FEDERAL RESERVE BANK OF NEW YORK

[Circular No. **10515**
February 18, 1992]

RESERVE REQUIREMENTS

— Reduction to 10% in Reserve Ratio on Net Transaction Accounts, Effective April 2

— Proposed Changes Regarding Vault Cash and Carryovers

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

The following statement was issued today by the Board of Governors of the Federal Reserve System:

The Federal Reserve Board today announced that it will reduce reserve requirements on transaction accounts of depository institutions effective in April.

The reduction from 12 percent to 10 percent in the reserve ratio on net transaction accounts will reduce funding costs for depositories and strengthen their balance sheets. Over time, it is expected that most of these cost savings will be passed on to depositors and borrowers.

The Board noted that the reduction should strengthen the financial condition of banks and thereby improve their access to capital markets, putting them in a better position to extend credit.

The April effective date is designed to provide depository institutions time to adjust their reserve management strategies by increasing use of their required clearing balances, economizing on vault cash, and generally providing more efficient management of their accounts.

This is the first major change in the reserve ratio on net transaction accounts since the Monetary Control Act was adopted by Congress in 1980. That law made all depositories — not just member commercial banks — subject to reserve requirements. In an action announced in December, 1990, the Board reduced from 3 percent to zero the reserve requirement on non-personal time deposits and Eurocurrency liabilities.

Reserve requirements are held by depositories in the form of deposits at Federal Reserve Banks and vault cash. Had the lower reserve ratio been in place in 1991, required reserves would have been about \$8 billion below the nearly \$50 billion level that prevailed last year. About \$7¼ billion of that decline would have been in required reserve balances and less than \$1 billion in applied vault cash. In light of the increase in required reserves over last year, the drop in required reserves and required reserve balances will be somewhat larger when today's action is implemented.

Today's action will be effective with the two-week reserve maintenance period beginning on April 2, 1992.

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At the same time today, the Board said it will request public comment on the following proposed changes in reserve requirement regulations:

1. A proposal to double the carryover allowance for reserve balances to the larger of $50,000 or 4 percent of required reserves plus required clearing balances. This will provide institutions with more flexibility in managing reserves from one maintenance period to another.

2. A proposal to shorten by two weeks the lag in counting vault cash toward required reserves in order to reduce the decline in required reserve balances early in the year.

The Board also said that previous proposals to prevent erosion of the reserve base for transaction accounts remain under consideration. The proposals, issued for comment last April 12, would classify certain sweep arrangements including certain commingled time deposits as transaction accounts and make other changes designed to prevent avoidance of reserve requirements.

A revised Supplement to Regulation D, reflecting the reduction in the reserve requirement on transaction accounts, and the text of the proposed changes in reserve requirement regulations, will be sent to you shortly.

E. GERALD CORRIGAN,
President.