

FEDERAL RESERVE SYSTEM
12 CFR Part 204
[Regulation D; Docket No. R-0980]
Reserve Requirements of Depository Institutions

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Final rule.

SUMMARY: The Board is amending its Regulation D, Reserve Requirements of Depository Institutions, to allow U.S. branches and agencies of foreign banks and Edge and Agreement corporations to choose whether to aggregate reserve balances on a nationwide basis with a single pass-through correspondent or to continue to maintain reserve balances on a same-state/same-District basis as they do today. The amendments will also update and clarify the pass-through rules in Regulation D for all institutions. These amendments will facilitate interstate banking and branching and eliminate certain restrictions applicable to pass-through arrangements.

EFFECTIVE DATE: January 1, 1998.

FOR FURTHER INFORMATION CONTACT: Oliver Ireland, Associate General Counsel, (202/452-3625) or Stephanie Martin, Senior Attorney (202/452-3198), Legal Division. For the hearing impaired only, contact Diane Jenkins, Telecommunications Device for the Deaf (TDD) (202/452-3544), Board of Governors of the Federal Reserve System, 20th and C Streets, N.W., Washington, D.C. 20551.

SUPPLEMENTARY INFORMATION: To facilitate interstate banking and branching, the Federal Reserve Banks will begin to implement a new account structure in January 1998 that will provide a single Federal Reserve account for each domestic depository institution. This structure will enable the Federal Reserve Banks to establish a single debtor-creditor relationship with each chartered entity, thereby providing an effective means for Reserve Banks to carry out their risk management responsibilities, and will improve the efficiency of account management for depository institutions.^{1/} In August 1997, the Board proposed amendments to its Regulation D (12 CFR Part 204) that would allow U.S. branches and agencies of the same foreign bank and Edge and Agreement corporations^{2/} to hold all of their required reserve balances in a single account held by a pass-through correspondent or to continue to have separate accounts on a same-state/same-District basis as they do today (62 FR 42708, August 8, 1997). The proposal also would have allowed foreign bank offices and Edge corporations to choose whether to aggregate their deposit reports on a nationwide basis or to continue to report on a same-state/same-District basis.

To permit this choice for foreign bank offices and Edge corporations, the Board proposed changes to the pass-through rules in Regulation D, which would liberalize those rules for all domestic depository institutions as well as for foreign bank offices and Edge corporations. The Board also requested comment on issues relating to where all institutions should file their reports of deposit, as well as other reports.

The Board is adopting a revised version of its proposal. Under the final rule, foreign bank offices and Edge corporations will have a choice whether to aggregate required reserve balances on a nationwide basis through a pass-through arrangement or to maintain separate same-state/same-District accounts. All institutions, however, including foreign bank offices and Edge corporations, will continue to file reports of deposits and other reports with the Federal Reserve Bank in whose District they are located.

General Comments

The Board received twelve comments on the proposed amendments to Regulation D, five from Federal Reserve Banks, three from U.S. offices of foreign banks, two from trade associations, one from a commercial bank parent of an Edge corporation, and one from a state banking supervisor. The commenters overwhelmingly supported allowing foreign bank offices and Edge corporations the option of aggregating their required reserve balances nationally or locally. The foreign bank commenters, the Edge corporation parent, and a foreign bank trade association noted that retaining the option is important to foreign banks because some offices operate

^{1/} To determine the Federal Reserve Bank at which a bank with interstate branches will hold an account, the Board adopted rules earlier this year to define a domestic depository institution's location for purposes of Federal Reserve membership and reserve account maintenance (62 FR 34613, June 27, 1997).

^{2/} Edge corporations are organized under section 25A of the Federal Reserve Act (12 U.S.C. 611-631), and Agreement corporations have an agreement or undertaking with the Board under section 25 of the Federal Reserve Act (12 U.S.C. 601-604a). For purposes of this docket, the term "Edge corporation" includes Agreement corporations.

independently and are not equipped to consolidate reserve balances, while other foreign bank families could operate more efficiently if reserve balances were maintained at a central location.

