Interviews with Depository Institutions Regarding Federal Reserve Accounts

April 1996

Introduction

The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 is expected to lead to widespread interstate branch banking by year-end 1997. In anticipating the changing banking landscape, the Federal Reserve reassessed its account relationships to determine the structure that would best meet the future organizational and business needs of the banking industry. Through this assessment, the Federal Reserve developed a prototype account model that would facilitate a single debtor-creditor relationship, while providing the flexible information benefits of distributed account structures. The model provides a single (master) account, held at one Reserve Bank, where all credits and debits arising from financial transactions with the Federal Reserve would be settled and where reserve and risk management activities would be conducted. The model also includes the option of using subaccounts to define subsets of financial transaction information, which can be segregated as needed to support any information needs. Thus, an institution with “far-flung” branches could centralize all financial information or could segregate information on financial transactions based on its own organizational structure.

The prototype account model was developed both in response to the needs stated in earlier conversations with depository institutions and to be consistent with Federal Reserve needs. To ensure that the account model would meet the future needs of the banking industry, Federal Reserve staff conducted a series of interviews with selected depository institutions during the period of October 1995 through January 1996. This document provides a synopsis of the interview results.

Interview Process

Across the nation, 40 depository institutions were invited to participate in the interstate banking interviews. The institutions reflected a cross-section of differing organizational structures. Ultimately, 37 institutions were able to participate in the interviews, which were structured around a set of 15 questions. Interview participants included Federal Reserve and depository institution staff familiar with operational risk management and account management. Depository institutions were provided with a copy of the interview materials (see Appendix A) in advance of the interview.

Interview Findings

Institutions were asked about their organizational plans in the interstate branching environment. Responses to this question indicated that it was clear that a wide variety of organizational structures were planned, ranging from a single chartered bank with many interstate branches to multiple affiliated banks (some with extensive branched networks) under a bank holding company (BHC) structure. Additionally, planned management of business activities varied widely, although there was a clear preference for centralized management at some level, e.g., by geographic region or by business function. In terms of managing their relationship with the Federal Reserve, almost half of the interviewees indicated that accounts would be managed under the umbrella of a BHC.

Institutions were asked whether the single account model would meet their needs in the areas of account management, credit and risk management, and cash/financial management. They were asked to elaborate on any potential difficulties that the model might present in light of centralized or decentralized business activities and organizational structure.

All of the interview participants expressed support for the single account model. None of the respondents considered a multiple account structure to be superior to the single account model. Some respondents indicated a preference for account centralization at the level of the BHC, although the precise form of "centralization" appeared to differ across respondents and could not be determined from the interviews. Follow-up work will be conducted to further delineate these needs.

Questions were posed to determine how an institution's use of the discount window might change in an interstate branching environment, assuming a single account structure. In response to these questions, a number of interview respondents noted that unanticipated, late in the day debits posted to their accounts could affect their need for adjustment credit and that branching across time zones would likely contribute to the need for credit later in the business day. Relative to collateral, there appeared to be some interest in managing collateral from a central location, but having the ability to maintain definitive collateral in multiple locations. A number of the respondents indicated that they want the Federal Reserve to be flexible by providing access to the discount window at one Reserve Bank, and allowing collateral to be held at more than one Reserve Bank.

In responding to queries about the use of subaccounts, interview participants were asked about whether the absence of subaccount “balances” posed a concern. The vast majority of respondents had no concern; however, there were several requests for informational subaccount totals.

Another question addressed the potential impact of the proposed account model on internal funds transfer routing processes and the extent to which interstate branching might affect internal funds transfer operations. Interview respondents reported little difficulty in routing incoming Fedwire transfers to customer accounts. The most commonly cited problems involved duplicate customer account numbers and multiple, incompatible Demand Deposit Accounting (DDA) systems, particularly following mergers. Responses indicated that, following mergers, the ABA routing transit numbers (RTN) of non-surviving entities commonly were used to identify customer account numbers. A concern was noted that duplicate customer account numbers will become more of a problem as organizations consolidate multiple charters into a single charter.

Depository institutions also were asked about the types of services that they would expect to access through subaccounts and the number of subaccounts that may be required. The need to originate and receive Fedwire funds transfers through subaccounts was of particular interest. About half of the respondents indicated a need for the subaccounts to support access to <u>all</u> Federal Reserve services (including Fedwire funds transfer) while the remainder anticipated limiting subaccounts to locally processed batch-based transactions (e.g., check). The number of subaccounts required was generally 10 or less, although there was a great deal of uncertainty as to how they might be used.

Under the prototype account/subaccount model, it is envisioned that subaccounts will be identified by a 9-digit RTN; interview respondents were asked whether this identifier would pose a problem. The vast majority of the institutions indicated that it would not be a problem, although some concern was expressed over the need for the ABA to support the use of RTNs for this purpose.

In addition to core questions about the use of accounts and subaccounts, transitional account arrangements were discussed. The prototype transitional account structure would allow depository institutions to continue to operate a non-surviving entity’s account after a merger or acquisition for an interim period of time. The “non-surviving” account could continue to settle financial transactions, but would be “zero-capped” to control the extension of intraday credit. Two options would be provided to facilitate consolidated or separate reserves administration during transition periods. Institutions were asked whether these arrangements would provide the desired level of support and flexibility during restructuring, and were queried about the length of time required to complete transition to a single account structure. Generally, institutions expressed satisfaction with the prototype transition arrangements. A slight majority considered a six-month period to be adequate for transition, while the remainder generally considered one year to be sufficient.

