interest, to determine what types of obligations, whether issued directly by a member bank or indirectly by an affiliate of a member bank or by other means, shall be deemed a deposit, and to prescribe such regulations as it may deem necessary to effectuate the purposes of this section and to prevent evasions thereof.

(b) *Reserve requirements.*

(1) *Definitions.* The following definitions and rules apply to this subsection, subsection (c), section 11A, the first paragraph of section 13, and the second, thirteenth, and fourteenth paragraphs of section 16:

(A) The term “depository institution” means—

(i) any insured bank as defined in section 3 of the Federal Deposit Insurance Act or any bank which is eligible to make application to become an insured bank under section 5 of such Act;

(ii) any mutual savings bank as defined in section 3 of the Federal Deposit Insurance Act or any bank which is eligible to make application to become an insured bank under section 5 of such Act;

(iii) any savings bank as defined in section 3 of the Federal Deposit Insurance Act or any bank which is eligible to make application to become an insured bank under section 5 of such Act;

(iv) any insured credit union as defined in section 101 of the Federal Credit Union Act or any credit union which is eligible to make application to become an insured credit union pursuant to section 201 of such Act;

(v) any member as defined in section 2 of the Federal Home Loan Bank Act;

(vi) any insured institution as defined in section 401 of the National Housing Act or any institution which is eligible to make application to become an insured institution under section 403 of such Act; and

(vii) for the purpose of section 13 and the fourteenth paragraph of section 16, any association or entity which is wholly owned by or which consists only of institutions referred to in clauses (i) through (vi).

(B) The term “bank” means any insured or noninsured bank, as defined in section 3 of the Federal Deposit Insurance Act, other than a mutual savings bank or a savings bank as defined in such section.

(C) The term “transaction account” means a deposit or account on which the depositor or account holder is permitted to make withdrawals by negotiable or transferable instrument, payment orders of withdrawal, telephone transfers, or other similar items for the purpose of making payments or transfers to third persons or others. Such term includes demand deposits, negotiable order of withdrawal accounts, savings deposits subject to automatic transfers, and share draft accounts.

(D) The term “nonpersonal time deposits” means a transferable time deposit or account or a time deposit or account representing funds deposited to the credit of, or in which any beneficial interest is held by, a depositor who is not a natural person.

(E) The term “reservable liabilities” means transaction accounts, nonpersonal time deposits, and all net balances, loans, assets and obligations which are, or may be, subject to reserve requirements under paragraph (5).

(F) In order to prevent evasions of the reserve requirements imposed by this



subsection, after consultation with the Board of Directors of the Federal Deposit Insurance Corporation, the Federal Home Loan Bank Board, and the National Credit Union Administration Board, the Board of Governors of the Federal Reserve System is authorized to determine, by regulation or order, that an account or deposit is a transaction account if such account or deposit may be used to provide funds directly or indirectly for the purpose of making payments or transfers to third persons or others.

- (2) *Reserve requirements.* (A) Each depository institution shall maintain reserves against its transaction accounts as the Board may prescribe by regulation solely for the purpose of implementing monetary policy—

(i) in the ratio of 3 per centum for that portion of its total transaction accounts of \$25,000,000 or less, subject to subparagraph (C); and

(ii) in the ratio of 12 per centum, or in such other ratio as the Board may prescribe not greater than 14 per centum and not less than 8 per centum, for that portion of its total transaction accounts in excess of \$25,000,000, subject to subparagraph (C).

(B) Each depository institution shall maintain reserves against its nonpersonal time deposits in the ratio of 3 per centum, or in such other ratio not greater than 9 per centum and not less than zero per centum as the Board may prescribe by regulation solely for the purpose of implementing monetary policy.

(C) Beginning in 1981, not later than December 31 of each year the Board shall issue a regulation increasing for the next succeeding calendar year the dollar amount which is contained in subparagraph (A) or which was last determined pursuant to this subparagraph for the purpose of such subparagraph, by an amount obtained by multiplying such dollar amount by 80 per centum of the percentage increase in the total transaction accounts of all depository institutions. The increase in such transaction accounts shall be determined by subtract-

ing the amount of such accounts on June 30 of the preceding calendar year from the amount of such accounts on June 30 of the calendar year involved. In the case of any such 12-month period in which there has been a decrease in the total transaction accounts of all depository institutions, the Board shall issue such a regulation decreasing for the next succeeding calendar year such dollar amount by an amount obtained by multiplying such dollar amount by 80 per centum of the percentage decrease in the total transaction accounts of all depository institutions. The decrease in such transaction accounts shall be determined by subtracting the amount of such accounts on June 30 of the calendar year involved from the amount of such accounts on June 30 of the previous calendar year.

(D) Any reserve requirement imposed under this subsection shall be uniformly applied to all transaction accounts at all depository institutions. Reserve requirements imposed under this subsection shall be uniformly applied to nonpersonal time deposits at all depository institutions, except that such requirements may vary by the maturity of such deposits.

(3) *Waiver of ratio limits in extraordinary circumstances.* Upon a finding by at least 5 members of the Board that extraordinary circumstances require such action, the Board, after consultation with the appropriate committees of the Congress, may impose, with respect to any liability of depository institutions, reserve requirements outside the limitations as to ratios and as to types of liabilities otherwise prescribed by paragraph (2) for a period not exceeding 180 days, and for further periods not exceeding 180 days each by affirmative action by at least 5 members of the Board in each instance. The Board shall promptly transmit to the Congress a report of any exercise of its authority under this paragraph and the reasons for such exercise of authority.

(4) *Supplemental reserves.* (A) The Board may, upon the affirmative vote of not less than 5 members, impose a supplemental reserve requirement on every depository



institution of not more than 4 per centum of its total transaction accounts. Such supplemental reserve requirement may be imposed only if—

(i) the sole purpose of such requirement is to increase the amount of reserves maintained to a level essential for the conduct of monetary policy;

(ii) such requirement is not imposed for the purpose of reducing the cost burdens resulting from the imposition of the reserve requirements pursuant to paragraph (2);

(iii) such requirement is not imposed for the purpose of increasing the amount of balances needed for clearing purposes; and

(iv) on the date on which the supplemental reserve requirement is imposed, except as provided in paragraph (11), the total amount of reserves required pursuant to paragraph (2) is not less than the amount of reserves that would be required if the initial ratios specified in paragraph (2) were in effect.

(B) The Board may require the supplemental reserve authorized under subparagraph (A) only after consultation with the Board of Directors of the Federal Deposit Insurance Corporation, the Federal Home Loan Bank Board, and the National Credit Union Administration Board. The Board shall promptly transmit to the Congress a report with respect to any exercise of its authority to require supplemental reserves under subparagraph (A) and such report shall state the basis for the determination to exercise such authority.

