DALLASFED ROUNDUP

Federal Reserve Bank of Dallas October 1985

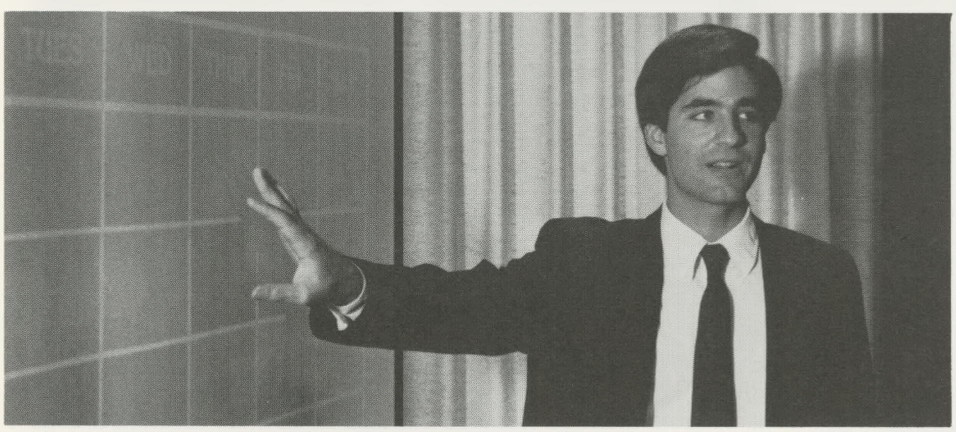
Phase-In Requirement Near Completion

Under the Monetary Control Act of 1980, uniform reserve requirements were imposed on all depository institutions—that is, commercial banks, savings banks, savings and loan associations, credit unions and industrial banks. Prior to the passage of this act, only members had been required to keep reserves. Edge Act and agreement corporations, and U.S. branches and agencies of foreign banks are also required to maintain reserves.

Reserves, a primary source of liquidity to the institution itself, form the base of money over which Federal Reserve monetary policy takes effect. The purpose of maintaining reserves, according to Bob Feil, manager of the Reserve Maintenance and Federal Accounts Divisions of the Financial Planning and Control Department, is "to increase the effectiveness of monetary policy, set by the Federal Reserve Board, to all depository institutions."

Reserve requirements for non-member depository institutions are being gradually phased-in over an eight-year period in order to avoid disruptive effects on an institution's operations. The phase-in adjustment, now 75 percent complete, has allowed the reserve requirement for non-members to gradually be phased-in, while the requirement for members has been gradually phasing down. Effective Sept. 10, 1987, the phase-in will be complete.

Depository institutions are required to supply the Federal Reserve Bank in their District with a Report of Transaction Accounts, Other Deposits and Vault Cash (also known as the FR 2900) on a regular basis. Institutions with total deposits of $25 million or more and with reservable liabilities greater than $2.4 million are required to submit the report weekly. Institutions with total deposits of less than $25 million and reservable liabilities greater than $2.4 million must report on a quarterly basis. Institutions with less than $2.4 million in total deposits are exempt from FR 2900 reporting. Reservable liabilities include net transaction accounts, non-personal time and savings deposits, and Eurocurrency liabilities.



Bob Feil explains schedule for maintenance periods.

Reserves are held in the form of vault cash, a balance maintained directly with the Federal Reserve Bank in the District in which it is located or in a pass-through account (one in which a correspondent holds reserves at the Reserve Bank on behalf of other depository institutions).

Reserves are computed on the basis of the daily average deposit balances, which are reported on the FR 2900, during a period known as the "computation period." In determining the reserve balance that is required to be maintained with the Federal Reserve, the average daily vault cash held during the computation period is deducted from the amount of the institution's required reserves. The reserve balance held with the Federal Reserve shall be maintained during a corresponding "maintenance period."

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INSIDE

Dallas Fed Hosts Repo Seminar

Approximately 200 guests attended the repo seminar sponsored by the Dallas Fed.

