

Introduction

Under the Depository Institutions Deregulation and Monetary Control Act of 1980, every depository institution that has transaction accounts or nonpersonal time deposits must maintain reserves on those deposits as prescribed by the Federal Reserve Board (FRB). The FRB's Regulation D, Reserve Requirements of Depository Institutions (12 CFR § 204), contains the rules related to reporting deposits and maintaining reserve balances. Depository institutions, whether members of the Federal Reserve System or not, are required to file a periodic report of deposits with the Federal Reserve Bank in the Federal Reserve District in which it is located.

The reports of deposits (i.e., FR 2900 for weekly reporters, FR 2910q for quarterly reporters, and FR 2910a for annual reporters) are used by the Federal Reserve to more precisely define the components of the money supply, set reserve requirements, and, in aggregate, help formulate monetary policy. Errors in reporting or in maintaining proper reserve balances may adversely affect the conduct of monetary policy by the Federal Reserve and result in: (1) higher reserve requirements and a reduction in potential earnings, (2) the assessment of reserve deficiency charges, and (3) a more frequent reporting requirement.

Regulation D is a highly complex regulation that requires careful study to master. It is suggested that the regulation itself be read by all regulators.

This Handbook Section only touches on the highlights of the regulation and focuses on those areas that are frequently misunderstood.

Transaction Accounts

Transaction accounts are defined with great specificity in 12 CFR § 204.2(e). Such accounts include:

- demand deposits,
- certain accounts on which the depository institution has reserved the right to require at least seven days written notice prior to withdrawal or

transfer of any funds. These accounts include those subject to check, draft, or other similar item, those subject to automatic withdrawal, also those that permit a depositor to make more than six withdrawals per month or statement cycle,

- deposits or accounts maintained in connection with an agreement that permits the depositor to obtain credit directly or indirectly through the drawing of a negotiable or nonnegotiable check or similar device, and
- certain other accounts that the FRB has determined by rule or order, to be transaction accounts.

Savings deposits as defined in 12 CFR § 204.2(d) are not transaction accounts.

Nonpersonal time deposits are defined in 12 CFR § 204.2(f). Reserves are no longer required to be held against these deposits.

Eurocurrency liabilities are defined in 12 CFR § 204.2(h). Reserves are no longer required to be held against these liabilities.

Reserve Requirements

Regulation D (12 CFR § 204.9(a)(1)) specifies the reserve requirement ratios for all depository institutions as shown in Table 1.

There is a zero percent reserve requirement on the first \$4.4 million of the institution's transaction accounts subject to the low reserve tranche (\$49.3 million). A three percent reserve requirement is applied on the remainder of the low reserve tranche.

The FRB establishes before the beginning of each year the amount of transaction accounts subject to the three percent ratio requirement. This adjustment is known as the low reserve tranche adjustment. The FRB also establishes on an annual basis the amount of reservable liabilities of each depository institution that is subject to a reserve requirement of zero percent. This is known as the reservable liability exemption. Reservable liabilities include transaction accounts, nonpersonal time deposits, and Eurocurrency liabilities as defined in § 19(b)(5) of the Federal Reserve Act. The reserve ratio on nonpersonal time deposits and Eurocurrency liabilities is zero percent.

Deposit cutoff levels are used in conjunction with the reservable liability exemption to determine the frequency of deposit reporting. Nonexempt institutions are those with total reservable liabilities exceeding the amount exempted from reserve requirements while exempt institutions are those with total reservable liabilities not exceeding the amount exempted from reserve requirements.

Table 1

<u>Category</u>	<u>Reserve Requirement</u>
<i>Net Transaction Accounts</i>	
\$0 - \$4.4 M	0% of amount*
\$4.4 - \$49.3 M	3% of amount
>\$49.3 M	\$1,479,000 + 10% of amount > \$49.3 M
<i>Nonpersonal Time Deposits</i>	0%
<i>Eurocurrency Liabilities</i>	0%

* See 12 CFR 204.3(a)(3) for a technical explanation of the allocation of exemption from reserve requirements.