(C) The supplemental reserve authorized under subparagraph (A) shall be maintained by the Federal Reserve banks in an Earnings Participation Account. Except as provided in subsection (c)(1)(A)(ii), such Earnings Participation Account shall receive earnings to be paid by the Federal Reserve banks during each calendar quarter at a rate not more than the rate earned on the securities portfolio of the Federal Reserve System during the previous calendar quarter. The Board may prescribe rules and regu-

lations concerning the payment of earnings on Earnings Participation Accounts by Federal Reserve banks under this paragraph.

(D) If a supplemental reserve under subparagraph (A) has been required of depository institutions for a period of one year or more, the Board shall review and determine the need for continued maintenance of supplemental reserves and shall transmit annual reports to the Congress regarding the need, if any, for continuing the supplemental reserve.

(E) Any supplemental reserve imposed under subparagraph (A) shall terminate at the close of the first 90-day period after such requirement is imposed during which the average amount of reserves required under paragraph (2) are less than the amount of reserves which would be required during such period if the initial ratios specified in paragraph (2) were in effect.

(5) *Reserves related to foreign obligations or assets.* Foreign branches, subsidiaries, and international banking facilities of non-member depository institutions shall maintain reserves to the same extent required by the Board of foreign branches, subsidiaries, and international banking facilities of member banks. In addition to any reserves otherwise required to be maintained pursuant to this subsection, any depository institution shall maintain reserves in such ratios as the Board may prescribe against—

(A) net balances owed by domestic offices of such depository institution in the United States to its directly related foreign offices and to foreign offices of non-related depository institutions;

(B) loans to United States residents made by overseas offices of such depository institution if such depository institution has one or more offices in the United States; and

(C) assets (including participations) held by foreign offices of a depository institution in the United States which were acquired from its domestic offices.

(6) *Exemption for certain deposits.* The requirements imposed under paragraph (2) shall not apply to deposits payable only out-



side the States of the United States and the District of Columbia, except that nothing in this subsection limits the authority of the Board to impose conditions and requirements on member banks under section 25 of this Act or the authority of the Board under section 7 of the International Banking Act of 1978 (12 U.S.C. 3105).

(7) *Discount and borrowing.* Any depository institution in which transaction accounts or nonpersonal time deposits are held shall be entitled to the same discount and borrowing privileges as member banks. In the administration of discount and borrowing privileges, the Board and the Federal Reserve banks shall take into consideration the special needs of savings and other depository institutions for access to discount and borrowing facilities consistent with their long-term asset portfolios and the sensitivity of such institutions to trends in the national money markets.

(8) *Transitional adjustments.*

(A) Any depository institution required to maintain reserves under this subsection which was engaged in business on July 1, 1979, but was not a member of the Federal Reserve System on or after that date, shall maintain reserves against its deposits during the first twelve-month period following the effective date of this paragraph in amounts equal to one-eighth of those otherwise required by this subsection, during the second such twelve-month period in amounts equal to one-fourth of those otherwise required, during the third such twelve-month period in amounts equal to three-eighths of those otherwise required, during the fourth twelve-month period in amounts equal to one-half of those otherwise required, and during the fifth twelve-month period in amounts equal to five-eighths of those otherwise required, during the sixth twelve-month period in amounts equal to three-fourths of those otherwise required, and during the seventh twelve-month period in amounts equal to seven-eighths of those otherwise required. This subparagraph does not apply to any category of deposits or accounts which are

first authorized pursuant to Federal law in any State after April 1, 1980.

(B) With respect to any bank which was a member of the Federal Reserve System during the entire period beginning on July 1, 1979, and ending on the effective date of the Monetary Control Act of 1980, the amount of required reserves imposed pursuant to this subsection on and after the effective date of such Act that exceeds the amount of reserves which would have been required of such bank if the reserve ratios in effect during the reserve computation period immediately preceding such effective date were applied may, at the discretion of the Board and in accordance with such rules and regulations as it may adopt, be reduced by 75 per centum during the first year which begins after such effective date, 50 per centum during the second year, and 25 per centum during the third year.

(C)(i) With respect to any bank which is a member of the Federal Reserve System on the effective date of the Monetary Control Act of 1980, the amount of reserves which would have been required of such bank if the reserve ratios in effect during the reserve computation period immediately preceding such effective date were applied that exceeds the amount of required reserves imposed pursuant to this subsection shall, in accordance with such rules and regulations as the Board may adopt, be reduced by 25 per centum during the first year which begins after such effective date, 50 per centum during the second year, and 75 per centum during the third year.

(ii) If a bank becomes a member bank during the four-year period beginning on the effective date of the Monetary Control Act of 1980, and if the amount of reserves which would have been required of such bank, determined as if the reserve ratios in effect during the reserve computation period immediately preceding such effective date were applied, and as if such bank had been a member during such period, ex-



ceeds the amount of reserves required pursuant to this subsection, the amount of reserves required to be maintained by such bank beginning on the date on which such bank becomes a member of the Federal Reserve System shall be the amount of reserves which would have been required of such bank if it had been a member on the day before such effective date, except that the amount of such excess shall, in accordance with such rules and regulations as the Board may adopt, be reduced by 25 per centum during the first year which begins after such effective date, 50 per centum during the second year, and 75 per centum during the third year.

(D)(i) Any bank which was a member bank on July 1, 1979, and which withdraws from membership in the Federal Reserve System during the period beginning on July 1, 1979, and ending on March 31, 1980, shall maintain reserves during the first twelve-month period beginning on the date of enactment of this clause in amounts equal to one-half of those otherwise required by this subsection, during the second such twelve-month period in amounts equal to two-thirds of those otherwise required, and during the third such twelve-month period in amounts equal to five-sixths of those otherwise required.

(ii) Any bank which withdraws from membership in the Federal Reserve System after March 31, 1980, shall maintain reserves in the same amount as member banks are required to maintain under this subsection, pursuant to subparagraphs (B) and (C)(i).

(E) This subparagraph applies to any depository institution that, on August 1, 1978, (i) was engaged in business as a depository institution in a State outside the continental limits of the United States, and (ii) was not a member of the Federal Reserve System at any time on or after such date. Such a depository institution shall not be required to maintain reserves against its deposits held or main-

tained at its offices located in a State outside the continental limits of the United States until the first day of the sixth calendar year which begins after the effective date of the Monetary Control Act of 1980. Such a depository institution shall maintain reserves against its deposits during the sixth calendar year which begins after such effective date in an amount equal to one-eighth of that otherwise required by paragraph (2), during the seventh such year in an amount equal to one-fourth of that otherwise required, during the eighth such year in an amount equal to three-eighths of that otherwise required, during the ninth such year in an amount equal to one-half of that otherwise required, during the tenth such year in an amount equal to five-eighths of that otherwise required, during the eleventh such year in an amount equal to three-fourths of that otherwise required, and during the twelfth such year in an amount equal to seven-eighths of that otherwise required.

(9) *Exemption.* This subsection shall not apply with respect to any financial institution which—

(A) is organized solely to do business with other financial institutions;

(B) is owned primarily by the financial institutions with which it does business; and

(C) does not do business with the general public.

