**FEDERAL RESERVE BANK**
**OF NEW YORK**

ATCIR No. 9732
September 21, 1984

# MARGINAL RESERVE REQUIREMENT ADJUSTMENT TO EARNINGS CREDITS

*To All Depository Institutions in the Second Federal Reserve District Maintaining Clearing Balances with this Bank, and Others Concerned:*

Effective October 25, 1984, all Federal Reserve Banks will implement changes to the procedures by which earnings credits are calculated on clearing balances to incorporate an adjustment for an imputed marginal reserve requirement of the Federal Reserve and the marginal reserve requirement of each institution maintaining a clearing balance with the Federal Reserve. This adjustment is intended to relate the earnings credits calculated for a depository institution on clearing balances held with the Federal Reserve with the return the institution would earn had it maintained those balances with a correspondent.

Generally, a correspondent institution takes its reserve requirement into consideration when calculating the return it will provide respondent institutions for balances held. A correspondent would likely have a marginal reserve requirement of 12 percent on those balances. Thus, the correspondent would typically reduce the amount of the earnings credits provided to the respondent by 12 percent.

However, in computing liabilities subject to reserve requirements, the respondent is permitted to deduct the balance it holds with a correspondent from its reservable transaction liabilities. Accordingly, the respondent is able effectively to increase its investible funds by the amount of its marginal reserve requirement applied to its "due from" balances. For example, a respondent with a marginal reserve requirement of three percent could effectively earn on 91 percent of its balances — 88 percent through the earnings credits provided by the correspondent and three percent through the "due from" deduction.

The revised method of calculating earnings credits will reflect the reserve requirements that apply for clearing balances held at a correspondent. Each respondent's clearing balance will be reduced by its net interbank reserve requirement — the correspondent rate of 12 percent less the respondent marginal reserve requirement (0 percent, 3 percent, or 12 percent). Accordingly, depository institutions with no reserve requirement will receive earnings credits equal to the Federal funds rate on 88 percent of eligible clearing balances (adjusted for a penalty-free band) maintained with the Federal Reserve. Institutions with a 3 percent marginal reserve requirement will be provided earnings credits on 91 percent of eligible clearing balances, and institutions with a 12 percent marginal reserve requirement will be provided earnings credits on 100 percent of its eligible clearing balances.

The effect of this change on your institution will be reflected on the statement of service charges for the November billing cycle, which you will receive in early December. Any questions you may have regarding this matter should be referred to Cathy E. Minehan, Vice President (Tel. No. 212-791-7766).

ANTHONY M. SOLOMON,
*President.*

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