The Dallas Fed hosted a workshop aimed at presenting information on the risks associated with investment in repurchase agreements. The workshop was attended by nearly 200 representatives of depository financial institutions, as well as elected or appointed officials from municipalities across the Eleventh District. The seminar took place at the Loews Anatole Hotel in Dallas, on Friday, Sept. 20.

A repurchase agreement, or "repo," represents a money market transaction in which a security—typically a U.S. Government obligation or agency issue—is sold at a specified price for a designated period of time. The contract prescribes that the security will be bought back ("repurchased") at the end of the agreement's term. Investors ordinarily use repos to place funds that may be available for limited periods of time, as short as overnight. On the other side of the transaction, repo sellers attract cash to meet temporary liquidity needs without purging the underlying securities from their portfolios altogether.

The Federal Reserve System's interest in repurchase agreements stems from its role as manager of the nation's monetary policy. The effectiveness of Fed "open market operations" depends on safe, sound and efficient markets for U.S. Government securities and agency issues. Such securities, and dealers of those securities, are often involved in repurchase transactions. The failure of several large government securities dealers earlier this year and the resulting impact on those dealers' customers have prompted special interest in the procedures and capital adequacy of government securities dealers.

Speakers at the workshop included Richard Syron, senior vice president of the Boston Fed and former assistant to Fed Chairman Paul Volcker. Syron reviewed the structure of the government securities market and the nature of repurchase transactions. Gary Haberman, manager of Dealer Surveillance at the New York Fed, discussed the legal and regulatory status of government securities dealers and capital adequacy standards for dealers as proposed by the Fed. New York Fed associate general counsel Don Ringsmuth outlined legal considerations surrounding repurchase agreements and the associated custody of collateral.

A panel of experts then discussed repos from a variety of viewpoints. The panel consisted of: A. Judson Bailiff, treasurer of the City of Fort Worth; James A. Brickley, chairman of the Asset and Liability Management Committee at InterFirst Corporation, Dallas; Winsome Jean, short term investment officer, Texas State Treasury; and S. Michael Edgar, vice president of the Federal Home Loan Bank of Dallas. G. C. Cochran, senior vice president of the Dallas Fed, served as workshop moderator.

Copies of workshop materials and handouts may be obtained by writing or calling the Public Affairs Department, Federal Reserve Bank of Dallas, Station K, Dallas, Texas 75222, (214) 651-6289.

Phase-In (cont.)

"All weekly reporting institutions," added Feil, "are required to maintain reserves on their transaction account balance 'contemporaneously,' i.e., with a two day lag, while reserve requirements on nontransaction liabilities must be met on a lagged basis. This is referred to as Contemporaneous Reserve Requirements (CRR)." Quarterly reporting institutions are required to maintain reserves on both types of accounts on a lagged basis only.

Under CRR, the responsibility for calculating a reserve requirement has shifted from the Federal Reserve to each depository institution due to the need for depository financial institutions to know their requirement. In order to aid the institutions in the day-to-day management of their reserve position, the Federal Reserve Bank of Dallas offers a computer program which will allow institutions to calculate their reserve requirements using estimated or actual data. This function is known as a "what if" calculation and has proven to be very popular among many institutions in this District.

SESQUICENTENNIAL *Nearing . . .*

Texas Money Featured in Slide Show

To prepare for the Sesquicentennial of Texas, the Federal Reserve Bank of Dallas is coordinating a slide show presentation on the history of Texas money. In conjunction with the economic education program, the slide show will be used in elementary through high school classrooms throughout the Eleventh Federal Reserve District beginning in 1986.

Because money is used as a medium of exchange, or promise to pay, its value, use and design are usually determined by its acceptance in the marketplace. This helps explain why coins and currency have changed so much throughout the years.

From 1519 until Mexico attained independence in 1821, Spain ruled the southern portion of the New World, including Texas. The Republic of Mexico actively governed the land from 1821 through 1835, thus playing a major role in setting up coin and currency guidelines.