Specific Rules for Certain Types of Savings Deposit Accounts

Preauthorized or automatic transfers for savings deposits such as passbook and statement savings accounts and money market deposit accounts (MMDAs) are limited to six transfers and with-

drawals, or a combination of such, per calendar month or statement cycle of at least four weeks. Three of these transfers may be made by check, draft, or similar order drawn by the depositor to third parties. Telephone transfers to another account of the same depositor are also restricted to the six-transactions limitation.

MMDAs and other savings deposits should be reported separately where called for according to reporting instructions for the specific reports.

Institutions are required to implement procedures either to prevent transfers in excess of the limitations or to monitor accounts on a periodic basis and contact customers who exceed these limits. Further, proper disclosure to customers of these limitations may serve to ensure compliance.

If the account limitations are exceeded, the account will be either closed and the funds placed in another account that the depositor is eligible to maintain, or the transfer and draft capacities of the account will be taken away.

Frequency of Reporting

The frequency of filing the report of deposits with the Federal Reserve ranges from weekly to annually and is based on the level of total deposits and reservable liabilities. Institutions are screened during the second quarter of each year to determine reporting frequency beginning the following September.

Effective December 17, 1996, nonexempt institutions with total deposits of \$59.3 million or more are required to report weekly while nonexempt institutions with total deposits less than \$59.3 million may report quarterly, in both cases on FR 2900. Similarly, exempt institutions with total deposits of \$48.2 million or more are required to report quarterly on form FR 2910q while exempt institutions with total deposits less than \$48.2 million may report annually on form FR 2910a. Institutions with total deposits below \$4.4 million are excused from reporting if their deposits can be estimated from other sources.

Where Reserve Balances are Maintained

Each depository institution can satisfy its reserve requirements with a combination of vault cash and balances held at a Federal Reserve Bank. Depository institutions may deposit their required reserve balances directly with a Federal Reserve Bank. Depository institutions that are not members of the Federal Reserve alternatively may elect to pass through their required reserve balances to the Federal Reserve through a correspondent -- which may be the District Federal Home Loan Bank. The correspondent will pass through this required reserve balance dollar for dollar to the Federal Reserve Bank in the Federal Reserve District in which the main office of the respondent institution is located. However, every depository institution that maintains transaction accounts or nonpersonal time deposits is required to file its report of deposits directly with the Federal Reserve Bank of its District, regardless of the manner in which it chooses to maintain required reserve balances.

The Federal Reserve Bank that receives the reports shall notify the reporting depository institution of its reserve requirements. If a pass-through arrangement exists, the Reserve Bank will also notify the correspondent that passes reserve balances through to the Federal Reserve of the depository institution's required reserve balance.

Reserve Deficiency Charges

Deficiencies in a depository institution's required reserve balance are subject to reserve deficiency charges. Federal Reserve Banks are authorized to assess charges for deficiencies in required reserves at a rate of two percent per year above the lowest rate in effect for borrowings from the Federal Reserve Bank on the first day of the calendar month in which the deficiencies occurred. Charges are assessed on the basis of daily average deficiencies during each maintenance period.

In satisfaction of a reserve deficiency and any charges accruing, a Federal Reserve Bank may, after consideration of the circumstances, permit a

depository institution to eliminate deficiencies in its required reserve balance by maintaining additional reserves during subsequent reserve maintenance periods.

References**United States Code (12 USC)***Subchapter XIV - Bank Reserves*

§ 461 (19(a) - (c)) Reserve Requirements

Code of Federal Regulations (12 CFR)*Federal Reserve System Rules and Regulations*

Part § 204 Reserve Requirements of Depository Institutions

FRB Amendments/Interpretations of Regulation D

61 FR 60171, November 27, 1996 - Reserve Requirements of Depository Institutions

61 FR 69020, December 1, 1996 - Reserve Requirements of Depository Institutions

62 FR 34613, June 27, 1997 - Reserve Requirements of Depository Institutions and Issue and Cancellation of Capital Stock of Federal Reserve Banks

Chapter V - Office of Thrift Supervision, Department of the Treasury

Part 557	Deposits
§561.9	Certificate Account
§561.16	Demand Account
§561.28	Money Market Deposit Accounts
§561.29	Negotiable Order of Withdrawal Accounts
§561.42	Savings Account