A state banking supervisor expressed concern that the aggregation of a foreign bank's reserve balances may appear to conflict with the separate legal status of each branch of the foreign bank and should not be allowed to affect the responsibilities of each branch to comply with any requirements under state law. The Board believes that the treatment of the reserve balances of a foreign bank family under Regulation D does not change in any way the responsibility of any individual foreign bank branch or agency to continue to meet any relevant state law requirements imposed by a state regulator, such as asset pledge, maintenance, or reserve requirements.

Section-By-Section Analysis

§ 204.3(a) Computation and Maintenance of Required Reserves

Maintenance of required reserves. Section 204.3(a) of Regulation D requires every depository institution, U.S. branch or agency of a foreign bank, and Edge or Agreement Corporation to maintain reserves against its deposits and Eurocurrency liabilities and file reports in accordance with the ratios and procedures described in the regulation. The Board proposed no amendments to this provision but, as discussed below, has removed the reference to filing reports and has consolidated all reporting provisions in a single paragraph.

Reporting. Section 204.3(a) also requires foreign bank offices and Edge corporations located in the same state and same Federal Reserve District to file a single aggregated report of deposits with the Federal Reserve Bank in whose District the offices are located. The Board solicited comment on an amendment to this section to allow a foreign bank or Edge corporation family to submit an aggregated report of deposits for all U.S. offices, in the event that those foreign banks or Edge corporations chose to aggregate required reserve balances in a single account held by a pass-through correspondent.

The Board also requested comment on whether reporting changes are necessary for all depository institutions that hold their reserve balances with pass-through correspondents. Regulation D (former § 204.3(i)(2), now relocated to § 204.3(a)(2)) requires a depository institution to file its report of deposits with the Reserve Bank in whose District the institution is located, regardless of whether the institution maintains reserve balances in its own account or with a pass-through correspondent. The Reserve Bank notifies the reporting institution of its reserve requirements and also notifies the pass-through correspondent, if one exists. Each respondent is responsible for reporting; the pass-through correspondent is not responsible for reporting errors made by the respondent, but it is responsible for maintaining the required reserve balances in accordance with the reports. Under the proposed pass-through rules, a depository institution located in one Federal Reserve District could hold reserve balances with a pass-through correspondent whose Federal Reserve account is located in another District. (The Board has adopted this proposal, as discussed below.) In this situation, the Board noted that it may be appropriate for that depository institution's deposit reports to "follow the money," that is, for the depository institution to send its deposit report to the Reserve Bank that holds the account, rather than the Reserve Bank of the institution's District. In addition, the Board requested comment on whether it is appropriate for all reports of all institutions (depository institutions as well as foreign bank offices and Edge corporations), including both supervisory and monetary reports, to go to the Reserve Bank that holds the account where that institution's reserve balances are held.

Nine of the eleven commenters discussed reporting issues. Five commenters pointed out practical problems associated with requiring reports to "follow the money" rather than be filed with the institution's local Reserve Bank. A trade association for foreign banks stated that, for foreign bank offices that maintained reserve balances with a single pass-through correspondent account, the effect of requiring all reports to go to the Reserve Bank that holds the account is not clear. The commenter was concerned, for example, about how the Reserve Bank receiving the reports would coordinate with the Reserve Bank that supervises the local office, as well as the effect the unified reporting system would have on coordinated supervision between federal and state regulators. A foreign bank commenter stated that consolidation of all reports could result in a lack of understanding of the foreign bank office's condition by its supervising Reserve Bank and de facto double reporting requirements for the office. A Reserve Bank noted that allowing aggregate reporting for these foreign bank offices would make it difficult to verify reports on timely basis, would require close coordination between Reserve Banks, and could affect the accuracy of data on the various separately chartered offices. One bank trade association, one Edge corporation

parent, and two Reserve Banks supported the proposal to allow foreign bank offices and Edge corporations to file a single aggregated report of deposits, although one of those Reserve Banks argued against requiring domestic pass-through respondents to file deposit reports with their out-of-District correspondent's Reserve Bank.