Additional questions were posed to determine whether the prototype account model would affect current correspondent/respondent arrangements and, in particular, whether it would be desirable to “tie” respondent relationships to subaccounts rather than to the master account. Responses were evenly divided over the issue of whether respondents would be associated with an account only or with the master account and/or subaccounts. Institutions generally viewed the Federal Reserve’s current three-tier limit on correspondent/respondent relationships to be sufficient.

The Federal Reserve recognized that the single account model should be implemented with additional, enhanced account and cash management information. A series of questions were asked to solicit depository institutions’ views about account information needs in an interstate branching environment. Questions addressed accounting statements, reports, advices, acknowledgements, and on-line inquiry capabilities. For each question, responses generally were evenly split, with approximately half of the institutions indicating satisfaction with current accounting information and the remainder expressing a desire for additional (enhanced) information. Additional information requests generally reflected a desire for enhanced on-line inquiry capabilities and more customized reports. During the discussion on account information, interview participants were provided with a set of prototype reports with enhanced information capabilities to support the account/subaccount model. Interviewees’ reactions to these reports were positive, with no suggestions for change.

As a depository institution’s business activities expand across state and Federal Reserve District lines, its principal place of business may be different than its charter location. Questions were posed to determine the likelihood that the interstate expansion of business activities could cause an institution’s principal business location to be different from that of its charter. Respondents also were asked to explain any general concerns relating to account location. While half the respondents anticipated that charter location would continue to reflect the principal place of business, respondents noted that customer relations, state tax codes, banking laws, and other cost considerations also affect location issues. No institution believed that charter location should dictate account location.

Throughout the interview process, additional specific issues and considerations were discussed that will be addressed. Issues related to consistency and standardization across Reserve Banks were commonly cited.

Conclusions

The unanimous support for the single account model validates earlier analysis that a single account structure is the most responsive to depository institution needs and is an efficient and straightforward mechanism for managing the relationship between depository institutions and the Federal Reserve in an interstate branching environment. Interview results also indicated that, regardless of organizational structure, most back-office operations would be managed centrally, particularly as they relate to Federal Reserve accounts and services. Given this operational preference, the single account model assures that managing the debtor-creditor relationship with the Federal Reserve can be centralized at one location. Moreover, decentralized business needs (e.g., certain reconcilement functions) can be accommodated by subaccounts.

There appears to be demand to apply the single account structure to BHCs for account information purposes and/or to manage relationships on a fully centralized basis. Further discussions with interested BHCs will take place to more precisely identify the exact nature of this requirement.

There is demand to provide subaccounts with full access to all Federal Reserve financial services (including Fedwire funds transfer). It is premature to estimate the number of subaccounts that may be needed by an institution, although 10 or less was often cited, as the majority of the interviewees were unsure how they would use subaccounts. The use of 9-digit RTNs to identify subaccounts will not present depository institutions with internal operational difficulties.

The proposed transition arrangements provide the necessary flexibility to support depository institutions as they convert multiple accounts to the single account structure following mergers or other organizational structure changes. The six-month transition period does not provide adequate time for some institutions to consolidate to a single account structure. One-year transition periods would suit most institutions' needs.

It appears that maintaining the three tier limit on settlement relationships will be acceptable and that there is some interest in segregating respondent information at the subaccount level.

Consistency and standardization of operational relationships across the Reserve Banks is important to interstate institutions today. As interstate branching spreads, the standardization issues that institutions currently face will multiply. The need for a single point of contact within the Federal Reserve System was identified to coordinate the relationships between a single interstate banking entity and multiple Reserve Banks. Interview responses also reinforced the need to supplement information delivery mechanisms and the need to be flexible in the timing, delivery and content of information. Specific information requests will be considered in enhancing information services.

In most cases, the location of a depository institution's charter represents its principal place of business. It is unclear whether this will continue to be the case in the future, although survey responses indicate that it may continue to reflect the principal place of business in many instances. Institutions are not in favor of linking account location to charter location and desire flexibility in determining which Reserve Bank holds their account.

As the interstate branching landscape evolves, input from the interviews will be a critical element in defining the Federal Reserve account relationship. The ultimate goal is to facilitate account relationships that will provide efficient and effective support to account management, while ensuring sufficient flexibility to support differing and changing organizational structures over time. The overwhelming support for the single account model reaffirms the model's viability in the future environment. Suggestions on information requirements and related account issues will be critical inputs in formulating the details of this account structure.

Appendix A

This appendix contains:

1) *background information on the account model being proposed to support a single debtor-creditor relationship between the Federal Reserve and depository institutions;*

2) *an operational example of the single debtor-creditor relationship;*

3) *discussion of transitional account arrangements; and*

4) *the interview questionnaire.*

These materials were provided to depository institutions prior to the interviews to allow them to become acquainted with the proposed account model and to prepare for the interview questions.

FEDERAL RESERVE RELATIONSHIPS UNDER INTERSTATE BRANCHING

Introduction

The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 will lead to widespread interstate branch banking by year-end 1997. The Federal Reserve has been assessing the effect of the interstate branching change on the future needs of depository institutions. The purpose of this interview is to obtain your input on a proposed account prototype that we believe will serve our mutual needs.

