

Reserve Administration and Account Maintenance

Agenda

- **Overview of Reserves**
 - Reserve Requirements
 - Clearing Balance Requirements
- **Management of Reserves**
 - Account Maintenance
 - Interest on Reserves
- **Recent Developments**
 - Term Deposit Facility
 - Excess Balance Account Program

Overview of Reserves

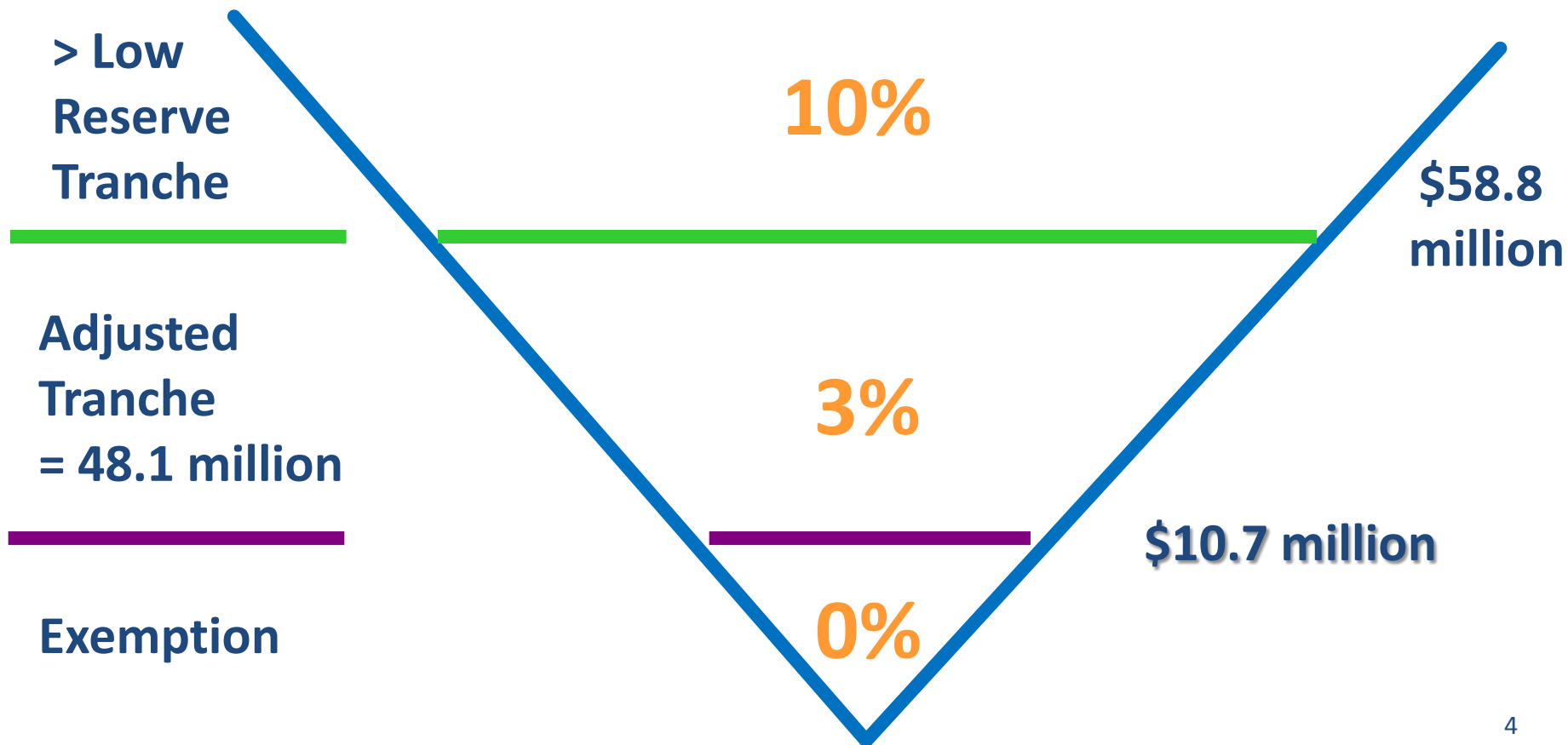
Reserve Requirements

- Regulation D – Reserve Requirements of Depository Institutions (“DIs”)
 - All DIs are subject to reserve requirements
 - Calculated by applying marginal reserve ratios to Net Transaction Accounts (Gross Transaction Accounts minus Total Deductions)
 - Must be held in the form of vault cash or at the Federal Reserve, either directly or through a pass-through correspondent
- Tool of Monetary Policy