(10) *Waivers.* In individual cases, where a Federal supervisory authority waives a liquidity requirement, or waives the penalty for failing to satisfy a liquidity requirement, the Board shall waive the reserve requirement, or waive the penalty for failing to satisfy a reserve requirement, imposed pursuant to this subsection for the depository institution involved when requested by the Federal supervisory authority involved.

(11) *Additional exemptions.* (A)(i) Notwithstanding the reserve requirement ratios established under paragraphs (2) and (5) of this subsection, a reserve ratio of zero per centum shall apply to any combination of reservable liabilities, which do not exceed \$2,000,000 (as adjusted under subpara-



graph (B)), of each depository institution.

(ii) Each depository institution may designate, in accordance with such rules and regulations as the Board shall prescribe, the types and amounts of reservable liabilities to which the reserve ratio of zero per centum shall apply, except that transaction accounts which are designated to be subject to a reserve ratio of zero per centum shall be accounts which would otherwise be subject to a reserve ratio of 3 per centum under paragraph (2).

(iii) The Board shall minimize the reporting necessary to determine whether depository institutions have total reservable liabilities of less than \$2,000,000 (as adjusted under subparagraph (B)). Consistent with the Board's responsibility to monitor and control monetary and credit aggregates, depository institutions which have reserve requirements under this subsection equal to zero per centum shall be subject to less overall reporting requirements than depository institutions which have a reserve requirement under this subsection that exceeds zero per centum.

(B) (i) Beginning in 1982, not later than December 31 of each year, the Board shall issue a regulation increasing for the next succeeding calendar year the dollar amount specified in subparagraph (A), as previously adjusted under this subparagraph, by an amount obtained by multiplying such dollar amount by 80 per centum of the percentage increase in the total reservable liabilities of all depository institutions.

(ii) The increase in total reservable liabilities shall be determined by subtracting the amount of total reservable liabilities on June 30 of the preceding calendar year from the amount of total reservable liabilities on June 30 of the calendar year involved. In the case of any such twelve-month period in which there has been a decrease in the total reservable liabilities of all depository institutions, no adjustment shall

be made. A decrease in total reservable liabilities shall be determined by subtracting the amount of total reservable liabilities on June 30 of the calendar year involved from the amount of total reservable liabilities on June 30 of the previous calendar year.

(c)(1) Reserves held by a depository institution to meet the requirements imposed pursuant to subsection (b) shall, subject to such rules and regulations as the Board shall prescribe, be in the form of—

(A) balances maintained for such purposes by such depository institution in the Federal Reserve bank of which it is a member or at which it maintains an account, except that (i) the Board may, by regulation or order, permit depository institutions to maintain all or a portion of their required reserves in the form of vault cash, except that any portion so permitted shall be identical for all depository institutions, and (ii) vault cash may be used to satisfy any supplemental reserve requirement imposed pursuant to subsection (b)(4), except that all such vault cash shall be excluded from any computation of earnings pursuant to subsection (b)(4)(C); and

(B) balances maintained by a depository institution which is not a member bank in a depository institution which maintains required reserve balances at a Federal Reserve bank, in a Federal Home Loan Bank, or in the National Credit Union Administration Central Liquidity Facility, if such depository institution, Federal Home Loan Bank, or National Credit Union Administration Central Liquidity Facility maintains such funds in the form of balances in a Federal Reserve bank of which it is a member or at which it maintains an account. Balances received by a depository institution from a second depository institution and used to satisfy the reserve requirement imposed on such second depository institution by this section shall not be subject to the reserve requirements of this section imposed on such first depository institution, and shall not be subject to assessments or



reserves imposed on such first depository institution pursuant to section 7 of the Federal Deposit Insurance Act (12 U.S.C. 1817), section 404 of the National Housing Act (12 U.S.C. 1727), or section 202 of the Federal Credit Union Act (12 U.S.C. 1782).

(2) The balances maintained to meet the reserve requirements of subsection (b) by a depository institution in a Federal Reserve bank or passed through a Federal Home Loan Bank or the National Credit Union Administration Central Liquidity Facility or another depository institution to a Federal Reserve bank may be used to satisfy liquidity requirements which may be imposed under other provisions of Federal or State law.

[12 USC 461. As amended by acts of June 21, 1917 (40 Stat. 239); Aug. 23, 1935 (49 Stat. 714); Sept. 21, 1966 (80 Stat. 823); Dec. 23, 1969 (83 Stat. 374, 375); Oct. 29, 1974 (88 Stat. 1557); March 31, 1980 (94 Stat. 133, 138); Aug. 13, 1981 (95 Stat. 433); and Oct. 15, 1982 (96 Stat. 1520, 1521, 1522, 1523, 1540).]

\* \* \* \* \*

(f) The required balance carried by a member bank with a Federal Reserve bank may, under the regulations and subject to such penalties as may be prescribed by the Board of Governors of the Federal Reserve System, be checked against and withdrawn by such member bank for the purpose of meeting existing liabilities.

[12 USC 464. As amended by acts of Aug. 15, 1914 (38 Stat. 691); June 21, 1917 (40 Stat. 239); Aug. 23, 1935 (49 Stat. 704); and July 7, 1942 (56 Stat. 648).]

(g) In estimating the reserve balances required by this Act, member banks may deduct from the amount of their gross demand deposits the amounts of balances due from other banks (except Federal Reserve banks and foreign banks) and cash items in process of collection payable immediately upon presentation in the United States, within the meaning of these terms as defined by the Board of Governors of the Federal Reserve System.

[12 USC 465. As amended by acts of Aug. 15, 1914 (38 Stat. 691); June 12, 1917 (40 Stat. 239); and Aug. 23, 1935 (49 Stat. 714).]

## SECTION 11 —Powers of the Board of Governors of the Federal Reserve System

The Board of Governors of the Federal Reserve System shall be authorized and empowered:

(a) (1) To examine at its discretion the accounts, books, and affairs of each Federal reserve bank and of each member bank and to require such statements and reports as it may deem necessary. The said board shall publish once each week a statement showing the condition of each Federal reserve bank and a consolidated statement for all Federal reserve banks. Such statements shall show in detail the assets and liabilities of the Federal reserve banks, single and combined, and shall furnish full information regarding the character of the money held as reserve and the amount, nature, and maturities of the paper and other investments owned or held by Federal reserve banks.

(2) To require any depository institution specified in this paragraph to make, at such intervals as the Board may prescribe, such reports of its liabilities and assets as the Board may determine to be necessary or desirable to enable the Board to discharge its responsibility to monitor and control monetary and credit aggregates. Such reports shall be made (A) directly to the Board in the case of member banks and in the case of other depository institutions whose reserve requirements under section 19 of this Act exceed zero, and (B) for all other reports to the Board through the (i) Federal Deposit Insurance Corporation in the case of insured State nonmember banks, savings banks, and mutual savings banks, (ii) National Credit Union Administration Board in the case of insured credit unions, (iii) Federal Home Loan Bank Board in the case of any institution insured by the Federal Savings and Loan Insurance Corporation or which is a member as defined in section 2 of the Federal Home Loan Bank Act, and (iv) such State officer or agency as the Board may designate in the case of any other type of bank, savings and loan association, or credit union. The Board shall endeavor to



avoid the imposition of unnecessary burdens on reporting institutions and the duplication of other reporting requirements. Except as otherwise required by law, any data provided to any department, agency, or instrumentality of the United States pursuant to other reporting requirements shall be made available to the Board. The Board may classify depository institutions for the purposes of this paragraph and may impose different requirements on each such class.