Background

In 1994, we began to consider the future operational relationship between the Federal Reserve and interstate banks by conducting interviews with a cross-section of the banking industry. Through these interviews, the banking industry indicated that it desired flexibility in meeting new organizational structure needs. Industry representatives also indicated that they desired a single relationship with the Federal Reserve for account and financial management. Using this interview information, the Federal Reserve is addressing the financial services and accounting information needs of banking institutions as well as its own public policy and operational requirements in an interstate branching environment.

Policy issues that are of concern to the Federal Reserve include: managing the extension of central bank credit and the associated risks; controlling the supply of reserves available to the banking system; and ensuring timely and accurate data flows needed to conduct monetary policy. It also is critical that we understand and continue to meet your ongoing financial services needs.

Rationale

From the Federal Reserve perspective, three principles form the background for addressing the Federal Reserve's future relationships with interstate banking institutions: 1) the bank charter will continue to define the legal entity to which Federal Reserve credit and reserves maintenance policies apply; 2) multiple Reserve Banks will provide financial services to different offices of the same bank; and 3) there will continue to be 12 legally distinct Federal Reserve Banks, with district boundaries unchanged.

Consistent with these principles, Federal Reserve Banks will maintain two key relationships with banking institutions. One key relationship is the debtor-creditor relationship. The Federal Reserve Bank is a debtor of each legal entity that maintains deposits or positive reserve balances. To the extent that a Federal Reserve Bank extends daylight or overnight credit to an institution, the Federal Reserve Bank is a creditor of that entity.

Another key relationship is the financial services relationship. Specifically, the Federal Reserve will continue to provide local services (e.g., check collection and cash services) to offices of an interstate branch bank through local Reserve Bank offices. National services (e.g., Fedwire) also will continue to be provided through multiple electronic access points. Clearly, an interstate bank may obtain financial services from multiple Reserve Bank offices located in one or more Federal Reserve Districts.

Both the debtor-creditor and financial services relationships are discussed here. The debtor-creditor relationship is addressed first, as it is fundamental to an understanding of the financial services relationship.

Debtor-Creditor Relationships

The optimal debtor-creditor relationship should minimize credit risks to the Federal Reserve and the public associated with lending operations and should provide the infrastructure needed to implement monetary policy. In order to accomplish these ends, it is critical that the supporting account structure provide a single view of the debtor-creditor position of an interstate bank vis-a-vis the Federal Reserve. Earlier interviews indicated that the banking industry also wanted a single view of its debtor-creditor relationship with us.

For the Federal Reserve to discharge its responsibilities related to monetary and credit policies most effectively, we envision a single debtor-creditor relationship with each separately chartered depository institution. Thus, for a bank holding company with three affiliated chartered banks, each of these banks has a debtor-creditor relationship with the Federal Reserve. This approach would provide streamlined control and a single coordination point for communications between the Federal Reserve and an interstate bank. That is, reserve maintenance and intra-day and overnight credit access for each depository institution would be administered by one Federal Reserve Bank. Based on banking industry comments, this approach appears to be the most efficient and effective way for you to manage your relationship with us as well.

Information/Account Needs

The single debtor-creditor relationship can be achieved either directly through a single account or indirectly by netting across multiple accounts. While the Federal Reserve can support either one of these structures operationally, the fact that an interstate bank will ultimately need a single view of its account position suggests that a single account may be a more useful and straightforward approach. Assuming that multiple accounts predominantly serve as a means to organize financial information, the Federal Reserve can support the need to manage a single position through one account. Concurrently, we also can provide information on transactions in flexible ways to meet various organizational structures.

Earlier market research determined that interstate banks want the ability to segregate Federal Reserve settlement information along geographic and/or business lines. There were some suggestions by interviewees that this segregation could best be accomplished through the establishment of multiple accounts. Other interviewees requested a single account structure to support streamlined account management. We believe our proposed approach can meet these needs.

Proposed Approach

Our proposed approach uses a single Federal Reserve account in which information can be organized by optional subaccount. This approach is conceptually similar or equivalent to the current respondent/correspondent account arrangements. Under the proposed approach, all credits and debits resulting from financial transactions, including Federal Reserve financial services, would settle in one account held at one Federal Reserve Bank, thereby achieving the desired single debtor-creditor relationship between the Federal Reserve and an interstate branch bank. Optional subaccounts can be used to organize information on subsets of financial transactions. The material difference between a multiple account model and a single account with subaccounts model is that, in a multiple account model, opening balances and closing balances are determined in each account. In a single account approach, the opening balance and closing balance are determined in the single account only; the subaccounts do not have an opening balance or a closing balance. Transactions in subaccount(s) will settle in the single account. The relevant definitions are provided in the following table.

Account Structure Definitions

Account An account is a record of financial transactions that reflects financial rights and obligations of an account holder and the Reserve Bank with respect to each other, where opening and closing balances are determined.

Subaccount A subaccount is a record of a subset of the transactions that affect the account. Subaccounts will not reflect balances.

The subaccounts supported under the single account model could be used by a depository institution to segregate financial information by geographic region, operational function, or other criteria. Subaccounts may be used by depository institutions as a means of capturing account activity under multiple routing transit numbers, either for reconcilement purposes or other account management purposes. As such, the proposed account model could provide depository institutions with the flexibility to define financial information subsets, segregated to meet specific depository institution needs, while also providing a single view of the organization. Interestingly, some institutions with an inter-District presence currently use this type of account/subaccount arrangement (simulated through correspondent/respondent accounts) to structure account information.