The commenters also identified problems with the "follow the money" approach for domestic institutions that hold reserve balances with a pass-through correspondent. For example, one commenter stated that, although requiring all reports to go to the Federal Reserve Bank that holds the correspondent's account could provide an efficient means of administering reserve requirements, it would also require Reserve Banks to dedicate resources to analyzing nonlocal banks' structure, operations, and financial statements. The commenter stated that the alternative of "split reporting" (sending deposit reports to the account-holding Reserve Bank and all other reports to the local Reserve Bank) could lead to confusion and inefficiencies and that another alternative, filing all reports with multiple Reserve Banks, would place additional burden on depository institutions. Two other commenters stated that another reason the reporting location should not be based on the location of a pass-through correspondent is because pass-through arrangements can change frequently.

Although the Board believes that requiring reports to follow the money might provide an efficient means of administering reserve requirements, any potential efficiencies appear to be outweighed by the practical difficulties involved when deposit (or all) reports are submitted to a Reserve Bank other than the reporting institution's local Reserve Bank. If the Reserve Bank in whose District the institution is located is responsible for supervising the institution, submitting supervisory reports to another Reserve Bank could affect the depth and timeliness of the supervising Reserve Bank's knowledge of the institution's condition. Split reporting would lead to inefficiencies in other areas for both the institution and the Federal Reserve Banks. The reporting institution would have to deal with more than one Reserve Bank on reporting and data editing issues. For the Federal Reserve, each Reserve Bank collecting data from a particular institution would have to become knowledgeable about that institution's structure, operations, and balance sheet in order to perform effective data editing and analysis.

In light of these problems, the Board is retaining the current reporting requirements for domestic institutions as well as foreign bank offices and Edge corporations. The Board has consolidated the reporting provisions in new § 204.3(a)(2). All reporting institutions will file deposit and other reports with the Federal Reserve Bank in whose District the institution is located. Foreign bank and Edge corporation offices operating in the same state and same District will file an aggregated report as they do today. The reporting rule does not affect an institution's ability to pass its reserve balances through a correspondent, which may be located in the same or another District. For example, a foreign bank family will be able to consolidate required reserve balances with a single pass-through correspondent while still reporting deposits on a same-state same-District basis.

One commenter asked the Board to clarify that, in the case of Edge corporations, the reporting aggregation applies to the offices of a single Edge corporation and not the offices of all Edge corporations owned by a single parent that operate in the same state and same District. The provisions of § 204.3(a)(2) on aggregated reporting apply to all offices of a single Edge corporation operating in the same state and same District, not to all offices owned by a common parent.

Low Reserve Tranche and Exemption Amounts. Regulation D provides that foreign bank and Edge corporation families share one low reserve tranche and exemption amount among all related offices.^{3/} The pre-amendment Regulation D set out separate provisions (§ 204.3(a)(1) and (a)(2)) for foreign banks and Edge corporations covering allocation of the low reserve tranche and contained a separate provision (§ 204.3(a)(3)) on allocation of the reserve exemption, which applied to depository institutions as well as foreign bank offices and Edge corporations. The Board proposed a new § 204.3(a)(2) to combine the existing provisions on allocation of the low reserve tranche and the reserve exemption among branches of depository institutions, foreign bank offices, and Edge corporations.

