

REGULATION D. SECTION IV.

(Re-draft to conform to recommendations of Governors' Conference)

"SECTION IV. PENALTIES FOR DEFICIENCIES IN RESERVES

"Inasmuch as it is essential that the law with respect to the maintenance by member banks of the required minimum reserve balances be strictly complied with, the Federal Reserve Board, under authority vested in it by Section 19 of the Federal Reserve Act, hereby prescribes the following rules governing penalties for deficiencies in reserves.

(a) Basic penalty.

1. Deficiencies in reserve balances of member banks in cities where Federal reserve banks or branches thereof are located will be computed on the basis of average daily net deposit balances covering semi-weekly periods. Deficiencies in reserve balances of member banks in reserve cities where there are no Federal reserve banks or branches thereof will be computed on the basis of average daily net deposit balances covering weekly periods. Deficiencies in reserve balances of other member banks will be computed on the basis of average daily net deposit balances covering semi-monthly periods.

2. Such computations shall be made as at the close of business on days to be fixed by the Federal reserve banks with the approval of the Federal Reserve Board.

3. Penalties for such deficiencies will be assessed monthly on the basis of average daily deficiencies during each of the semi-monthly periods ending in the preceding calendar month.

4. Such penalties shall be assessed at a basic rate of 2 per cent per annum above the Federal reserve bank discount rate on ninety day commercial paper, in effect on the first day of the calendar month in which the deficiencies occurred.

(b) Progressive penalty. The Federal Reserve Board will also prescribe for any Federal reserve district, upon the application of the Federal reserve bank of that district, an additional progressive penalty for continued deficiencies in reserves, in accordance with the following rules:

1. When a member bank in a city where a Federal reserve bank or branch thereof is located has an average deficiency in reserves for twelve consecutive semi-weekly periods, there shall be assessed, in addition to the penalty at the basic rate, a progressive penalty on semi-weekly deficiencies occurring thereafter, until such member bank has maintained the required average reserve for eight consecutive semi-weekly periods.

2. When a member bank in a reserve city where there is no Federal reserve bank or branch thereof has an average deficiency in reserves for six consecutive weekly periods, there shall be assessed, in addition to the penalty at the basic rate, a progressive penalty on weekly deficiencies occurring thereafter, until such member bank has maintained the required average reserve for four consecutive weekly periods.

3. When any other member bank has an average deficiency in reserve for three consecutive semi-monthly periods, there shall be assessed, in addition to the penalty at the basic rate, a progressive penalty on semi-monthly reserve deficiencies occurring thereafter, until such member bank has maintained the required average reserve for two consecutive semi-monthly periods.

4. Such progressive penalty shall be at the rate of 1 per cent per annum for the first calendar month in which same is effective and shall increase at the rate of 1 per cent per annum for each consecutive calendar month thereafter in which the bank's reserve deficiencies are subject to the progressive penalty; provided that the maximum penalty charged shall not exceed 10 per cent per annum.

(c) Continued Deficiencies.

Whenever any member bank has an average deficiency in reserves for each reserve computation period during six consecutive months, the Federal Reserve Agent shall promptly report the fact to the Federal Reserve Board with a recommendation as to whether or not the Board should:

1. In the case of a National bank, direct the Comptroller of the Currency to bring suit to forfeit the charter of such National bank pursuant to Section 2 of the Federal Reserve Act; or

2. In the case of a State member bank, institute proceedings to require such bank to surrender its stock in the Federal reserve bank and to forfeit all rights and privileges of membership pursuant to Section 9 of the Federal Reserve Act; or

3. In either case, take such other action as the Federal Reserve Agent may recommend or the Federal Reserve Board may consider advisable.