

**FEDERAL RESERVE BANK
OF NEW YORK**

[Circular No. **10323**
December 19, 1989]

1990 RESERVE REQUIREMENT ADJUSTMENTS

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

The following statement has been issued by the Board of Governors of the Federal Reserve System:

The Federal Reserve Board has announced a decrease from \$41.5 million to \$40.4 million in the net transaction accounts to which a 3 percent reserve requirement will apply in 1990.

The Board also left the amount of reservable liabilities that are exempt from reserves at \$3.4 million of total reservable liabilities.

Additionally, the Board increased the deposit cutoff level, which separates weekly reporting institutions from quarterly reporters, from \$42.1 million to \$43.4 million. Institutions with total reservable liabilities below the exemption level of \$3.4 million are excused from reporting even on a quarterly basis if their deposits can be estimated from other sources.

Enclosed — for depository institutions and others maintaining sets of Board regulations — is a copy of a revised Supplement to Regulation D, which reflects the decrease in the amount to which the low reserve tranche will apply. In addition, printed on the following pages is the text of Board's official notice, which has been reprinted from the *Federal Register* of December 12.

Questions regarding Regulation D may be directed to the following:

Reporting Requirements:

Nancy Bercovici, Assistant Vice President (Tel. No. 212-720-8227)

Monica Goldberg, Chief, Deposit Reports Division (Tel. No. 212-720-8590)

Maintenance Requirements:

Donald R. Anderson, Manager, Accounting Department (Tel. No. 212-720-5250)

Anthony Fressola, Chief, Accounting Control Division (Tel. No. 212-720-5803)

Interpretation of Regulation D:

Joyce E. Motylewski, Associate General Counsel (Tel. No. 212-720-5024)

Bradley K. Sabel, Counsel (Tel. No. 212-720-5041)

Margaret E. Brush, Assistant Chief Examiner (Tel. No. 212-720-5919)

E. GERALD CORRIGAN,
President.

FEDERAL RESERVE SYSTEM

12 CFR Part 204

[Regulation D; Docket No. R-0678]

Reserve Requirements of Depository Institutions; Reserve Requirement Ratios

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Final rule.

SUMMARY: The Board is amending 12 CFR part 204 (Regulation D—Reserve Requirements of Depository Institutions) to decrease the amount of transaction accounts subject to a reserve requirement ratio of three percent, as required by section 19(b)(2)(C) of the Federal Reserve Act (12 U.S.C. 461(b)(2)(C)), from \$41.5 million to \$40.4 million of net transaction accounts (known as the low reserve tranche adjustment). The Board has left at \$3.4 million the amount of reservable liabilities of each depository institution that is subject to a reserve requirement of zero percent (known as the reservable liabilities exemption adjustment), as required by section 19(b)(11)(B) of the Federal Reserve Act (12 U.S.C. 461(b)(11)(B)). The Board has also increased from \$42.1 million to \$43.4 million the deposit cutoff level that is used in conjunction with the reservable liabilities exemption amount to determine the frequency of deposit reporting.

DATES: *Effective date:* This final rule is effective December 12, 1989. *With compliance as follows:* For depository institutions that report weekly, the low reserve tranche adjustment will be effective starting with the reserve computation period beginning Tuesday, December 26, 1989, and with the corresponding reserve maintenance periods beginning Thursday, December 28, 1989, for net transaction accounts, and Thursday, January 25, 1990, for other reservable liabilities. For institutions that report quarterly, the low reserve tranche adjustment will be effective with the computation period beginning Tuesday, December 19, 1989, and with the reserve maintenance period beginning Thursday, January 18, 1990. For all depository institutions, the increase in the deposit cutoff level will be used to screen institutions in the second quarter of 1990 to determine reporting frequency beginning September 1990.

FOR FURTHER INFORMATION CONTACT: Patrick J. McDivitt, Attorney (202/452-3818), Legal Division, or June O'Brien, Economist (202/452-3790), Division of Monetary Affairs; for users of the Telecommunications Device for the Deaf (TDD), Earnestine Hill or Dorothea Thompson (202/452-3544); Board of Governors of the Federal Reserve System, Washington, DC 20551.

SUPPLEMENTARY INFORMATION: Section 19(b)(2) of the Federal Reserve Act requires each depository institution to maintain with the Federal Reserve System reserves against its transaction accounts and nonpersonal time deposits, as prescribed by Board regulations. The initial reserve requirements imposed under section 19(b)(2) were set at three percent for total transaction accounts of \$25 million or less and at 12 percent on total transaction accounts above \$25 million for each depository institution. Section 19(b)(2) further provides that, before December 31 of each year, the Board shall issue a regulation adjusting for the next calendar year the total dollar amount of the transaction account tranche against which reserves must be maintained at a ratio of three percent. The adjustment in the tranche is to be 80 percent of the percentage change in total transaction accounts for all depository institutions determined as of June 30 of each year, and the statute requires an adjustment resulting from decreases as well as increases in total transaction accounts.