The Board received one comment on this proposed amendment, in favor of the revision. The Board has adopted the amendment as proposed. Under the amendment, a depository institution and its branches, foreign bank families, and offices of an Edge corporation will continue to share one low reserve tranche and one reserve

^{3/} The amount of an institution's net transaction accounts in the low reserve tranche (\$0 to \$49.3 million) carries a lower reserve requirement (3 percent) than the amount above the tranche (which carries a 10 percent requirement). The first \$4.4 million of any institution's reservable liabilities are exempt from reserve requirements.

exemption and can allocate the tranche and exemption among offices or groups of offices that file separate deposit reports.^{4/}

§ 204.3(b) Form and Location of Reserves

In June 1997, the Board amended § 204.3(b) to set forth where a domestic depository institution is located for purposes of determining the Federal Reserve Bank where the institution will maintain its reserve balances (see footnote 1). Specifically, an institution is considered to be located in the Federal Reserve District specified in its charter or organizing certificate, or, if no such location is specified, the location of its head office. The Board can make exceptions to the general rule for a particular institution after considering certain criteria. The Board proposed to apply the same rule to foreign bank offices and Edge corporations. For foreign banks and Edge corporations that pass all reserve balances through a single correspondent, the location of the pass-through correspondent would determine which Reserve Bank holds the account. The Board also proposed to remove the sentence in § 204.3(b)(1) that stated that reserves that were held on a pass-through basis were considered to be a balance maintained with a Reserve Bank. This sentence could be read to conflict with the Board's proposed revisions to the pass-through rules clarifying that the balances held in the account of the pass-through correspondent were the property of the correspondent.

The Board received one comment on these provisions, supporting the proposal. The Board has adopted the proposed amendments and has also revised the language in § 204.3(b)(1) to clarify that only non-member institutions may hold reserves with a pass-through correspondent.^{5/}

§ 204.3(i) Pass-Through Rules

Eligible Pass-Through Correspondents. Former § 204.3(i)(1) stated that foreign bank offices and Edge corporations could pass their reserve balances through an account of another office of the same institution, subject to the pass-through rules applicable to all depository institutions. This provision could have been interpreted to preclude these institutions from using an unaffiliated pass-through correspondent. The Board proposed to clarify that a foreign bank or Edge corporation family may choose any eligible institution as a pass-through correspondent, such as a domestic depository institution or a office of another foreign bank, in addition to an office of its own family. Although the Board believes that these entities will generally choose one of their own offices as the pass-through correspondent, allowing the choice is comparable to the treatment of domestic depository institutions under Regulation D. The Board received two comments on this amendment, both in support, and has adopted it as proposed. The Board has also revised § 204.3(i)(1) to provide that a Reserve Bank may make exceptions to the requirement that an institution can choose only one pass-through correspondent. Such an exception may be necessary, for example, during a transition period after the merger of two respondents with two different pass-through correspondents.

Account Maintenance. Former § 204.3(i) required a pass-through correspondent to maintain accounts at each Federal Reserve Bank in whose District the respondent institutions were located. The Board proposed to remove the requirement that pass-through reserve balances must be held in the District where the respondent is located. This proposal was necessary to enable foreign bank families and Edge corporations to aggregate their required reserve balances in a single account held by a pass-through correspondent. The proposed amendment applied to pass-through arrangements for all domestic depository institutions as well. The Board received two comments that specifically discussed this amendment; both supported the change, citing improved efficiency and removal of impediments to interstate banking. The Board has adopted the amendment as proposed.

Former Regulation D also provided that, when respondents are located in the same District as the pass-through correspondent, the correspondent may choose to maintain its own reserve balances and the pass-through reserve balances in a single commingled account or in two separate accounts. Under the Board's proposal, correspondents would hold pass-through balances in a single commingled account, along with the pass-through correspondent's

^{4/} Ordinarily, branches of a domestic depository institution would not file separate deposit reports unless they are in transition (for example, after a merger or other consolidation) from a multiple to a single reporting and account structure.