Gold and silver pesos, issued in the name of Juan Antonio De La Garza of San Antonio, were the first form of Texas money. One side bore his initials and the other a five-pointed star. This money was coined in 1818 with the consent of the Spanish Vice Rey in view of the great need of a circulating media.

Handwritten bank notes are believed to have been issued by a San Antonio bank in the early 1820s in denominations of one, two, and four reales, and five, ten, twenty, fifty and one hundred pesos. However, upon first issue, people were said to have refused to use them. Other than San Antonio, no other Spanish towns in Texas showed instances of having issued any form of coin or currency.

Prior to this time, colonial notes were used back as early as 1690 and had been issued by the Massachusetts Bay Colony. Easily counterfeited, they became worthless through depreciation and inflationary printing.

Banks, insurance companies, railroads, corporations, and associations issued obsolete bank notes—more commonly known as broken bank bills. This was the only paper money the United States had from the early 1800s to 1861, when the Government began issuing Civil War greenbacks.

Following the Civil War, many Texas banks received charters under the National Currency Act of 1863 and various other acts. National banks in several hundred Texas cities issued national bank notes.

Both before and after Texas formed a provisional government in 1835 and declared independence in 1836, Texas had undergone many changes of coin and currency.

The first "official" paper money in the region were warrants issued by the provisional government of Texas in January and February of 1836, before independence. The warrants were completely handwritten and had no printed designs. Vignettes, or drawings, first appeared on notes introduced in 1838-39. Some of these notes are extremely popular among collectors.

Forms of currency which Texas used included Treasury Notes of the Republic of Texas (presumably signed by Sam Houston, President of the Republic of Texas, when in fact a stock clerk, W. G. Cooke, signed for him), Notes of the Confederate States of America, State of Texas Warrants, Postage and Fractional Currency, United States and Treasury Notes, United States Silver Certificates, Federal Reserve Notes, Federal Reserve Bank Notes, and National Bank Notes.

News Briefs

Monthly Calendar Billing

Beginning in August, the Federal Reserve System converted to a calendar month billing cycle for priced services offered to financial institutions. Billing cycles now run from the first day of a calendar month to the last day of a calendar month, which should prove less confusing for depository institutions than the previous method.

Under the new guidelines, the Preliminary Statement of Service Charges has been discontinued. However, the Final Statement of Service Charges are being mailed no later than seven business days following the end of each monthly billing cycle. This new Final Statement of Service Charges will also make it easier for our customers to reconcile their bill.

Settlement of net service charges occurs on the fifteenth of the month following the end of the billing cycle. If that day falls on a weekend, the next business day is being used.

Earnings credits, based on reserve maintenance periods, are also released on the Final Statement of Service Charges no later than seven business days following the end of each billing cycle.

Election of Directors

In concurrence with the Federal Reserve Act, as amended by the Federal Reserve Reform Act of 1977, the Election of Directors was held Oct. 2, through Oct. 24, 1985.

Nominations were taken prior to Sept. 20, 1985, by Chairman of the Board of Directors of the Eleventh Federal Reserve District, Robert D. Rogers, for both a Class A and Class B Director. Class A Directors are elected by Group 3 banks—those with capital and surplus of $2 million or less. Class B Directors are elected by Group 1 banks—those with capital and surplus of $6 million or more. Class B Directors represent the public and need not be officers or directors of depository financial institutions.

Uniform Bank Performance Reports

Uniform Bank Performance Reports (UBPR) for March 1985, are now available from the Federal Financial Institutions Examination Council (FFIEC).

These quarterly reports are designed for use by bank examiners, financial analysts, and bank managers, and permit both summary and in-depth analysis of commercial banks' financial performance and trends. These reports are also available to anyone interested in comparing a specific bank's performance with that of its peers.

Copies of individual bank UBPRs may be obtained by the public for $25 per report, with quantity discounts available. UBPR User's Guides can be obtained for $6 each.

For ordering assistance, contact the Federal Financial Institution Examination Council in Washington, D.C., at (202) 383-5876.

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