We do not envision that all interstate banking institutions will require subaccounts. For example, in those cases where account reconcilement is performed at the transaction code level, subaccounts may not be necessary.

Subaccounts could be limited to local service transactions (such as check collection and cash services), given that depository institutions already can obtain information on national service transactions (e.g., Fedwire funds and book-entry services) by the "address" of the electronic connection. Alternatively, the subaccount could support all types of financial services in a mature interstate branching environment. Attachment A provides an operational example of this approach.

Generally, we expect a depository institution would hold its account in the Reserve Bank District of the location specified by its charter. We are interested in learning what factors would influence your organization's preference for locating its charter.

Transitional Issues

Transitional issues will exist for both the Federal Reserve and banking organizations as we move towards the mature interstate branching environment. The Federal Reserve must modify operations and systems to support the new environment. Likewise, banking organizations converting existing banks to branches also will need to make operational changes while they are in transition to a single account relationship with the Federal Reserve.

Special transitional arrangements for those institutions that currently have or elect to establish interstate branches are discussed in Attachment B. These special arrangements involve the operation of multiple accounts, with some limitations, until such time as the accounts can be closed or converted to a single account or subaccount, and are modeled after current merger-related transitional account arrangements. We are interested in learning whether the transitional account arrangements defined in Appendix B meet your needs during mergers or other changes in your organization's structure.

Finally, other more specific issues associated with the mechanisms that will be necessary to support the proposed account relationship are presented in the form of questions in Attachment C. We would like to discuss these questions with you, as well as any other views you may have relating to your operational relationships with the Federal Reserve in an interstate branching environment. We also are interested in your thoughts on alternative accounting structures that might better meet your needs.

OPERATIONAL EXAMPLE OF A SINGLE DEBTOR-CREDITOR RELATIONSHIP BETWEEN AN INTERSTATE BRANCH BANK AND THE FEDERAL RESERVE

This appendix provides an example of how the Federal Reserve's operational relationships with interstate branch banks (ISBB) would function under a single debtor-creditor relationship implemented through a single account. This approach assumes that each ISBB will maintain a single account with one Reserve Bank, in which one balance represents the position of the organization vis-a-vis the Federal Reserve. The focus is on the mature environment, not the transitional period during which interstate banking organizations move to the single debtor-creditor relationship with the Federal Reserve. To illustrate this relationship operationally, working assumptions and a set of hypothetical transactions are defined. The example tracks the transactions through operational channels to their final settlement "destination," represented by a mock Statement of Account and Account Balance Monitoring System (ABMS) record.

A single debtor-creditor relationship administered through a single Federal Reserve account can meet the needs of interstate branch banks for flexible access to financial services provided through the 12 Federal Reserve Banks and for settlement information on the services used. Several operational issues related to this approach are addressed here in the form of assumptions.

Assumptions and Numerical Example

This appendix illustrates how the account structures will work for a hypothetical bank, and how settlement information will be made available to an ISBB with a single Federal Reserve debtor-creditor relationship.

General Assumptions

The assumptions are as follows:

1. Settlement for all transactions associated with the provision of financial services and central bank credit for the ISBB occurs in one Federal Reserve account.

2. The ISBB may choose to reflect transaction information in subaccounts.

3. An ISBB is able to send and receive Fedwire transfers through its account and subaccounts from different points of access. Credit and risk management personnel at the Federal Reserve Bank holding the account and the ISBBs use the ABMS to monitor a consolidated balance in the account.

4. Non-Fedwire financial services, such as cash and check collection, are supported by the local Federal Reserve offices providing the service to the various branch offices of the ISBB. These service transactions may be tracked in subaccounts.

Assumptions Particular to the Example

Several additional assumptions describe the structure of this hypothetical ISBB, its financial services relationships with different Federal Reserve Banks, and the transaction set for the numerical example.

1. XYZ Interstate Bank (XYZ ISBB) has a headquarters (A) and three branches (B,C and D) located in Federal Reserve Districts A, B, C and D, as shown in Exhibit 1.

2. The single debtor-creditor relationship is maintained with Federal Reserve Bank A. Accordingly, Federal Reserve Bank A holds the single account for XYZ ISBB, in which reserves are maintained, all settlements associated with use of Federal Reserve financial services occur, and in which all credit extensions are recorded.

3. XYZ ISBB elects to organize settlement information for transactions related to its Branch C and D operations in subaccounts. XYZ ISBB elects not to organize settlement information for its Branch B operations in a subaccount. As a result, Branch B transactions will appear under the Headquarters A account (ABA number). A Branch identifier could be used to distinguish Branch B transactions from Headquarters A transactions, but this information will not be segregated on accounting statements and reconcilement files.

4. Federal Reserve Districts A and D are located in the Eastern time zone, B in the Central time zone, and C in the Pacific time zone.

