DALLASFED ROUNDUP

Federal Reserve Bank of Dallas December 1983

Reserve Accounting to Change in February

February 2, 1984. On that date, the Federal Reserve will implement a new system of accounting for bank reserves designed to give tighter control over the nation's money supply. This system, know as contemporaneous reserve accounting, will require certain banks and savings and loan associations to hold reserves against some deposits two weeks earlier than the current requirements dictate.

Reserves are the percentage of customer deposits which a financial institution must set aside in an account under the Federal Reserve's control. They are used primarily to allow the Fed to control the money supply in pursuit of its basic economic policy goals. Reserves provide a known and controllable base through which actions of the Fed can affect the supply of money and credit. By increasing or decreasing the amount of funds available to institutions to meet their reserve requirements—and by setting reserve requirement percentages—the Fed can influence the amount of funds available for expansion of the money supply through loans, investments and deposits.

Reserves are required on three basic categories of deposits: transaction accounts, which are checking accounts, NOW accounts, and other accounts subject to drafts or transfers; certain types of time deposits, which are accounts with a stated time to maturity; and eurocurrency liabilities, which are deposits arising from foreign transactions.

Under the current method of reserve maintenance, known as lagged reserve accounting, financial institutions have one week after they close their books on Wednesday to begin maintenance of reserves against the amounts in their accounts. Average daily reserves during a one-week maintenance period must equal required reserves. With the implementation of contemporaneous reserve requirements (CRR), institutions will begin maintenance of reserves on some deposits two days following the beginning of a two-week computation period.

The change to contemporaneous reserve requirements on February 2, 1984 will require implementation of several new procedures for about 1,200 institutions in the Eleventh Federal Reserve District. This issue of *Roundup* begins a series of articles which will summarize contemporaneous reserve accounting and explain what will happen during and after the transition period.

CRR will apply only to medium-sized and larger institutions—those which currently report deposits weekly—and will affect approximately 1,200 institutions in the Eleventh Federal Reserve District. Certain institutions—those with $15 million or less in total deposits—report and hold required reserves quarterly and will continue to do so. Others—with less than $2 million in total deposits—are exempt from reserve requirements.

CRR also will apply only to transaction accounts, with a two-week contemporaneous computation period replacing the current one-week period. This computation period will end on a Monday, and a two-week maintenance period will end the following Wednesday for reserves held against these types of accounts. Reserve requirements for all other types of accounts will continue to be met on a lagged basis. The lagged computation period also will end on a Monday, and the maintenance period will begin two weeks later on a Thursday.

It is expected that CRR will improve the implementation of monetary policy to a degree by strengthening the linkage between reserves held by institutions and the money supply. However, sizable slippages will remain between reserves and money since short-term flows inherently are volatile.

The Federal Reserve Board announced final approval of the change from lagged to contemporaneous reserve accounting on October 5, 1982, after having considered comments received on proposals published in November 1981.

DIDC Eliminates Interest Rate Differentials

The Depository Institutions Deregulation Committee has announced the elimination of interest rate differentials existing between commercial banks and savings and loan associations as well as a plan for the elimination of remaining minimum deposit requirements on time deposits. The announcements were made following the DIDC's September 30 meeting.

Effective January 1, 1984, the interest rate ceiling at commercial banks will increase to 5.5 percent for two types of accounts—savings accounts and time deposits of less than $2,500 with maturities of seven to 31 days. This rate currently applies to savings and loan associations and mutual savings banks for the same types of accounts. The interest rate ceiling for NOW accounts and for automatic transfer (ATS) accounts will remain at 5.25 percent for all institutions.

The DIDC also announced that all minimum deposit requirements will be eliminated December 1 for money market deposit accounts, super NOW accounts, and seven- to 31-day deposit accounts which are designated as individual retirement or Keogh accounts. For all other types of depositors, these minimum deposit requirements will be reduced and eliminated in two steps. On January 1, 1985, the current $2,500 minimum will be reduced to $1,000, and on January 1, 1986, the minimum will be eliminated entirely. After that date, all interest rate ceilings on time deposits will have been eliminated as mandated by the Depository Institutions Deregulation and Monetary Control Act of 1980.