\* \* \* \* \*

(c) To suspend for a period not exceeding thirty days, and from time to time to renew such suspensions for periods not exceeding fifteen days, any reserve requirements specified in this Act.

\* \* \* \* \*

(e) To add to the number of cities classified as reserve cities under existing law in which national banking associations are subject to the reserve requirements set forth in section [nineteen] of this Act; or to reclassify existing reserve cities or to terminate their designation as such.

[12 USC 248 (a), (c), and (e). As amended by acts of June 12, 1945 (59 Stat. 237); July 28, 1959 (73 Stat. 264); March 18, 1968 (82 Stat. 50); and March 31, 1980 (94 Stat. 132).]

## SECTION 25 —Foreign Branches

Any national banking association possessing a capital and surplus of \$1,000,000 or more may file application with the Board of Governors of the Federal Reserve System for permission to exercise, upon such conditions and under such regulations as may be prescribed by the said board, the following powers:

\* \* \* \* \*

[12 USC 601. As amended by acts of Sept. 7, 1916 (39 Stat. 755); Sept. 17, 1919 (41 Stat. 285, 286); Aug. 23, 1935 (49 Stat. 704); and July 1, 1966 (80 Stat. 241).]

## SECTION 25(a)—Banking Corporations Authorized to Do Foreign Banking Business

\* \* \* \* \*

Each corporation so organized shall have power, under such rules and regulations as the Board of Governors of the Federal Reserve System may prescribe:

(a) To purchase, sell, discount, and negotiate, with or without its indorsement or guaranty, notes, drafts, checks, bills of exchange, acceptances, including bankers' acceptances, cable transfers, and other evidences of indebtedness; to purchase and sell with or without its indorsement or guaranty, securities, including the obligations of the United States or of any State thereof but not including shares of stock in any corporation except as herein provided; to accept bills or drafts drawn upon it subject to such limitations and restrictions as the Board of Governors of the Federal Reserve System may impose; to issue letters of credit; to purchase and sell coin, bullion, and exchange; to borrow and to lend money; to issue debentures, bonds, and promissory notes under such general conditions as to security and such limitations as the Board of Governors of the Federal Reserve System may prescribe; to receive deposits outside of the United States and to receive only such deposits within the United States as may be incidental to or for the purpose of carrying out transactions in foreign countries or dependencies or insular possessions of the United States; and generally to exercise such powers as are incidental to the powers conferred by this Act or as may be usual, in the determination of the Board of Governors of the Federal Reserve System, in connection with the transaction of the business of banking or other financial operations in the countries, colonies, dependencies, or possessions in which it shall transact business and not inconsistent with the powers specifically granted herein. Nothing contained in this section shall be construed to prohibit the Board of Governors of the Federal Reserve System, under its power to prescribe rules and regulations, from limiting the aggregate amount of liabilities of any or all classes incurred by the corporation and outstanding



at any one time. Whenever a corporation organized under this section receives deposits in the United States authorized by this section it shall carry reserves in such amounts as the Board of Governors of the Federal Reserve System may prescribe for member banks of the Federal Reserve System.

\* \* \* \* \*

[12 USC 615. As amended by acts of Aug. 23, 1935 (49 Stat. 704) and Sept. 17, 1978 (92 Stat. 609).]

## DEPOSITORY INSTITUTIONS DEREGULATION ACT OF 1980

### SECTION 204—Directive to the Committee

\* \* \* \* \*

(c)(1) The Committee shall issue a regulation authorizing a new deposit account, effective not later than 60 days after the date of enactment of this subsection. Such account shall be directly equivalent to and competitive with money market mutual funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940.

(2) No limitation on the maximum rate or rates of interest payable on deposit accounts shall apply to the account authorized by this subsection.

(3) For purposes of section 19(b) of the Federal Reserve Act, accounts established pursuant to this subsection which are not 'transaction accounts' as defined by the reserve requirement regulations of the Board of Governors of the Federal Reserve System as those regulations existed on August 1, 1982, shall not be subject to transaction account reserves, even though no minimum maturity is required, and even though up to three preauthorized or automatic transfers and three transfers to third parties are permitted monthly.

(4) The transitional adjustment provisions in section 19(b)(8) of the Federal Reserve Act, providing for the phase-in of reserve requirements, shall not apply to an account or accounts established pursuant to this subsection.

[12 USC 3503. As amended by acts of Oct. 15, 1982 (96 Stat. 1501) and Jan. 12, 1983 (96 Stat. 2508).]

## INTERNATIONAL BANKING ACT OF 1978

### SECTION 7—Authority of Federal Reserve System

(a)(1)(A) Except as provided in paragraph (2) of this subsection, subsections (a), (b), (c), (d), (f), (g), (i), (j), (k), and the second sentence of subsection (e) of section 19 of the Federal Reserve Act shall apply to every Federal branch and Federal agency of a foreign bank in the same manner and to the same extent as if the Federal branch or Federal agency were a member bank as that term is defined in section 1 of the Federal Reserve Act; but the Board either by general or specific regulation or ruling may waive the minimum and maximum reserve ratios prescribed under section 19 of the Federal Reserve Act and may prescribe any ratio, not more than 22 per centum, for any obligation of any such Federal branch or Federal agency that the Board may deem reasonable and appropriate, taking into consideration the character of business conducted by such institutions and the need to maintain vigorous and fair competition between and among such institutions and member banks. The Board may impose reserve requirements on Federal branches and Federal agencies in such graduated manner as it deems reasonable and appropriate.

(B) After consultation and in cooperation with the State bank supervisory authorities, the Board may make applicable to any State branch or State agency any requirement made applicable to, or which the Board has authority to impose upon, any Federal branch or agency under subparagraph (A) of this paragraph.

(2) A branch or agency shall be subject to this subsection only if (A) its parent foreign bank has total worldwide consolidated bank assets in excess of \$1,000,000,000; (B)



its parent foreign bank is controlled by a foreign company which owns or controls foreign banks that in the aggregate have total worldwide consolidated bank assets in excess of \$1,000,000,000; or (C) its parent foreign bank is controlled by a group of foreign companies that own or control foreign

banks that in the aggregate have total worldwide consolidated bank assets in excess of \$1,000,000,000.

\* \* \* \* \*

[12 USC 3105.]