5. Fedwire access for XYZ ISBB is provided through its Headquarters A and Branch C.

6. Nine hypothetical transactions are shown in Exhibit 2 that are related to the financial services provided to XYZ ISBB by each of the four Federal Reserve Banks. The transactions are listed in chronological order according to the time they are posted to the Federal Reserve's accounting system. In addition to the intra-day posting time, other information shown for each transaction includes its type, amount, the office of XYZ ISBB associated with the transaction, the servicing Federal Reserve, and how XYZ ISBB has elected to organize the information for settlements to its account.

Settlement Accounting and Information Services

Federal Reserve Bank A is able to use ABMS to track and, if necessary, control at least some transactions settled through XYZ ISBB's account during the day. Likewise, XYZ ISBB can use ABMS to manage its funds position and use of Federal Reserve intraday credit. Exhibit 3 shows snapshots of XYZ ISBB's real-time cash balance on the ABMS at each interval during the day at which the balance changes. Column 1 shows the interval times, which are determined by the sources of the update information (real-time for Fedwire; flows from the accounting system for non-Fedwire services). Fedwire transactions are differentiated as to whether they are funds or securities transfers. Column 4 of Exhibit 3 reflects XYZ ISBB's net position vis-a-vis the Federal Reserve across its entire national operations and across all Federal Reserve financial services used, throughout the day.

Exhibits 4 and 5 illustrate how the Statement of Account might present settlement information for XYZ ISBB for the transactions shown in Exhibit 2. Exhibit 4 is the summary section of the Statement of Account for XYZ ISBB, while Exhibit 5 is a subaccount section of the Statement of Account detailing activity in one of the two subaccounts. The treatment of the nine transactions for purposes of the Statement of Account and ABMS is explained below.

1. Branch C of XYZ ISBB originated a file of ACH credit transactions totaling 1,700. This settlement total is reflected on XYZ ISBB's Federal Reserve Statement of Account under the subaccount section for Branch C (see Exhibit 5). The transaction updates to ABMS at 8:30 a.m. and results in a running balance of (1,650), taking into account the opening balance of 50 (see Exhibit 3).

2. Branch D deposits a cash letter totaling 150 with Federal Reserve Bank D. This settlement total is reflected on the Statement of Account under the subaccount section of XYZ ISBB's Branch D. The ABMS running balance changes to (1,500).

3. Branch D makes a currency deposit totaling 500 at Federal Reserve Bank D. Settlement for the 500 currency deposit is reflected on the Statement of Account under the subaccount section of Branch D and on the ABMS at 10:15 a.m.

4. The headquarters office originates a book-entry securities transfer totaling 1,375. The settlement credit of 1,375 at 10:49 a.m. is reflected in the summary section of the Statement of Account (see Exhibit 4). The ABMS running balance is updated immediately and becomes 375.

5. A funds transfer totaling 50 is made at 11:04 a.m. and received under the routing-transit number assigned to the subaccount of Branch C. Settlement for the 50 is presented on the Statement of Account under the subaccount section of Branch C and changes the ABMS running balance to 425.

6. Branch B places a currency order totaling 200 that updates ABMS at 12:45 p.m. Since Branch B (at the election of XYZ ISBB) does not have an associated subaccount, the settlement total of 200 is reflected under the Headquarters A account in the Statement of Account summary section (see Exhibit 4). The ABMS running balance is reduced to 225.

7. The headquarters office originates a funds transfer of 75 at 1:11 p.m. The debit is reflected in the Statement of Account summary section (see Exhibit 4). The ABMS running balance is reduced to 150.

8. Branch C places a currency order totaling 600 that is not shipped or updated in ABMS until 8:45 p.m. Eastern Time. This late debit results in an overdrawn position for XYZ ISBB near the end of the banking day. The settlement debit is reflected in the Statement of Account subaccount section illustrated in Exhibit 5.

9. Fedwire is closed and XYZ ISBB is not able to buy funds in the interbank market to cover its overdraft. Federal Reserve Bank A makes a discount window loan to XYZ ISBB of 575 at 9:20 p.m. Eastern Time on a Wednesday settlement day to cover the unanticipated late currency shipment.

Exhibit 1
XYZ Interstate Bank (ISBB)