Personal Computers Available For RESPONSE Network

The Dallas Fed has announced renewed availability of personal computer equipment for use with the dial-up option of RESPONSE—the communications network that links institutions with the Dallas Fed computer and the nationwide Federal Reserve communications system through several on-line options.

The dial-up option was designed to be an inexpensive and flexible alternative for low-volume users of Fed services. The option utilizes IBM personal computer equipment, regular telephone lines and toll-free numbers to establish a link with the Dallas Fed. Data entry is accomplished through a keyboard or a diskette, and output is received through a printer or video display terminal. Currently this option can accommodate approximately 20 funds transfers a day as well as provide reserve account information, currency and coin ordering, and access to Treasury bill rates.

RESPONSE

FEDERAL RESERVE BANK OF DALLAS COMMUNICATIONS NETWORK

In addition to its use in the RESPONSE network, personal computer equipment gives institutions the ability to perform accounts receivable, accounts payable, general ledger, word processing and other functions. Features recently have been added for additional memory and a letter-quality printer. Programs are available for purchase from vendors, or programming languages are available for development of unique applications.

The Dallas Fed was the first in the Federal Reserve System to utilize the personal computer for a direct-link network. Institutions currently on-line with the RESPONSE network total 465, 307 of which own or lease IBM personal computer equipment. Whether an institution leases the equipment from the Dallas Fed or purchases it from other sources, the Dallas Fed supplies software necessary to access services and provides training for personnel who will use the equipment. Weekly training sessions at the Dallas Fed include actual experience using personal computer equipment as well as a tour of the computer center where participants can observe RESPONSE functions.

Institutions with inquiries about the RESPONSE network may contact Stan McAnelly at the Dallas Fed, 214/698-4322.

1984 HOLIDAY SCHEDULE

Federal Reserve Bank of Dallas

January 2	New Years Day
February 20	Presidents Day
May 28	Memorial Day
July 4	Independence Day
September 3	Labor Day
October 8	Columbus Day
November 12	Veterans Day
November 22	Thanksgiving Day
December 25	Christmas Day

Savings Bonds

All savings bond operations, except the processing of retired bonds, have been consolidated at the head office of the Federal Reserve Bank of Dallas. Financial institutions should continue to submit savings bonds redeemed at their offices to the Federal Reserve Bank Branch in their territory. All other savings bond activities should be conducted through the Dallas office.

As a result of this change, all inquiries regarding savings bond activities should be directed to the Dallas office.

Contemporaneous Reserves Change Accounting Procedures

In part one of a two-part series, *Roundup* examines changes in accounting procedures due to contemporaneous reserve requirements.

When contemporaneous reserve requirements (CRR) become effective in February, several reserve accounting procedures will change dramatically. These changes involve the computation period, the maintenance period, reporting forms and carryover provisions for reserve balance deficiencies or surpluses.

Under CRR, required reserves to be maintained by weekly-reporting financial institutions will be based on deposit data from two computation periods—a lagged computation period and a contemporaneous computation period. This replaces the single lagged computation period which existed previously. Each computation period is two weeks long, beginning on a Tuesday and ending on a Monday. This represents a change from the previous reporting structure which was one week long and fell on Thursday through the following Wednesday. Deposit data for both periods are necessary to determine a financial institution's reserve requirement. Reserve requirements can be met through cash held in an institution's vault, through balances held at the Reserve Bank, or both. Vault cash eligible to be counted as reserves will be equal to cash holdings during the lagged computation period.

The maintenance period also is two weeks long, beginning on a Thursday and ending on a Wednesday. Therefore, the maintenance period ends two days following the end of the contemporaneous computation period, allowing an interval to provide time to calculate required reserves (see chart).

The total reserve requirement to be maintained during the maintenance period is comprised of required reserves on transaction accounts (contemporaneous data), non-transaction accounts (lagged data) and a clearing balance requirement, if any. Transaction accounts include demand deposits, telephone and preauthorized transfer accounts and NOW accounts. Non-transaction accounts include nonpersonal money market deposit accounts, nonpersonal time and savings accounts, nonpersonal ineligible acceptances and eurocurrency liabilities. Vault cash may be used to offset all or part of the reserve balances required for non-transaction and transaction accounts, but cannot be used to satisfy a clearing balance requirement.