Currently, the low reserve tranche on transaction accounts is \$41.5 million. The decline in the total of net transaction accounts of all depository institutions from June 30, 1988, to June 30, 1989, was 3.4 percent (from \$604.3 billion to \$584.0 billion). In accordance with section 19(b)(2), the Board is amending Regulation D to decrease the low reserve tranche for transaction accounts for 1990 by \$1.1 million to \$40.4 million.

Section 19(b)(11)(A) of the Federal Reserve Act provides that \$2 million of reservable liabilities¹ of each depository institution shall be subject to a zero percent reserve requirement. Section 19(b)(11)(A) permits each depository institution, in accordance with the rules and regulations of the Board, to designate the reservable liabilities to which this reserve requirement exemption is to apply.

¹ Reservable liabilities include transaction accounts, nonpersonal time deposits, and Eurocurrency liabilities as defined in section 19(b)(5) of the Federal Reserve Act.

However, if transaction accounts are designated, only those that would otherwise be subject to a three percent reserve requirement (*i.e.*, transaction accounts within the low reserve requirement tranche) may be so designated.

Section 19(b)(11)(B) of the Federal Reserve Act provides that, before December 31 of each year, the Board shall issue a regulation adjusting for the next calendar year the dollar amount of reservable liabilities exempt from reserve requirements. Unlike the adjustment for transaction accounts, which adjustment can result in a decrease as well as an increase, the change in the exemption amount is to be made only if the total reservable liabilities held at all depository institutions increases from one year to the next. Total reservable liabilities of all depository institutions from June 30, 1988, to June 30, 1989, declined by 0.5 percent (from \$1,263.5 billion to \$1,256.7 billion). Under section 19(b)(11), the Board's Regulation D will not be changed. Consequently, the reserve requirement exemption for 1990 will remain at the 1989 level of \$3.4 million.

The effect of the application section 19(b) of the Federal Reserve Act is to reduce the low reserve tranche to \$40.4 million and to continue to apply a zero percent reserve requirement on the first \$3.4 million of transaction accounts and to apply a three percent reserve requirement on the remainder of the low reserve tranche. Any portion of this zero percent reserve requirement tranche remaining after the tranche is applied to transaction accounts will be applied to nonpersonal time deposits with maturities of less than 1½ years or to Eurocurrency liabilities, both of which are subject to a reserve requirement ratio of three percent.

The tranche adjustment for weekly reporting institutions will be effective starting with the reserve computation period beginning Tuesday, December 26, 1989, and with the corresponding reserve maintenance periods beginning Thursday, December 28, 1989, for net transaction accounts, and Thursday, January 25, 1990, for other reservable liabilities. For institutions that report quarterly, the tranche adjustment will be effective with the computation period beginning Tuesday, December 19, 1989, and with the reserve maintenance period beginning Thursday, January 18, 1990. In addition, all entities currently submitting Form FR 2900 will continue to submit reports to the Federal Reserve under current reporting procedures.

In order to reduce the reporting burden for small institutions, the Board established a deposit reporting cutoff level to determine deposit reporting frequency. Institutions are screened during the second quarter of each year to determine reporting frequency beginning the following September. In March of 1985, the Board decided to index this reporting cutoff level in an amount equal to 80 percent of the annual rate of increase of total deposits.² In July of 1988, in conjunction with approval of the extension of the deposit reporting system, the Board increased the cutoff to \$40 million, effective in September 1988, from the \$30 million cutoff that would have become effective in September 1988.

From June 30, 1988, to June 30, 1989, total deposits grew 4.0 percent, from \$3,513.6 billion to \$3,654.6 billion. This results in an increase of \$1.3 million in the deposit cutoff level that determines the frequency of reporting from the current \$42.1 million to \$43.4 million. Based on the indexation of the reserve requirement exemption, the cutoff level for total deposits above which reports of deposits must be filed will remain at \$3.4 million. Institutions with total deposits below \$3.4 million are excused from reporting if their deposits can be estimated from other sources. The \$43.4 million cutoff level for weekly versus quarterly FR 2900 reporting and for quarterly FR 2910q versus annual FR 2910a reporting, and the \$3.4 million level threshold for reporting will be used in the second quarter 1990 deposits report screening process, and the adjustments will be made when the new deposit reporting panels are implemented in September 1990.