FEDERAL RESERVE SYSTEM

REGULATIONS D and Q

[12 CFR Parts 204 and 217]

(Docket No. R-0417)

RESERVE REQUIREMENTS OF DEPOSITORY INSTITUTIONS  
INTEREST ON DEPOSITS

Definition of Time Deposits

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Final rules.

SUMMARY: The Board of Governors has adopted final amendments to Regulation D--Reserve Requirements of Depository Institutions (12 CFR Part 204) and Regulation Q--Interest on Deposits (12 CFR Part 217) to reduce the minimum maturity of all time deposits to seven days. Comments from the public were favorable to adoption of this rule. The Board's action was taken in light of recent actions by the Depository Institutions Deregulation Committee ("DIDC") to authorize the Money Market Deposit Account ("MMDA") and removing the interest rate ceiling on time deposits of \$2,500 or more with maturities of seven- to 31-days.

EFFECTIVE DATE: October 1, 1983.

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

SUPPLEMENTARY INFORMATION: Section 19(a) of the Federal Reserve Act (12 U.S.C. § 461(a)) authorizes the Board to determine the types of obligations that constitute deposits. At present, the Board defines time deposits as deposits or accounts with a minimum maturity or required notice period of 14 days and deposits with maturities or required notice periods of seven to 13 days issued pursuant to section 1204.121 of the rules of the DIDC (12 C.F.R. § 1204.121). Demand deposits are defined to include any deposit or account with a maturity or required notice period of less than 14 days or that does not meet the requirements of the DIDC for accounts issued under 12 C.F.R. § 1204.121.

[Ref. Cir. No. 9561]  
[Enc. Cir. No. 9563]



On August 24, 1982, the Board requested public comment on a proposal to reduce the minimum maturity or required notice period of all time deposits to seven days. The Board requested comments on the following specific issues:

1. whether reducing the minimum maturity to seven days would broaden the market for certificates of deposit for depository institutions, thereby improving their competitive position;
2. whether depository institutions would have more flexibility to vary the maturity mix of their liability structures;
3. potential difficulties for interpreting the monetary aggregates because of diminished distinctions between transaction accounts and time deposits; and
4. whether such a proposal would erode the liquidity position of depository institutions were they to rely more heavily on short-term funds.

The Board received a total of 57 comments on this proposal, distributed as follows: 45 commercial banks and bank holding companies, six savings and loan associations, eight Federal Reserve Banks, two business organizations, one credit union, and one commercial bank trade association. Of those commenting, 79 percent favored the proposal, 18 percent were opposed to further reducing the minimum maturity of time deposits, and two comments suggested that the minimum maturity of time deposits should be reduced further to one day.

Comments in favor of the proposal generally cited benefits to depository institutions such as an improved competitive position and providing more flexibility to vary the maturity mix of their liability structures, while not adversely affecting depository institution liquidity. However, those opposed to the proposal expressed the view that its adoption would have adverse implications for liquidity by leading to increases in the mismatch of assets and liabilities of depository institutions. With respect to the implications for monetary policy, 75 percent of those addressing the issue believed that the existence of seven-day time deposits would not lead to distortions of the monetary aggregates and, therefore, the conduct of monetary policy would not be impaired.

Since the Board issued its proposal to reduce the minimum maturity of time deposits, several significant actions have been taken by the DIDC to facilitate the ability of



depository institutions to offer short-term deposit accounts. Effective December 14, 1982, depository institutions were authorized to offer MMDAs, which have a minimum denomination of \$2,500, no interest rate ceiling, and are subject only to a reservation of the right of the depository institution to require seven days' notice prior to withdrawal. In addition, effective October 1, 1983, the DIDC removed interest rate ceilings on all time deposits with maturities of more than 31 days and on time deposits of \$2,500 or more with maturities of seven to 31 days, whether issued in negotiable or nonnegotiable form. Consequently, in order to enable depository institutions to offer certificates of deposit with maturities of seven to 13 days, the Board has amended Regulations D and Q to reduce the minimum maturity of time deposits to seven days.

In addition, the Board has previously determined that eligible bankers' acceptances (those described in 12 U.S.C. § 372) are not reservable deposits. The Board has issued a clarifying amendment to confirm that eligible bankers' acceptances held by certain foreign organizations are not deposits.

The impact of this proposal has been considered in accordance with section 605 of the Regulatory Flexibility Act (5 U.S.C. § 604; Pub. L. 96-354). This action will provide an additional tool for small banks to use in competing with larger institutions for short term, large denomination deposits. A seven day minimum maturity could enhance the attractiveness of CDs issued by small banks which normally do not trade in the secondary market.

Since this action relieves a restriction and because this action is necessary to conform the rules of the Board to those of the DIDC, the Board makes this action effective October 1, 1983.

#### List of Subjects in 12 CFR Part 204

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

#### List of Subjects in 12 CFR Part 217

Advertising; Banks, banking; Federal Reserve System; Foreign banking.

Pursuant to its authority under section 19(a) of the Federal Reserve Act (12 USC § 461(a)) to define deposits, the Board amends Regulation D (12 CFR Part 204) and Regulation Q (12 CFR Part 217), effective October 1, 1983, as follows:



1. In section 204.2 by revising paragraphs (b)(1) and (2), (c)(1), and (d)(1), and (f)(1)(v) to read as follows:

SECTION 204.2 -- DEFINITIONS

\* \* \* \* \*

(b)(1) "Demand deposit" means a deposit that is payable on demand, or a deposit issued with an original maturity or required notice period of less than seven days, or a deposit representing funds for which the depository institution does not reserve the right to require at least seven days' written notice of an intended withdrawal. The term includes all deposits other than time and savings deposits. Demand deposits may be in the form of (i) \* \* \* (viii) an obligation to pay on demand or within seven days a check (or other instrument, device, or arrangement for the transfer of funds) drawn on the depository institution, where the account of the institution's customer already has been debited. The term does not include an obligation that is a time deposit under § 204.2(c)(1)(ii).

(2) A "demand deposit" does not include checks or drafts drawn by the depository institution on the Federal Reserve or on another depository institution.

(c)(1) "Time deposit" means (i) a deposit that the depositor does not have a right to withdraw for a period of seven days or more after the date of deposit. "Time deposit" includes funds:

(A) payable on a specified date not less than seven days after the date of deposit;

(B) payable at the expiration of a specified time not less than seven days after the date of deposit;

(C) payable upon written notice which actually is required to be given by the depositor not less than seven days before the date of repayment;

(D) such as "Christmas club" accounts and "vacation club" accounts, that are deposited under written contracts providing that no withdrawal shall be made until a certain number of periodic deposits have been made during a period of not less than three months even though some of the deposits may be made within seven days from the end of the period; or



(E) that constitute a "savings deposit" which is not regarded as a "transaction account;" and

(ii) borrowings, regardless of maturity, represented by a promissory note, an acknowledgment of advance, or similar obligation described in section 204.2(a)(1)(vii) that is issued to, or any bankers' acceptance (other than the type described in 12 USC 372) of the depository institution held by, any office located outside the United States of another depository institution or Edge or agreement corporation organized under the laws of the United States, to any office located outside the United States of a foreign bank, or to institutions whose time deposits are exempt from interest rate limitations under section 217.3(g) of Regulation Q (12 CFR 217.3(g)(e)).