Organization of Federal Reserve Account and Financial Services Relationships

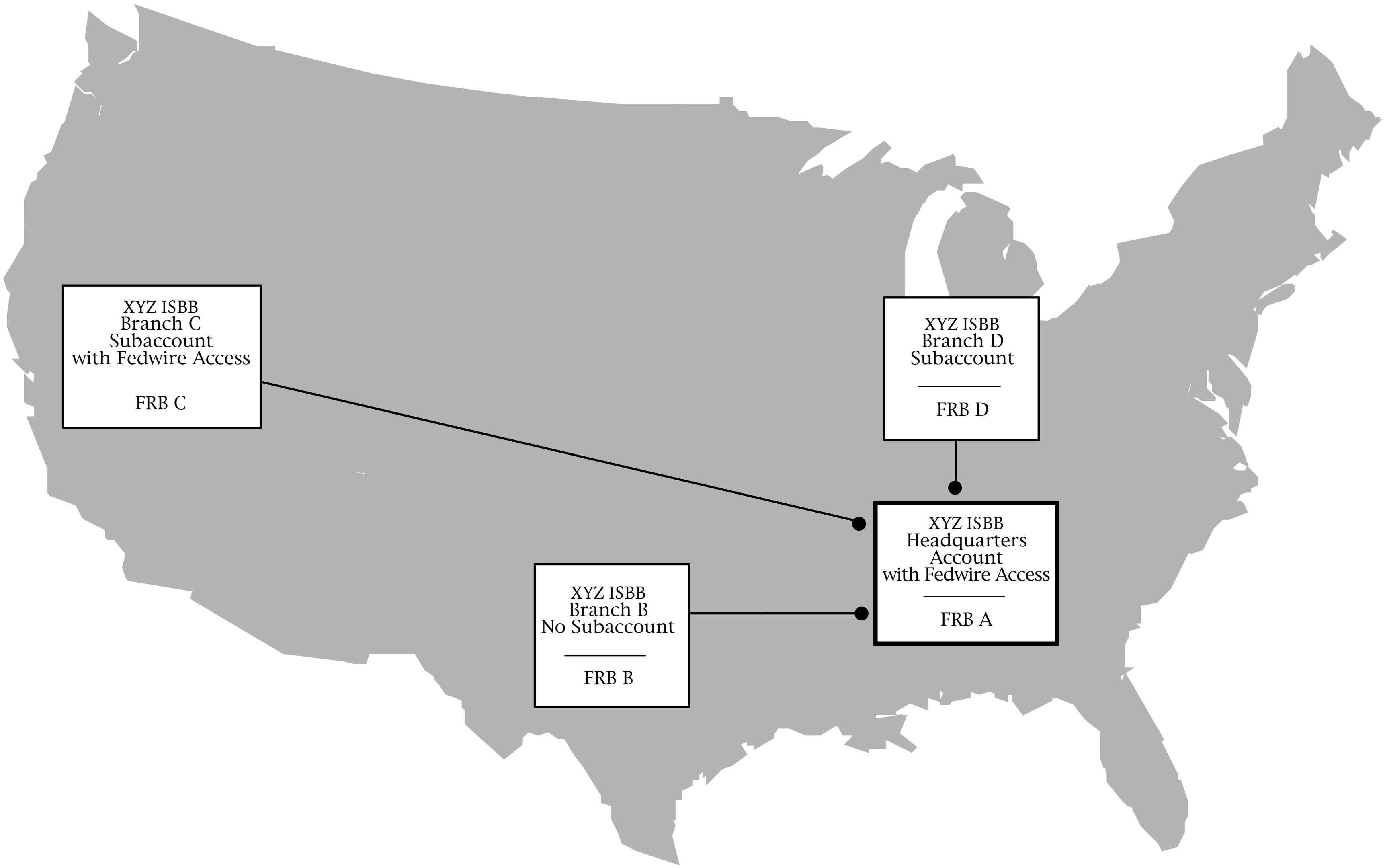

Exhibit 2
XYZ Interstate Bank
Description of Transactions
For 8/30/95

(1) Transaction No.	(2) Transaction Type	(3) Transaction Amount	(4) XYZ ISB Office	(5) Servicing FRB	(6) Statement Information Set	(7) Time [1]
1	ACH Credit Origination (DB)	(1,700)	Branch C	C	Subaccount	0820
2	Cash Letter Deposit (CR)	150	Branch D	D	Subaccount	0854
3	Currency Deposit (CR)	500	Branch D	D	Subaccount	1009
4	Securities Origination (CR)	1,375	Headquarters	A	Account	1049
5	Funds Transfer Receipt (CR)	50	Branch C	C	Subaccount	1104
6	Currency Shipment (DB)	(200)	Branch B	B	Account	1240
7	Funds Transfer Origination (DB)	(75)	Headquarters	A	Account	1311
8	Currency Shipment (DB)	(600)	Branch C	C	Subaccount	2030
9	Discount Loan (CR)	575	Headquarters	A	Account	2120

[1] All posting and update times are stated in Eastern Time.

Exhibit 3
Snapshot of XYZ ISBB Account
Real-time Cash Balance as Depicted on the
Account Balance Monitoring System [1]
For 8/30/95

(1) Update Interval E.T.	(2) Transaction Type	(3) Transaction Amount	(4) Account Balance
0830	Opening Balance (CR)	__	50
0830	ACH Credit Origination (DB)	(1,700)	(1,650)
0900	Cash Letter Deposit (CR)	150	(1,500)
1015	Currency Deposit (CR)	500	(1,000)
1049	Securities Origination (CR)	1,375	375
1104	Funds Transfer Receipt (CR)	50	425
1245	Currency Shipment (DB)	(200)	225
1311	Funds Transfer Origination (DB)	(75)	150
2045	Currency Shipment (DB)	(600)	(450)
2130	Discount Window Loan (CR)	575	125

[1]This depiction of information is for the purpose of example only and does not reflect the exact format which would be displayed on an ABMS monitoring screen. The ABMS would make a determination at the time of an inquiry as to whether the non-Fedwire activity (Checks, ACH, Cash, etc.) was available or unavailable for the purposes of measuring daylight overdrafts.

