

FEDERAL RESERVE SYSTEM

12 CFR Part 204

[Regulation D; Docket No. R-1088]

Reserve Requirements of Depository Institutions

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Final rule.

SUMMARY: The Board is amending Regulation D, Reserve Requirements of Depository Institutions, to reflect the annual indexing of the low reserve tranche and the reserve requirement exemption for 2001, and announces the annual indexing of the deposit reporting cutoff level that will be effective beginning in September 2001. The amendments decrease the amount of net transaction accounts subject to a reserve requirement ratio of three percent in 2001, as required by section 19(b)(2)(C) of the Federal Reserve Act, from \$44.3 million to \$42.8 million of transaction accounts. This adjustment is known as the low reserve tranche adjustment. The Board is increasing from \$5.0 million to \$5.5 million the amount of reservable liabilities of each depository institution that is subject to a reserve requirement of zero percent in 2001. This action is required by section 19(b)(11)(B) of the Federal Reserve Act, and the adjustment is known as the reservable liabilities exemption adjustment. The Board is also increasing the deposit cutoff level that is used in conjunction with the reservable liabilities exemption to determine the frequency of deposit reporting from \$95.0 million to \$101.0 million for nonexempt depository institutions. (Nonexempt institutions are those with total reservable liabilities exceeding the amount exempted from reserve requirements.) Thus, beginning in September 2001, nonexempt institutions with total deposits of \$101.0 million or more will be required to report weekly while nonexempt institutions with total deposits less than \$101.0 million may report quarterly, in both cases on form FR 2900. In July 2000, the Board eliminated the exempt deposit cutoff and discontinued the quarterly report associated with that cutoff (form FR 2910q). Exempt institutions with at least \$5.5 million in total deposits may report annually on form FR 2910a.

DATES: Effective date: [Insert date 30 days after publication in Federal Register].

Compliance dates: For depository institutions that report weekly, the low reserve tranche adjustment and the reservable liabilities exemption adjustment will apply to

the reserve computation period that begins Tuesday, November 28, 2000, and the corresponding reserve maintenance period that begins Thursday, December 28, 2000. For institutions that report quarterly, the low reserve tranche adjustment and the reservable liabilities exemption adjustment will apply to the reserve computation period that begins Tuesday, December 19, 2000, and the corresponding reserve maintenance period that begins Thursday, January 18, 2001. For all depository institutions, the deposit cutoff levels will be used to screen institutions in the second quarter of 2001 to determine the reporting frequency for the twelve month period that begins in September 2001.

FOR FURTHER INFORMATION CONTACT: Heatherun Allison, Counsel (202/452-3565), Legal Division, or June O'Brien, Economist (202/452-3790), Division of Monetary Affairs; for the hearing impaired only, contact Janice Simms, Telecommunications Device for the Deaf (TDD)(202/872-4984); Board of Governors of the Federal Reserve System, 20th and C Streets, N.W., Washington, DC 20551.

SUPPLEMENTARY INFORMATION: Section 19(b)(2) of the Federal Reserve Act (12 U.S.C. 461(b)(2)) requires each depository institution to maintain reserves against its reservable liabilities,^{1/} as prescribed by Board regulations. The required reserve ratio applicable to transaction account balances exceeding the low reserve tranche is 10 percent. Section 19(b)(2) also provides that, before December 31 of each year, the Board shall issue a regulation adjusting the low reserve tranche for the next calendar year. The percentage change in the tranche is required by law to equal 80 percent of the percentage change (increase or decrease) in net transaction accounts at all depository institutions over the one-year period ending on the most recent June 30.

Net transaction accounts of all depository institutions decreased by 4.2 percent (from \$645.7 billion to \$618.4 billion) from June 30, 1999, to June 30, 2000. In accordance with section 19(b)(2), the Board is amending Regulation D (12 CFR

^{1/} Reservable liabilities include transaction accounts, nonpersonal time deposits, and Eurocurrency liabilities as defined in section 19(b)(5) of the Federal Reserve Act. The reserve ratio on nonpersonal time deposits and Eurocurrency liabilities is zero percent.

part 204) to decrease the low reserve tranche for transaction accounts for 2001 by \$1.5 million, that is, from \$44.3 million to \$42.8 million.

Section 19(b)(11)(A) of the Federal Reserve Act (12 U.S.C. 461 (b)(11)(B)) provides that \$2 million of reservable liabilities of each depository institution shall be subject to a zero percent reserve requirement. Each depository institution may, in accordance with the rules and regulations of the Board, designate the reservable liabilities to which this reserve requirement exemption is to apply. However, if net transaction accounts are designated, only those that would otherwise be subject to a three percent reserve requirement (i.e., net transaction accounts within the low reserve requirement tranche) may be so designated.

Section 19(b)(11)(B) of the Federal Reserve Act provides that, before December 31 of each year, the Board shall issue a regulation adjusting for the next calendar year the dollar amount of reservable liabilities exempt from reserve requirements. The exemption amount changes only if the total reservable liabilities held at all depository institutions increase from one year to the next. In that case, the exemption amount increases by 80 percent of the increase in total reservable liabilities of all depository institutions as of the year ending June 30. Total reservable liabilities of all depository institutions increased by 12.3 percent (from \$1,961.1 billion to \$2,202.9 billion) from June 30, 1999, to June 30, 2000. Consequently, the reservable liabilities exemption amount for 2001 under section 19(b)(11)(B) will be increased by \$0.5 million from \$5.0 million to \$5.5 million.^{2/}

For institutions that report weekly, the tranche adjustment and the reservable liabilities exemption adjustment will be effective for the reserve computation period beginning Tuesday, November 28, 2000, and for the corresponding reserve maintenance period beginning Thursday, December 28, 2000. For institutions that report quarterly, the tranche adjustment and the reservable liabilities exemption adjustment will be effective for the computation period beginning Tuesday, December 19, 2000, and for the corresponding reserve maintenance period beginning Thursday, January 18, 2001. In addition, all institutions currently submitting form FR 2900 must continue to submit reports to the Federal Reserve under current reporting procedures.