\* \* \* \* \*

(d)(1) "Savings deposit" means a deposit or account

(i) (A) with respect to which the depositor is not required by the deposit contract but may at any time be required by the depository institution to give written notice of an intended withdrawal not less than seven days before withdrawal is made, and that is not payable on a specified date or at the expiration of a specified time after the date of deposit; and

(B)\*\*\*

\* \* \* \* \*

(f)(1)\*\*\*

(v) a time deposit represented by a promissory note, an acknowledgment of advance, or similar obligation described in section 204.2 (a)(1)(vii) that is issued to, or any bankers' acceptances (other than the type described in 12 U.S.C. 372) of the depository institution held by, any office located outside the United States of another depository institution or Edge or agreement corporation organized under the laws of the United States, to any office located outside the United States of a foreign bank, or to institutions whose time deposits are exempt from interest rate limitations under section 217.3(g) of Regulation Q (12 CFR 217.3(g)).

\* \* \* \* \*



2. Section 217.1 is amended by revising paragraph (b)(1), the initial phrase in paragraph (e), and paragraphs (e)(2), (3), and (4) to read as follows:

SECTION 217.1 -- DEFINITIONS

\* \* \* \* \*

(b)(1) "Time deposit" means (i) a deposit that the depositor does not have a right to withdraw for a period of seven days or more after the date of deposit. "Time deposit" includes funds:

(A) payable on a specified date not less than seven days after the date of deposit;

(B) payable at the expiration of a specified time not less than seven days after the date of deposit;

(C) payable upon written notice which actually is required to be given by the depositor not less than seven days before the date of repayment;<sup>1/</sup> or

(D) such as "Christmas club" accounts and "vacation club" accounts, that are deposited under written contracts providing that no withdrawal shall be made until a certain number of periodic deposits have been made during a period of not less than seven days from the end of the period; and

(ii) an "international banking facility time deposit."

\* \* \* \* \*

(e) "Savings deposit" means a deposit --

(1) \* \* \*

(2) With respect to which the depositor is not required by the deposit contract but may at any time be required by the bank to give written notice of an intended withdrawal not less than seven days before such withdrawal is made,<sup>3/</sup> and that is not payable on a specified

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<sup>1/</sup> A deposit with respect to which the bank merely reserves the right to require notice of not less than seven days before any withdrawal is made is not a "time deposit" within the meaning of the above definition.

<sup>3/</sup> \* \* \*



date or at the expiration of a specified time after the date of deposit.

(3)(i) \* \* \*

(ii) Deposits in which any beneficial interest is held by a corporation, partnership, association, or other organization that is operated for profit or is not operated primarily for religious, philanthropic, charitable, educational, fraternal or other similar purposes, or that is not a governmental unit described in subparagraph (i)(C) may not be classified as deposits subject to negotiable orders of withdrawal, except as authorized by section 217.7(g).

(4) "Savings deposit" also means a deposit issued pursuant to section 217.7(c)(2)(ii) or section 217.7(g) with respect to which the member bank reserves the right to require at least seven days' notice prior to withdrawal or transfer.

\* \* \* \* \*

3. The second sentence of section 217.5(c)(2) is amended by removing "14" and inserting "seven" in its place.

By order of the Board of Governors, October 4, 1983.

(signed) William W. Wiles

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William W. Wiles  
Secretary of the Board



FEDERAL RESERVE SYSTEM

REGULATION D

[12 CFR Part 204]

[Docket No. R-0484]

RESERVE REQUIREMENTS OF DEPOSITORY INSTITUTIONS

Reserve Requirements on Nonpersonal Time Deposits

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 modify the reserve requirements on nonpersonal time deposits. Under the amendment, nonpersonal time deposits with original maturities of 1-1/2 years or more will be subject to a reserve requirement ratio of zero percent. Nonpersonal time deposits with original maturities of less than 1-1/2 years will continue to be subject to a three percent reserve requirement ratio. This action was taken to facilitate the offering by depository institutions of longer maturity time deposits that are exempt from interest rate ceilings.

EFFECTIVE DATE: October 6, 1983. The first reserve maintenance period to which the amendment applies commences October 20, 1983.

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

SUPPLEMENTARY INFORMATION: The Monetary Control Act of 1980 (Title I of P.L. 96-221; 94 Stat. 132) ("MCA") authorizes the Board to prescribe, solely for the purpose of implementing monetary policy, reserve requirements against nonpersonal time deposits within a reserve ratio range of zero to nine percent. The MCA requires the reserve requirement against nonpersonal time deposits to be applied uniformly to the deposits at all depository institutions, except that such requirement may vary

[Ref. Cir. No. 9561]  
[Enc. Cir. No. 9563]



by deposit maturity. Nonpersonal time deposits are defined by the MCA as time deposits that are transferable, regardless of the nature of the holder, and time deposits in which any beneficial interest is held by a depositor who is not a natural person. Nontransferable time deposits in which the entire beneficial interest is held solely by a natural person are not subject to reserve requirements.

Regulation D--Reserve Requirements of Depository Institutions (12 CFR Part 204) currently imposes a three percent reserve requirement on nonpersonal time deposits with original maturities or required notice periods of less than 2-1/2 years. Nonpersonal time deposits with maturities or required notice periods of 2-1/2 years or more are subject to a zero percent reserve requirement.

The Depository Institutions Deregulation Committee ("DIDC"), pursuant to its authority under the Depository Institutions Deregulation Act of 1980 (Title II of Pub. L. 96-221; 12 U.S.C. § 3501 et seq.), authorized federally insured commercial banks, mutual savings banks, and savings and loan associations to offer, effective May 1, 1982, a new category of ceiling-free time deposit with an original maturity or required notice period of 3-1/2 years or more. Such time deposits may be issued in negotiable or nonnegotiable form at the option of the issuer to any holder. Effective April 1, 1983, the minimum maturity of this deposit category was reduced to 2-1/2 years. In conjunction with the establishment of this instrument and its subsequent reduction in maturity, the Board modified the maturity break for reserve requirements on nonpersonal time deposits to facilitate the DIDC's objectives in authorizing this instrument in negotiable form. In this regard, a negotiable time deposit was viewed as more attractive to depositors since it could be sold as an alternative to incurring an early withdrawal penalty.

Effective October 1, 1983, the DIDC removed interest rate ceilings on all time deposits with original maturities or required notice periods of 32 days or more and on all time deposits of more than \$2,500 with original maturities or required notice periods of seven to 31 days. To continue to facilitate the DIDC's objectives, the Board has amended the reserve requirements on nonpersonal time deposits so that, after the completion of the transition periods set forth in the MCA, nonpersonal time deposits with original maturities of 1-1/2 years or more will be subject to a zero percent reserve requirement ratio and nonpersonal time deposits with original maturities of less than 1-1/2 years will be subject to a three percent reserve requirement ratio. The Board estimates that the amount of reserves held on nonpersonal time deposits with



maturities of 1-1/2 to 2-1/2 years is small, and, thus, this action will not adversely affect monetary control. However, the Board notes that reducing further the nonpersonal time deposit maturity break could have an adverse effect on monetary control by eroding the reserve base and loosening the linkage between reserves and deposits in the money stock.