^{5/} This limitation is set forth in section 19(c)(1) of the Federal Reserve Act, 12 U.S.C. 461(c).

own reserve balances (if any) at the Reserve Bank in whose District the pass-through correspondent is located. The Board requested comment on whether correspondents should continue to have the option of separate accounts for their own reserve balances and the reserve balances they hold on a pass-through basis. The Board received two comments on this issue, both from Federal Reserve Banks. One commenter suggested that the Board allow correspondents to retain the option to have a separate account for pass-through reserve balances because the Federal Reserve Banks' subaccount structure does not provide account-holders with a daily ending balance for each subaccount. The other commenter stated that there is no need for a correspondent to maintain pass-through reserve balances in separate account from its own reserve balances and that the subaccount structure will provide the correspondent with sufficient information to segregate its own reserve balances from pass-through balances. The Board continues to believe the subaccount will suffice for tracking respondent activity and that correspondents will be able to calculate the ending balance for subaccounts based on the information they receive. The Board, therefore, has adopted the proposed provision that a correspondent maintain a single account for its own reserve balances (if any) and the pass-through reserve balances of respondents. The Board has, however, added a provision to allow a Reserve Bank to make an exception to this rule. The Board anticipates that a Reserve Bank might permit an exception in cases where, for example, the correspondent is involved in a merger and holds a separate transition account at the same or another Reserve Bank.

Former Regulation D was unclear as to whose money is in the account that contains the pass-through reserve balances, that is, whether the account is a Reserve Bank liability to the pass-through correspondent or to the respondent.^{6/} The Board proposed amendments to § 204.3(i) to clarify that the balances held by the pass-through correspondent are the property of the correspondent and represent a liability of the Reserve Bank solely to the correspondent, regardless of whether the funds represent the reserve balances of another office or institution that have been passed through the correspondent. The Board received two comments on this proposal, both in favor, and has adopted the amendment as proposed.

Services. Former § 204.3(i)(5) contained provisions regarding the services available to pass-through correspondents and respondents. The Board proposed to remove these provisions from Regulation D. The terms of services offered by the Reserve Banks are covered in Regulation J (12 CFR part 210) and the Reserve Banks' operating circulars. The Board received one comment on this proposal, in support of the change. The Board has eliminated this provision, as proposed.

Technical Changes

The Board also proposed editorial and conforming amendments to §§ 204.3(i) and 204.9(b) of Regulation D. The Board received no comments on these changes. Because of the addition of the consolidated reporting provision in § 204.3(a), the technical amendment to a cross-reference in § 204.9(b) is no longer necessary. The Board has adopted the editorial changes to § 204.3(i) as proposed.

Final Regulatory Flexibility Analysis

Two of the three requirements of a final regulatory flexibility analysis (5 U.S.C. 604), (1) a succinct statement of the need for and the objectives of the rule and (2) a summary of the issues raised by the public comments, the agency's assessment of the issues, and a statement of the changes made in the final rule in response to the comments, are discussed above. The third requirement of a final regulatory flexibility analysis is a description of significant alternatives to the rule that would minimize the rule's economic impact on small entities and reasons why the alternatives were rejected.

The final amendments will apply to all depository institutions, U.S. branches and agencies of foreign banks, and Edge and Agreement corporations, regardless of size, and represent changes to the existing rules that should reduce burden for those institutions that are part of a pass-through arrangement for the purpose of maintaining required reserve balances. The amendments would increase flexibility for those institutions by eliminating restrictions on where pass-through correspondents must maintain accounts. The amendments should not have a

^{6/} The call report instructions are more clear, stating that, from the perspective of the Federal Reserve Bank, pass-through balances are treated as balances due to the correspondent, not to the respondent.

negative economic impact on small institutions, and, therefore, there were no significant alternatives that would have minimized the economic impact on those institutions.