Exhibit 4
Statement of Account
Summary Section

FEDERAL RESERVE BANK A 08/30/95

XYZ INTERSTATE BANK 0X30-9999-8 Page 1
P. O. BOX 12020
CITY, STATE ZIP BIN 2330

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* SUMMARY STATEMENT OF ACTIVITY *
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	DEBIT	CREDIT
OPENING BALANCE AS OF 08/30		50
10 FUNDS	75 **[7]**	
20 SECURITIES		1,375 **[4]**
63 CURRENCY/COIN	200 **[6]**	
82 LOAN		575 **[9]**
OWN ACTIVITY RECAP	275	1,950
SUBACCOUNT ACTIVITY		
0X20-9999-8 (BRANCH D)		650 **[2,3]**
1X10-9999-8 (BRANCH C)	2,300 **[1,8]**	50 **[5]**
SUB-TOTAL	2,300	700
TOTAL	2,575	2,650

OPENING BALANCE	50
TOTAL DEBITS	2,575
TOTAL CREDITS	2,650
CLOSING BALANCE	125

(Note: Transaction numbers are noted in bold superscript; see description on page A-11)

Exhibit 5
Statement of Account
Subaccount Detail Section

FEDERAL RESERVE BANK A 08/30/95

XYZ INTERSTATE BANK 0X30-9999-8 Page X

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* STATEMENT OF SUBACCOUNT ACTIVITY *

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TRAN	DESCRIPTION	DEBIT	CREDIT
FOR THE SUBACCOUNT OF 1X10-9999-8		XZY INTERSTATE BANK WEST COAST (BRANCH C)	
1001X	TRANSFER OF FUNDS		50 [5]
	SUB-TOTAL		50
5703X	ACH CR TRAN ORIG	1,700 [1]	
SUB-TOTAL		1,700	
6304X	CURRENCY TRANSACTION	600 [8]	
SUB-TOTAL		600	
TOTAL FOR 1X10-9999-8		2,300	50

(Note: Transaction numbers are noted in bold superscript; see description on page A-11)

TRANSITIONAL ACCOUNT ARRANGEMENTS

The banking industry has been undergoing significant structural change for many years. While the Federal Reserve historically has operated under a single account structure, transitional multiple account arrangements have been provided during periods of acquisitions and mergers. These temporary multiple account arrangements are intended to provide the merging institutions with sufficient time to combine dissimilar back-end operating systems and/or to eliminate duplicate customer account numbers. Effectively, the "surviving" institution continues to operate the "non-surviving" (i.e., merged or acquired) institution's account for settlement of financial transactions (e.g., Fedwire) as if it were still a separate legal entity. These temporary multiple accounts are generally made available for a period of six months or less[1], although longer time periods have been allowed on a special exception basis, as warranted. It is proposed that these current transitional arrangements be continued.

Under transitional account arrangements, Federal Reserve risk management currently treats the survivor and non-survivor accounts separately for real-time account monitoring, combined for ex post monitoring, and separately for overnight overdraft management. This approach generally simulates treatment of these accounts as separate entities during the transition period.

When operating with transitional multiple accounts, two options are provided to assist depository institutions in meeting their Regulation D reserves and reporting requirements. Under Option 1, separate Reports of Deposits (FR 2900) are filed for the survivor and non-survivor, and reserve requirements must be managed separately in each account. The exemption and low reserve tranche are shared by the survivor and non-survivor. Under Option 2, the merged institution can file a single consolidated Report of Deposits (FR 2900), but only the balances in the surviving entity's account can be used to satisfy the reserve requirement. (Special purpose transitional account balances would not count towards the reserve requirement and, in effect, would function as clearing accounts). The attached Table summarizes the characteristics of the current transitional account options.

1 For example, if Bank A is converting Banks B and C to branches, Bank A would be allowed a special purpose account for the six month period following the conversion of Bank B to branch status; it would be allowed another special purpose account for a six month period following Bank C's conversion to branch status.

TABLE 1
TRANSITIONAL ACCOUNT OPTIONS

	OPTION 1: Multiple Reserve Accounts	**OPTION 2: Multiple Clearing Accounts**
FR 2900 Reporting	FR 2900 reports will be filed separately for the surviving entity (SE) and for the non-surviving entity (NSE).	One consolidated FR 2900 report will be filed for the combined deposits of the SE and NSE.
Reserves Administration	Separate reserve requirements will be calculated for the SE and NSE accounts based on the respective FR 2900 reports. The Reserve balances maintained in each account will be measured against the separate reserve requirements calculated for each account. One exemption and lower reserve tranche amount will be allocated among the SE and NSE accounts.	Only the SE account balances may be used to satisfy the reserve requirement for the banking entity as a whole. The NSE account is a clearing account; it will not count towards the reserve requirement.
Overnight Overdraft Monitoring	The SE and NSE accounts will be monitored separately.	Same
Ex-post Intra-day Overdrafts (DORPS)	The SE and NSE accounts will be monitored on a consolidated basis.	Same
Real-time Intra-day Overdrafts (ABMS)	SE and NSE accounts will be monitored separately.	Same
Service Access	Full service access will be allowed for all accounts with a “zero” net debit cap.	Same
Transition Period	Six months following the conversion of a separately chartered banking entity to a branch office.	Same

INTERSTATE BRANCHING INTERVIEW QUESTIONS

Several variations of a single account model are being considered to support the future interstate branching environment. A depository institution (DI) could select a single account only, where all credit and debit transactions would be posted to one account at one Reserve Bank, regardless of the location of the transaction. Alternatively, an institution could select a single account, supported by subaccounts. Subaccounts could be limited to local (check and cash) work. The rationale for this limitation is that institutions already can obtain information on national service transactions (e.g., Fedwire) by electronic access connection. Alternatively, the subaccounts could support all financial services. Subaccounts would reflect a subset of transactions information in the account. The subaccount(s) would be attached to the account in a structure analogous to current respondent/correspondent account arrangements. The subaccount would serve as a means to segregate transactions (information), and only the settlement in the account itself would reflect the debtor-creditor relationship between the Federal Reserve and the institution. Use of these subaccounts can be flexibly structured by the DI to meet its organizational needs.