All U.S. branches and agencies of foreign banks and all Edge and Agreement Corporations, regardless of size, and all other institutions with reservable liabilities in excess of the exemption level amount prescribed by section 19(b)(11) of the Federal Reserve Act (known as "nonexempt institutions") and with total deposits at least equal to the deposit cutoff level are required to file weekly the Report of Transaction Accounts, Other Deposits and Vault Cash (FR 2900). Depository institutions that have reservable

² In November of 1985, the Board amended the definition of "total deposits" as used in determining the cutoff level to include not only gross transaction deposits, savings accounts, and time deposits but also reservable obligations of affiliates, ineligible acceptance liabilities, and net Eurocurrency liabilities.

liabilities in excess of the exemption level, but have total deposits less than the deposit cutoff level, may file the FR 2900 quarterly for the twelve month period starting each September. Institutions that obtain funds from non-U.S. sources or that have foreign branches or international banking facilities are required to file the Report of Certain Eurocurrency Transactions (FR 2950/2951) on the same frequency as they file the FR 2900. The deposit cutoff is also used to determine whether an institution with reservable liabilities at or below the exemption level (known as an "exempt institution") must file one of two reduced deposits reports—the Quarterly Report of Selected Deposits, Vault Cash, and Reservable Liabilities (FR 2910q) or the Annual Report of Total Deposits and Reservable Liabilities (FR 2910a). Exempt institutions (that is, institutions with total deposits less than the exemption amount) are not required to file a deposits report if their deposits can be estimated from other sources.

Finally, the Board may require a depository institution to report on a weekly basis, regardless of the cutoff level, if the institution manipulates its total deposits and other reservable liabilities in order to qualify for quarterly reporting. Similarly, any depository institution that reports quarterly may be required to report weekly and to maintain appropriate reserve balances with its Reserve Bank if, during its computation period, it understates its usual reservable liabilities or it overstates the deductions allowed in computing required reserve balances.

Notice and public participation. The provisions of 5 U.S.C. 553(b) relating to notice and public participation have not been followed in connection with the adoption of these amendments because the amendments involve adjustments prescribed by statute and by an interpretative statement reaffirming the Board's policy concerning reporting practices. The amendments also reduce regulatory burdens on depository institutions. Accordingly, the Board finds that notice and public participation is unnecessary and contrary to the public interest.

Regulatory Flexibility Act analysis. Pursuant to section 605(b) of the Regulatory Flexibility Act (Pub. L. No. 96-354, 5 U.S.C. 601 *et seq.*), the Board certifies that the proposed amendments will not have a significant economic impact on a substantial number of small entities. The proposed amendments reduce certain regulatory burdens for all

depository institutions, reduce certain burdens for small depository institutions, and have no particular effect on other small entities.

List of Subjects in 12 CFR Part 204

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

Pursuant to the Board's authority under section 19 of the Federal Reserve Act, 12 U.S.C. 461 *et seq.*, the Board is amending 12 CFR part 204 as follows:

PART 204—RESERVE REQUIREMENTS OF DEPOSITORY INSTITUTIONS

1. The authority citation for 12 CFR part 204 continues to read as follows:

Authority: Sections 11(a), 11(c), 19, 25, 25(a) of the Federal Reserve Act (12 U.S.C. 248(a), 248(c), 371a, 371b, 461, 601, 611); section 7 of the International Banking Act of 1978 (12 U.S.C. 3105); and section 411 of the Garn St-Germain Depository Institutions Act of 1982 (12 U.S.C. 461).

2. In § 204.9 paragraph (a)(1) is revised to read as follows:

§ 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:

Category	Reserve requirement
Net transaction accounts ¹	
\$0 to \$40.4 million..	3 percent of amount.
Over \$40.4 million..	\$1,212,000 plus 12 percent of amount over \$40.4 million.
Nonpersonal time deposits by original maturity (or notice period):	
Less than 1½ years.	3 percent.
1½ years or more..	0 percent
Eurocurrency liabilities...	3 percent.

¹ Dollar amounts do not reflect the adjustment to be made by the next paragraph.

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By order of the Board of Governors of the Federal Reserve System, December 6, 1989.

William W. Wiles,
Secretary of the Board.

[FR Doc. 89-28944 Filed 12-11-89; 8:45 am]

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BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

SUPPLEMENT TO REGULATION D

Reserve Requirement Ratios

Effective December 19, 1989, pursuant to the Board's authority under section 19 of the Federal Reserve Act, 12 U.S.C. §§ 461 *et seq.*, 12 CFR Part 204 is amended 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:

<i>CATEGORY</i>	<i>RESERVE REQUIREMENT</i>
<i>Net transaction accounts*</i>	
\$0 to \$40.4 million	3% of amount
Over \$40.4 million	\$1,212,000 plus 12% of amount over \$40.4 million

Nonpersonal time deposits

By original maturity (or notice period):

Less than 1½ years	3%
1½ years or more	0%

Eurocurrency liabilities 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 \$3.4 million determined in accordance with section 204.3(a)(3) of this Part.

* Dollar amounts do not reflect the adjustment to be made by paragraph (a)(2).