Paperwork Reduction Act

In accordance with the Paperwork Reduction Act of 1995 (44 U.S.C. 3506; 5 CFR 1320 Appendix A.1), the Board reviewed the final rule under the authority delegated to the Board by the Office of Management and Budget. The proposed rule contained no new collections of information and proposed no substantive changes to existing collections of information pursuant to the Paperwork Reduction Act. However, one of the changes in the proposed rule had the potential to reduce reporting burden for a subset of respondents on existing information collections by allowing fewer reports. The change would have granted Edge corporations and U.S. branches and agencies of foreign banks the option to file single reports of deposits and Eurocurrency data aggregated nationwide. Currently these respondents file deposits and Eurocurrency reports aggregated by each state and Federal Reserve District in which their offices are located.

None of the comments received specifically addressed reporting burden. However, as discussed earlier in this notice, several commenters raised problems associated with not filing the reports with each individual respondent's Federal Reserve District. The Board believes that these problems outweigh any potential efficiencies afforded by such changes. The final rule does not contain any of the proposed elective changes in reporting. Therefore, no collections of information pursuant to the Paperwork Reduction Act are revised by the final rule.

List of Subjects in 12 CFR part 204

Banks, banking, Federal Reserve System, Reporting and recordkeeping requirements.

For the reasons set out in the preamble, 12 CFR part 204 is amended as set forth below.

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. In § 204.3, paragraphs (a), (b)(1), (b)(2)(i), and (i) are revised to read as follows:

§ 204.3 Computation and maintenance.

(a) Maintenance and reporting of required reserves. (1) Maintenance. A depository institution, a U.S. branch or agency of a foreign bank, and an Edge or Agreement corporation shall maintain reserves against its deposits and Eurocurrency liabilities in accordance with the procedures prescribed in this section and § 204.4 and the ratios prescribed in § 204.9. Reserve-deficiency charges shall be assessed for deficiencies in required reserves in accordance with the provisions of § 204.7. For purposes of this part, the obligations of a majority-owned (50 percent or more) U.S. subsidiary (except an Edge or Agreement corporation) of a depository institution shall be regarded as obligations of the parent depository institution.

(2) Reporting. (i) Every depository institution, U.S. branch or agency of a foreign bank, and Edge or Agreement corporation shall file a report of deposits (or any other required form or statement) directly with the Federal Reserve Bank of its District, regardless of the manner in which it chooses to maintain required reserve balances. A foreign bank's U.S. branches and agencies and an Edge or Agreement corporation's offices operating within the same state and the same Federal Reserve District shall prepare and file a report of deposits on an aggregated basis.

(ii) A Federal Reserve Bank shall notify the reporting institution of its reserve requirements. Where a pass-through arrangement exists, the Reserve Bank will also notify the pass-through correspondent of its respondent's required reserve balances.

(iii) The Board and the Federal Reserve Banks will not hold a pass-through correspondent responsible for guaranteeing the accuracy of the reports of deposits submitted by its respondents.

(3) Allocation of low reserve tranche and exemption from reserve requirements. A depository institution, a foreign bank, or an Edge or Agreement corporation shall, if possible, assign the low reserve tranche and reserve requirement exemption prescribed in § 204.9(a) to only one office or to a group of offices filing a single aggregated report of deposits. The amount of the reserve requirement exemption allocated to an office or group of offices may not exceed the amount of the low reserve tranche allocated to such office or offices. If the low reserve tranche or reserve requirement exemption cannot be fully utilized by a single office or by a group of offices filing a single report of deposits, the unused portion of the tranche or exemption may be assigned to other offices or groups of offices of the same institution until the amount of the tranche (or net transaction accounts) or exemption (or reservable liabilities) is exhausted. The tranche or exemption may be reallocated each year concurrent with implementation of the indexed tranche and exemption, or, if necessary during the course of the year to avoid underutilization of the tranche or exemption, at the beginning of a reserve computation period.

(b) Form and location of reserves. (1) A depository institution, a U.S. branch or agency of a foreign bank, and an Edge or Agreement corporation shall hold reserves in the form of vault cash, a balance maintained directly with the Federal Reserve Bank in the Federal Reserve District in which it is located, or, in the case of nonmember institutions, with a pass-through correspondent in accordance with § 204.3(i).