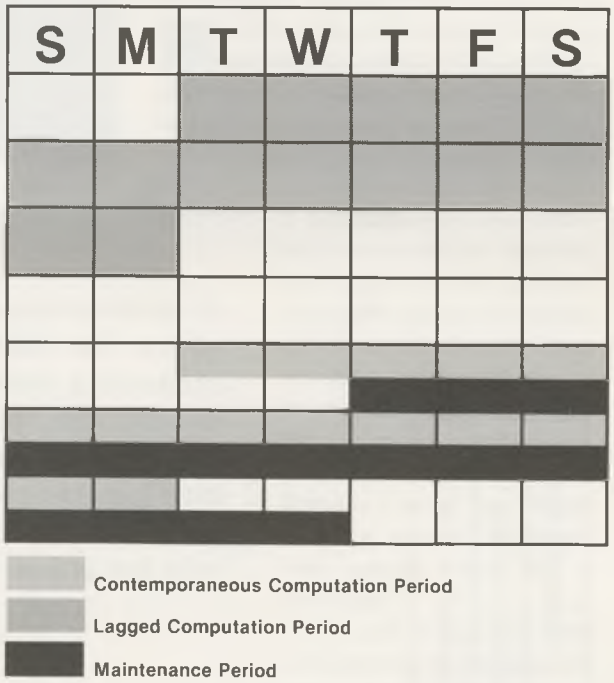
The overlap of the contemporaneous computation period and the corresponding maintenance period means that the Reserve Bank can no longer supply financial institutions with final total reserve requirements in advance. As a result, institutions must develop the capability to calculate their own total reserve balance requirements.

Financial institutions which report to the Fed weekly are required to use a form known as an FR2900. Under CRR, this form will change slightly to correspond with the new computation period. The days of reporting will change from Thursday through Wednesday to Tuesday through Monday. The form will be due on Wednesday rather than on Friday as is currently required. Reservable liability categories will not change as a result of CRR.

To assist financial institutions in implementing CRR, the Board of Governors has adopted a transition period for the carryover of reserve balance deficiencies or surpluses. During the first six months following the start of CRR, reserve deficiencies or surpluses that may be carried over into the next reserve period will equal the greater of 3 percent of the daily average level of required reserves (including required clearing balances) or $25,000. During the next six months, the permissible carryover will equal the greater of 2.5 percent of daily average required reserves or $25,000. Thereafter, the carryover will be the greater of 2 percent of daily average required reserves or $25,000.

Next month: the transition period.

CRR Computation and Maintenance Periods



New Check Prices Effective December 1

A new fee schedule for commercial check collection services will become effective December 1, 1983, for depositors in the Eleventh District (see chart). All deposit options for these institutions have been retained; the only pricing structure change will be the addition of a cash letter fee for country group sort items deposited at the Dallas office.

The new fee schedule fulfills the requirement of the Monetary Control Act to include the cost of check float, at the federal funds rate, in check prices. During 1983, other steps taken to deal with float included the implementation of new crediting procedures designed to eliminate or price interterritory check transportation float and the implementation of one-day deferral of credit on interterritory return items.

All operating and float costs will be fully recovered with the new fee schedule. Prices are expected to remain at this level through 1984.

NEW CHECK PRICES
(effective December 1, 1983)

Type of Item	Price (cents per item)	Type of Item	Price (cents per item)
Mixed	3.6	Nonmachineable	
City	1.6	Local	15.0
RCPC		Other Fed	30.0
Regular	2.1	Return Items	
Premium	3.1	Regular	50.0
Country	2.6	Automated	25.0
Other Fed	5.8	Amount Encoding	4.0
Group Sort	2.1		
Package Sort			
Regular	1.0		
Offsite	1.1		

In addition to the per-item charge, there is a $2.50 cash letter fee at all offices for city, RCPC and country fine sort letters. There is a $1 cash letter fee for group sort deposits at the Dallas office only.

Roundup is published monthly by the Federal Reserve Bank of Dallas and its Branches at El Paso, Houston, and San Antonio. Additional copies of most issues and subscription information are available from the Public Affairs Department.

FEDERAL RESERVE BANK OF DALLAS
STATION K
DALLAS, TEXAS 75222
ADDRESS CORRECTION REQUESTED