This action is effective for depository institutions that report deposits and maintain reserves on a weekly basis with the reserve computation period beginning October 6, 1983. The first reserve maintenance period to which this action applies for these institutions commences October 20, 1983. For depository institutions that report deposits and maintain reserves on a quarterly basis, the change in reserve requirements on nonpersonal time deposits with maturities of 1-1/2 years to 2-1/2 years will commence with the reserve maintenance period that begins on January 12, 1984, based on data submitted for the computation period of December 15-21, 1983.

In view of the fact that commercial banks, mutual savings banks, and savings and loan associations may offer time deposits with a broad range of maturities not subject to interest rate ceilings effective October 1, 1983, the Board finds that application of the notice and public participation provisions of 5 U.S.C. § 553 to this action would be contrary to the public interest, and that, since this action relieves a restriction, good cause exists for making this action effective October 6, 1983.

#### List of Subjects in 12 CFR Part 204

Banks, banking; Currency, Federal Reserve System; Penalties; Reporting Requirements.

Pursuant to its authority under sections 19, 25, and 25(a) of the Federal Reserve Act (12 U.S.C. §§ 461, 601 et seq., 611 et seq.) and under section 7 of the International Banking Act of 1978 (12 U.S.C. § 3105), the Board amends Regulation D (12 CFR Part 204) effective October 6, 1983, by revising paragraph (a) of section 204.9 to read as follows:

#### SECTION 204.9--RESERVE REQUIREMENT RATIOS

(a)(1) Reserve percentages. The following reserve ratios are prescribed for all depository institutions, Edge and Agreement Corporations and United States branches and agencies of foreign banks:



<u>Category</u>	<u>Reserve Requirement</u>
<u>Net Transaction Accounts</u>	
\$0 - \$26.3 million	3% of amount
Over \$26.3 million	\$789,000 plus 12% of amount over \$26.3 million
<u>Nonpersonal Time Deposits</u>	
By original maturity (or notice period):	
less than 1-1/2 years	3%
1-1/2 years or more	0%
<u>Eurocurrency Liabilities</u>	3%
* * * * *	

By order of the Board of Governors of the Federal Reserve System, October 3, 1983.

(signed) William W. Wiles

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William W. Wiles  
Secretary of the Board



FEDERAL RESERVE SYSTEM

REGULATION Q

[12 C.F.R. Part 217]

(Docket No. R-0483)

INTEREST ON DEPOSITS

Technical Amendments

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Technical amendments.

SUMMARY: Pursuant to its authority under section 19 of the Federal Reserve Act, as amended, the Board has amended Regulation Q -- Interest on Deposits (12 CFR Part 217) to incorporate rules of the Depository Institutions Deregulation Committee ("DIDC"), adopted pursuant to the Depository Institutions Deregulation Act of 1980 (Title II of Pub. L. 96-221). The amendments to Regulation Q are technical in nature and conform the Board's rules to those of the DIDC.

EFFECTIVE: October 1, 1983.

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

SUPPLEMENTARY INFORMATION: The Depository Institutions Deregulation Act of 1980 (Title II of Pub. L. 96-221) transfers to the DIDC the authority conferred by section 19(j) of the Federal Reserve Act (12 U.S.C. § 371b) upon the Board (and the similar authorities of the Federal Deposit Insurance Corporation and the Federal Home Loan Bank Board, which are contained in other statutes) to establish rules concerning the payment of interest on deposit accounts.

The Board has amended its Regulation Q to bring it into conformity with actions taken by the DIDC. The following table presents the regulatory provisions that have been affected by the DIDC's actions:

[Enc. Cir. No. 9563]



<u>DIDC Rule</u>	<u>Regulatory Provision Amended</u>
1204.103--Penalty for Early Withdrawals	217.4(d)
1204.123--Payment of Interest on Time Deposits Issued on or after October 1, 1983	217.1(h), 217.7(a), (b), (d), (h)
1204.121--Seven to 31-Day Time Deposits	217.7(e)

<u>DIDC Rule Repealed</u>	<u>Regulatory Provision Amended</u>
1204.104--26 Week Money Market Time Deposits of Less Than \$100,000	217.6(i) 217.7(f)
1204.106--Time Deposits of Less Than \$100,000 with Maturities of 2-1/2 Years to Less Than 4 Years	217.7(g)
1204.112--Time Deposits of Less Than \$100,000	217.7(b)
1204.114--Phaseout of Finders Fees	217.147
1204.116--Tax-Exempt Savings Certificates	217.3(a) 217.7(i)
1204.118--Individual Retirement Accounts and Keogh (H.R. 10) Plan Deposits of Less Than \$100,000	217.7(e)
1204.119--Time Deposits of Less Than \$100,000 with Original Maturities of 3-1/2 Years or More	217.7(k)
1204.120--91-Day Time Deposits of Less Than \$100,000.	217.6(i) 217.7(j)

Because of the technical nature of amendments conforming Regulation Q to actions of the DIDC, the Board finds that application of the notice and public participation provisions of 5 U.S.C. § 553 to these actions is unnecessary and contrary to the public interest, and that good cause exists for making these actions effective October 1, 1983.



List of Subjects in 12 CFR Part 217

Advertising; Banks, banking; Federal Reserve System; Foreign banking.

Pursuant to its authority under section 19 of the Federal Reserve Act (12 U.S.C. §§ 461, 371a, and 371b), the Board amends Regulation Q (12 CFR Part 217), effective October 1, 1983, as follows:

1. Section 217.1 is amended in paragraph (b)(1)(ii) by removing "217.7(1)" and inserting "217.7(e)" in its place, in paragraph (e)(4) by removing "217.7(m)" and inserting "217.7(g)" in its place, and by revising paragraph (h) to read as follows:

SECTION 217.1--DEFINITIONS

\* \* \* \* \*

(h) Obligations issued by the parent bank holding company of a member bank. (1) For purposes of this part, the "deposits" of a member bank also includes an obligation that is (i) required to be registered with the Securities and Exchange Commission under the Securities Act of 1933; (ii) issued or guaranteed in whole or in part as to principal and interest by the member bank's parent which is a bank holding company under the Bank Holding Company Act of 1956, as amended (12 U.S.C. 1841-50), regardless of the use of proceeds; and (iii)(A) issued in a denomination of less than \$100,000 and with a stated maturity, notice period or redemption period of less than seven days or (B) issued in a denomination of less than \$2,500 and with a stated maturity, notice period, or redemption period of seven to thirty-one days.