(2) (i) For purposes of this section, a depository institution, a U.S. branch or agency of a foreign bank, or an Edge or Agreement corporation is located in the Federal Reserve District that contains the location specified in the institution's charter, organizing certificate, or license or, if no such location is specified, the location of its head office, unless otherwise determined by the Board under paragraph (b)(2)(ii) of this section.

* * * * *

(i) Pass-through rules. (1) Procedure. (i) A nonmember depository institution, a U.S. branch or agency of a foreign bank, or an Edge or Agreement corporation required to maintain reserve balances (respondent) may select only one institution to pass through its required reserve balances, unless otherwise permitted by Federal Reserve Bank in whose district the respondent is located. Eligible institutions through which respondent required reserve balances may be passed (correspondents) are Federal Home Loan Banks, the National Credit Union Administration Central Liquidity Facility, and depository institutions, U.S. branches or agencies of foreign banks, and Edge and Agreement corporations that maintain required reserve balances at a Federal Reserve office. In addition, the Board reserves the right to permit other institutions, on a case-by-case basis, to serve as pass-through correspondents. The correspondent chosen must subsequently pass through the required reserve balances of its respondents directly to a Federal Reserve Bank. The correspondent placing funds with a Federal Reserve Bank on behalf of respondents will be responsible for account maintenance as described in paragraphs (i)(2) and (i)(3) of this section.

(ii) Respondents or correspondents may institute, terminate, or change pass-through arrangements for the maintenance of required reserve balances by providing all documentation required for the establishment of the new arrangement or termination of the existing arrangement to the Federal Reserve Banks involved within the time period provided for such a change by those Reserve Banks.

(2) Account maintenance. A correspondent that passes through required reserve balances of respondents shall maintain such balances, along with the correspondent's own required reserve balances (if any), in a single commingled account at the Federal Reserve Bank in whose District the correspondent is located, unless otherwise permitted by the Reserve Bank. The balances held by the correspondent in an account at a Reserve Bank are the property of the correspondent and represent a liability of the Reserve Bank solely to the correspondent, regardless of whether the funds represent the reserve balances of another institution that have been passed through the correspondent.

(3) Responsibilities of parties. (i) Each individual depository institution, U.S. branch or agency of a foreign bank, or Edge or Agreement corporation is responsible for maintaining its required reserve balance either directly with a Federal Reserve Bank or through a pass-through correspondent.

(ii) A pass-through correspondent shall be responsible for assuring the maintenance of the appropriate aggregate level of its respondents' required reserve balances. A Federal Reserve Bank will compare the total reserve balance required to be maintained in each account with the total actual reserve balance held in such account for purposes of determining required reserve deficiencies, imposing or waiving charges for deficiencies in required reserves, and for other reserve maintenance purposes. A charge for a deficiency in the aggregate level of the required reserve balance will be imposed by the Reserve Bank on the correspondent maintaining the account.

(iii) Each correspondent is required to maintain detailed records for each of its respondents in a manner that permits Federal Reserve Banks to determine whether the respondent has provided a sufficient required reserve balance to the correspondent. A correspondent passing through a respondent's reserve balance shall maintain records and make such reports as the Board or Reserve Bank requires in order to insure the correspondent's compliance with its responsibilities for the maintenance of a respondent's reserve balance. Such records shall be available to the Reserve Banks as required.

(iv) The Federal Reserve Bank may terminate any pass-through relationship in which the correspondent is deficient in its recordkeeping or other responsibilities.

(v) Interest paid on supplemental reserves (if such reserves are required under § 204.6) held by a respondent will be credited to the account maintained by the correspondent.

By order of the Board of Governors of the Federal Reserve System, October , 1997.

William W. Wiles,
Secretary of the Board.
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