Regardless of the account structure, all debits and credits resulting from the use of Federal Reserve financial services would be settled through one account at one Reserve Bank for each separately chartered institution. All overnight and daylight credit would be disbursed and repaid through this account and the Reserve Bank holding the account would manage the credit risk posed by the use of Federal Reserve services. Reserve balances also would be managed through this account.

We are interested in obtaining your views on this proposed account structure. The following are a series of questions concerning the account proposal:

Questions

1. As background, please provide us with an overview of your organizational structure in the new interstate branch banking environment. For example, do you plan to operate an extensive branch network or do you plan to continue to operate with multiple affiliate banks? How are you planning to organize your business activities (such as funds management)? In what time frames do you anticipate any changes? Do you have any other planned organizational changes that will affect your relationship with the Federal Reserve?

2. *The single account approach will provide you with a single view of all of your Federal Reserve financial transactions.*

   Will the single account model, supported by subaccounts as desired, meet your needs for credit management, risk management, account management, and cash/ financial management in an interstate branching environment? If not, please explain.

3. *Currently, the Federal Reserve Banks sequence their end-of-day Discount Window operations (including collateral administration) to follow the closing time of the Fedwire funds transfer system. As illustrated in the example in Appendix A, we have contemplated later in the day Discount Window operations to meet adjustment credit needs arising from non-wire financial transactions in an interstate branch banking environment.*

Please let us have your views on these related issues:

a) What banking day operations might lead to Discount Window adjustment credit through a single Reserve Bank in light of interstate branch banking, possibly crossing several time zones? For example, would settlement of non-wire transactions (e.g. check, cash) on occasion affect your Federal Reserve balance and lead to adjustment credit requests?

b) How would you plan to hold your non-book entry collateral pledged to the Discount Window and for TT&L purposes in light of interstate branch banking? Would you contemplate centralized or decentralized maintenance of such collateral? Would you intend to make greater use of the borrower-in-custody method of holding collateral?

c) What other issues related to use of Federal Reserve credit do you foresee?

4. *In a multiple account model, opening balances and closing balances would be determined <u>in each account</u>. In a single account model supported by subaccounts, the opening balance and closing balance are determined <u>in the single account only</u>; the subaccounts would not have an opening balance or closing balance. However, information on activity in the subaccount would be provided. Transactions posted to the subaccount(s) will settle in the single account.*

   Does the absence of an opening or closing balance in the subaccount(s) pose any concerns for you?

5. *Today, you may access your account for Fedwire funds and book-entry securities from any location and outgoing wire transfer information is provided to the originating access point (i.e., the logical terminal designation of the Fedline terminal or computer interface connection). Incoming wires are settled in the account itself (i.e., provided to one logical terminal destination only).*

   How do you currently handle the routing of incoming work to customer accounts in your branch offices? In the future environment, will you have additional information needs regarding incoming and outgoing wire transfers?

6. *As your organization converts banks to branches, multiple accounts will be provided on a temporary basis to facilitate the processing of incoming wire transfers addressed to the nonsurviving entity's ABA routing transit number. However, in the long term, we are proposing the single account model, with the use of optional subaccounts, as necessary.*

   Assuming that your organization would benefit from the use of subaccounts to support your single Federal Reserve account, what types of financial service activity would you want reflected in the subaccount? Do you need to use subaccounts to support Fedwire activity? How many subaccounts would you need? Would you need more than one subaccount per Federal Reserve District/Office?

7. *We envision that subaccounts will be identified by a 9-digit ABA number.*

   Does this pose any concerns for you?

8. Will the transitional account arrangements described in Appendix B meet your needs?

9. *It is envisioned that correspondent/respondent arrangements would be associated with the account, rather than the subaccounts. Also, it is assumed that the Federal Reserve will continue to limit correspondent/respondent relationships to three tiers. Other aspects of correspondent/respondent relationships also would remain unchanged under this model.*

   Are these assumptions reasonable? If not, please explain.

   If you act as a correspondent for transactions settling at the Federal Reserve, will interstate branching effect these relationships?

10. *The Federal Reserve Banks currently provide daily information to meet your account management and reconcilement needs.*

    How will interstate branching change your needs in these areas? Do you have additional information requirements?

11. Do you envision your use of advices and acknowledgements to change in the interstate branching environment? Do you have additional needs in this area? If so, please describe.

12. *The single account model may require additional information and ways of presenting information regarding account activity to ensure that it meets the needs of various groups/functions within your bank.*

    What types of statements, reports, and online inquiry capabilities will you require to meet your information needs under the single account structure?

13. Do you have any other information needs on Federal Reserve financial transactions and account activity that have not already been addressed?

14. *Generally, the depository institution's charter location determines the Reserve Bank that will administer its account.*

    What factors will govern your organization's preference for locating its charter? Will your charter location reflect your principal place of business? Do you have any account location issues?

15. Do you have any other questions, comments or issues relative to the interstate branching environment? Do you have other account structure suggestions that would better meet your needs?