(2) The term "deposits" does not include those obligations of a bank holding company that are subject to interest rate limitations imposed pursuant to Public Law 89-597.

\* \* \* \* \*

2. Section 217.3 is amended in paragraph (f) by removing "217.7(1)" and inserting "217.7(e)" in its place and by revising the second sentence of paragraph (a) to read as follows:

SECTION 217.3--INTEREST ON TIME AND SAVINGS DEPOSITS

(a) \* \* \* The effects of compounding of interest may be disregarded in ascertaining the rate of interest paid.

\* \* \*

3. Section 217.4 is amended in paragraph (f) by removing "217.7(1)(2)" and inserting "217.7(e)(2)" in its place, and



paragraph (d) by revising subparagraph (1)(iii), by adding a new subparagraph (1)(iv), and by revising the last sentence of subparagraph (6) to read as follows:

SECTION 217.4--PAYMENT OF TIME DEPOSITS BEFORE MATURITY

(d) \* \* \*

(1) \* \* \*

(iii) The following minimum early withdrawal penalty shall apply to time deposit contracts entered into, renewed, or extended between June 2, 1980, and September 30, 1983, and that have not been renewed or extended on or after October 1, 1983:

(A) \* \* \*

(D) Notwithstanding subparagraphs (A) and (B), where a time deposit in an amount of \$2,500 to less than \$100,000, with an original maturity of 91 days, or any portion thereof, is paid before maturity, a depositor shall forfeit an amount equal to at least all interest earned on the amount withdrawn.

(E) Notwithstanding subparagraph (A), where a nonnegotiable time deposit subject to an initial deposit of \$2,500 or more, with an original maturity or required notice period of seven to 31 days, or any portion thereof, is paid before maturity, a depositor shall forfeit an amount equal to at least the greater of

(1) all interest earned on the amount withdrawn from the most recent date of deposit, date of maturity, or date on which notice of withdrawal was given, or

(2) all interest that could have been earned on the amount withdrawn during a period equal to one-half the maturity period or required notice period.

(iv) The following minimum early withdrawal penalty shall apply to time deposit contracts entered into, renewed, or extended on or after October 1, 1983:

(A) Where a time deposit with an original maturity or required notice period of seven to 31 days, or any portion thereof, is paid before maturity, a depositor shall forfeit an amount at least equal to the greater of (1) all interest earned



on the amount withdrawn from the most recent of the date of deposit, date of maturity, or date on which notice of withdrawal was given, or (2) all interest that could have been earned on the amount withdrawn during a period equal to one-half the maturity period or the required notice period.

(B) Where a time deposit with an original maturity or required notice period of 32 days to one year, or any portion thereof, is paid before maturity, a depositor shall forfeit an amount at least equal to one month's interest earned, or that could have been earned, on the amount withdrawn at the nominal (simple interest) rate being paid on the deposit, regardless of the length of time the funds withdrawn have remained on deposit.

(C) Where a time deposit with an original maturity or required notice period of more than one year, or any portion thereof, is paid before maturity, the depositor shall forfeit an amount at least equal to three months' interest earned, or that could have been earned, on the amount withdrawn at the nominal (simple) interest rate being paid on the deposit, regardless of the length of time the funds withdrawn have remained on deposit.

\* \* \* \* \*

(6) \* \* \* Except as provided in subparagraphs (1)(iii)(E) and (1)(iv)(A), when a time deposit is payable only after notice, for funds on deposit for at least the notice period, the penalty for early withdrawal shall be imposed for at least the notice period.

\* \* \* \* \*

4. Paragraph (c)(1) of section 217.5 is amended by removing "217.7(m)" and inserting "217.7(g)" in its place.

5. Section 217.6 is amended by removing paragraph (i).

6. Section 217.7 is amended by revising paragraphs (a), (b), (c), and (d); by removing paragraphs (e), (f), (g), (i), (j) and (k); by redesignating paragraph (m) as paragraph (g) and paragraph (h) as paragraph (f); redesignated paragraph (g) is amended in subparagraph (1) by removing "(m)(2)" in both places that it appears and by inserting "(g)(2)" in its place, and by redesignating paragraph (1) as paragraph (e) and revising it to read as follows:



SECTION 217.7--SUPPLEMENT: MAXIMUM RATES OF INTEREST  
PAYABLE BY MEMBER BANKS ON TIME AND SAVINGS DEPOSITS

\* \* \* \* \*

(a) Time deposits of \$100,000 or more, or with original maturities or required notice periods of 32 days or more, or IBF time deposits. (1) There is no maximum rate of interest presently prescribed on any time deposit of \$100,000 or more, or with an original maturity or required notice period of 32 days or more, or on IBF time deposits issued under section 217.1(1).

(2) Except for IBF time deposits, a member bank may permit additional deposits to be made to any time deposit with an original maturity or required notice period of 32 days or more at any time prior to its maturity or expiration of notice period without extending the maturity or required notice period of the entire balance in the account.

(b) Time deposits with original maturities or required notice periods of seven to 31 days. No member bank shall pay interest on any time deposit of less than \$2,500 with an original maturity or required notice period of 31 days or less at a rate in excess of 5-1/4 percent.

(c) Savings deposits. (1) Except as provided in paragraph (g), no member bank shall pay interest at a rate in excess of 5-1/4 percent on any savings deposit.

\* \* \* \* \*

(d) Governmental unit time deposits. Except as provided in paragraphs (a) and (e) and notwithstanding paragraph (b), no member bank shall pay interest on any time deposit which consists of funds deposited to the credit of, or in which the entire beneficial interest is held by, the United States, any state of the United States, or any county, municipality, or political subdivision thereof, the District of Columbia, the Commonwealth of Puerto Rico, the Virgin Islands, American Samoa, Guam, or political subdivision thereof in excess of 8 percent.

(e) Seven- to 31-day time deposits of \$2,500 or more.

(1) Notwithstanding paragraph (d), a member bank may pay interest at any rate as agreed to by the depositor on any time deposit of \$2,500 or more, with a maturity or required



notice period of not less than seven days nor more than 31 days. However, a member bank shall not pay interest in excess of the ceiling rate for regular savings deposits or accounts on any day the balance in a time deposit issued under this paragraph is less than \$2,500.

\* \* \* \* \*

(3) Where all or any part of a time deposit issued under this paragraph is withdrawn within one business day after the maturity date of the deposit or the date of expiration of notice of withdrawal, no early withdrawal penalty is required to be applied on the amount withdrawn.

\* \* \* \* \*

5. Section 217.147 is revised to read as follows:

SECTION 217.147--PREMIUMS, FINDERS FEES, PREPAYMENT OF INTEREST  
AND PAYMENT OF INTEREST IN MERCHANDISE

For regulatory provisions relating to premiums, finders fees, prepayment of interest and payment of interest in merchandise refer to 12 C.F.R. 1204.109, 1204.110 and 1204.111.

By order of the Board of Governors, October 3, 1983.

(signed) William W. Wiles

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William W. Wiles  
Secretary of the Board