^{2/} Consistent with Board practice, the tranche and exemption amounts have been rounded to the nearest \$0.1 million.

In order to reduce the reporting burden for small institutions, the Board has established deposit reporting cutoff levels to determine deposit reporting frequency. Institutions are screened during the second quarter of each year to determine reporting frequency beginning the following September. The cutoff level for nonexempt institutions determines whether they report (on form FR 2900) quarterly or weekly, and the deposit cutoff level for exempt institutions determines whether they report annually (on form FR 2910a) or quarterly (on form FR 2910q). During the July 2000 review of deposit reports, however, the Board eliminated the exempt deposit cutoff and discontinued the quarterly report associated with that cutoff, the form FR 2910q. In addition, the Board raised the nonexempt deposit cutoff to \$95.0 million from the 2000 indexed level of \$84.5 million, effective for the 2000 deposit report screening process.

From June 30, 1999, to June 30, 2000, total deposits increased 7.9 percent, from \$4,836.8 billion to \$5,219.8 billion. Accordingly, the nonexempt deposit cutoff level will increase by \$6.0 million from \$95.0 million in 2000 to \$101.0 million in 2001. Based on the indexation of the reservable liabilities exemption, the cutoff level for total deposits above which reports of deposits must be filed will rise from \$5.0 million to \$5.5 million.

Under the deposit reporting system, institutions are screened during each year to determine their reporting category beginning in the September of that year. Thus, effective in September 2001, all U.S. branches and agencies of foreign banks and Edge and agreement corporations, regardless of size, and other institutions with total reservable liabilities exceeding \$5.5 million (nonexempt institutions) and with total deposits at or above \$101.0 million would be required to file weekly the Report of Transaction Accounts, Other Deposits and Vault Cash (form FR 2900). Nonexempt institutions with total deposits below \$101.0 million could file the form FR 2900 quarterly. Institutions that obtain funds from non-U.S. sources or that have foreign branches or IBFs would continue to be required to file the Report of Certain Eurocurrency Transactions (forms FR 2950/FR 2951) at the same frequency as they file the form FR 2900. Institutions with reservable liabilities at or below the exemption amount of \$5.5 million (exempt institutions and with at least \$5.5 million in total deposits would be required to file the Annual Report of Total Deposits and Reservable Liabilities (form FR 2910a). Institutions with total deposits below the exemption level of \$5.5 million would be excused from reporting if their deposits can be estimated from other data sources.

Finally, the Board may require a depository institution to report on a weekly basis, regardless of the cutoff level, if the institution manipulates its total deposits and other reservable liabilities in order to qualify for quarterly reporting. Similarly, any depository institution that reports quarterly may be required to report weekly and to maintain appropriate reserve balances with its Reserve Bank if, during its computation period, it understates its usual reservable liabilities or overstates the deductions allowed in computing required reserve balances.

Notice and public participation. The provisions of 5 U.S.C. 553(b) relating to notice and public participation have not been followed in connection with the adoption of these amendments because the amendments involve expected, ministerial adjustments prescribed by statute and by an interpretative statement reaffirming the Board's policy concerning reporting practices. In addition, the reservable liabilities exemption adjustment and the increases for reporting purposes in the deposit cutoff levels reduce regulatory burdens on depository institutions, and the low reserve tranche adjustment will have a de minimis effect on depository institutions with net transaction accounts exceeding \$42.8 million. Accordingly, the Board finds good cause for determining, and so determines, that notice and public participation is unnecessary, impracticable, or contrary to the public interest.

Regulatory Flexibility Analysis

The Board certifies that these amendments will not have a substantial economic impact on small depository institutions. See “Notice and Public Participation” above.

List of Subjects in 12 CFR Part 204

Banks, banking, Reporting and recordkeeping requirements

For the reasons set forth in the preamble, the Board is amending 12 CFR part 204 as follows:

PART 204 -- RESERVE REQUIREMENTS OF DEPOSITORY INSTITUTIONS (REGULATION D)

1. The authority citation for part 204 continues to read as follows:
Authority: 12 U.S.C. 248(a), 248(c), 371a, 461, 601, 611, and 3105.

2. Section 204.9 is revised to read as follows:

§ 204.9 Reserve requirement ratios.

(a) Reserve percentages. The following reserve ratios are prescribed for all depository institutions, Edge and Agreement corporations, and United States branches and agencies of foreign banks:

Category	Reserve requirement ^{1/}
Net transaction accounts:	
\$0 to \$42.8 million	3 percent of amount.
over \$42.8 million	\$1,284,000 plus 10 percent of amount over \$42.8 million.
Nonpersonal time deposits	0 percent.
Eurocurrency liabilities	0 percent.

^{1/} Before deducting the adjustment to be made by the paragraph (b) of this section.

(b) Exemption from reserve requirements. Each depository institution, Edge or agreement corporation, and U.S. branch or agency of a foreign bank is subject to a zero percent reserve requirement on an amount of its transaction accounts subject to the low reserve tranche in paragraph (a) of this section not in excess of \$5.5 million determined in accordance with § 204.3(a)(3).

By order of the Board of Governors of the Federal Reserve System,
November 16, 2000.

(Signed) Jennifer J. Johnson

Jennifer J. Johnson,
Secretary of the Board.