Overview of Reserves

Reserve Requirements

- Marginal Reserve Ratios and Cut-off Levels for 2011



Overview of Reserves

Clearing Balance Requirement

- Voluntary in most cases (may be imposed by the Reserve Bank for account management problems)
- Required clearing balances maintained generate earnings credits that may be used to offset some service charges incurred at the Federal Reserve
- Is in addition to any required reserve balance
- Vault cash may not be used to satisfy a clearing balance requirement

Management of Reserves

Account Maintenance

- Maintenance Period
- Computation Period
- Reserve Maintenance Cycle

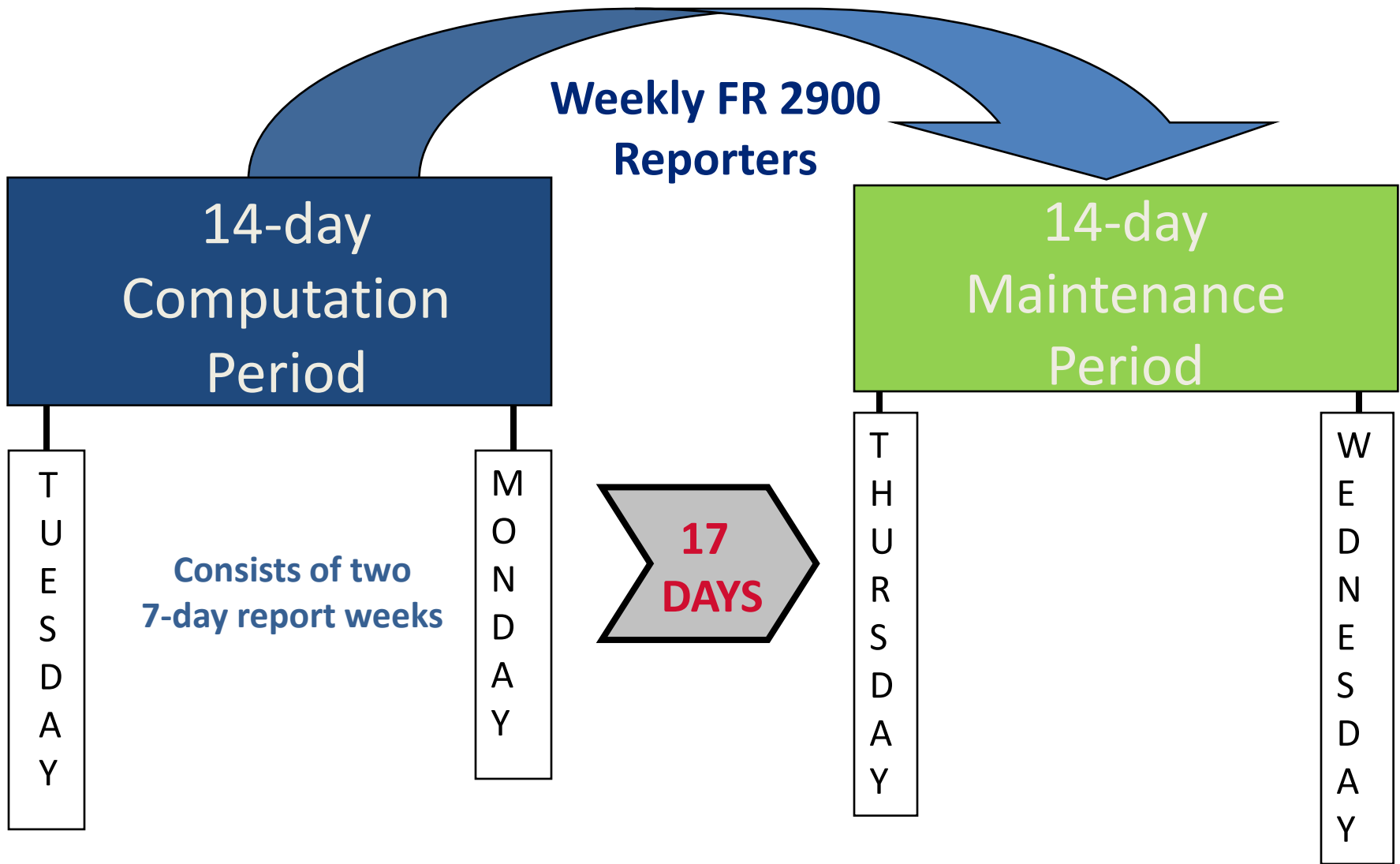
Management of Reserves

Account Maintenance

- Weekly FR 2900 Reporters
 - 14-Day computation & maintenance periods
 - Lagged from the computation period by 17 days
- Quarterly FR 2900 Reporters
 - 7-Day computation & maintenance periods
 - First maintenance period is lagged from the computation period by 24 days

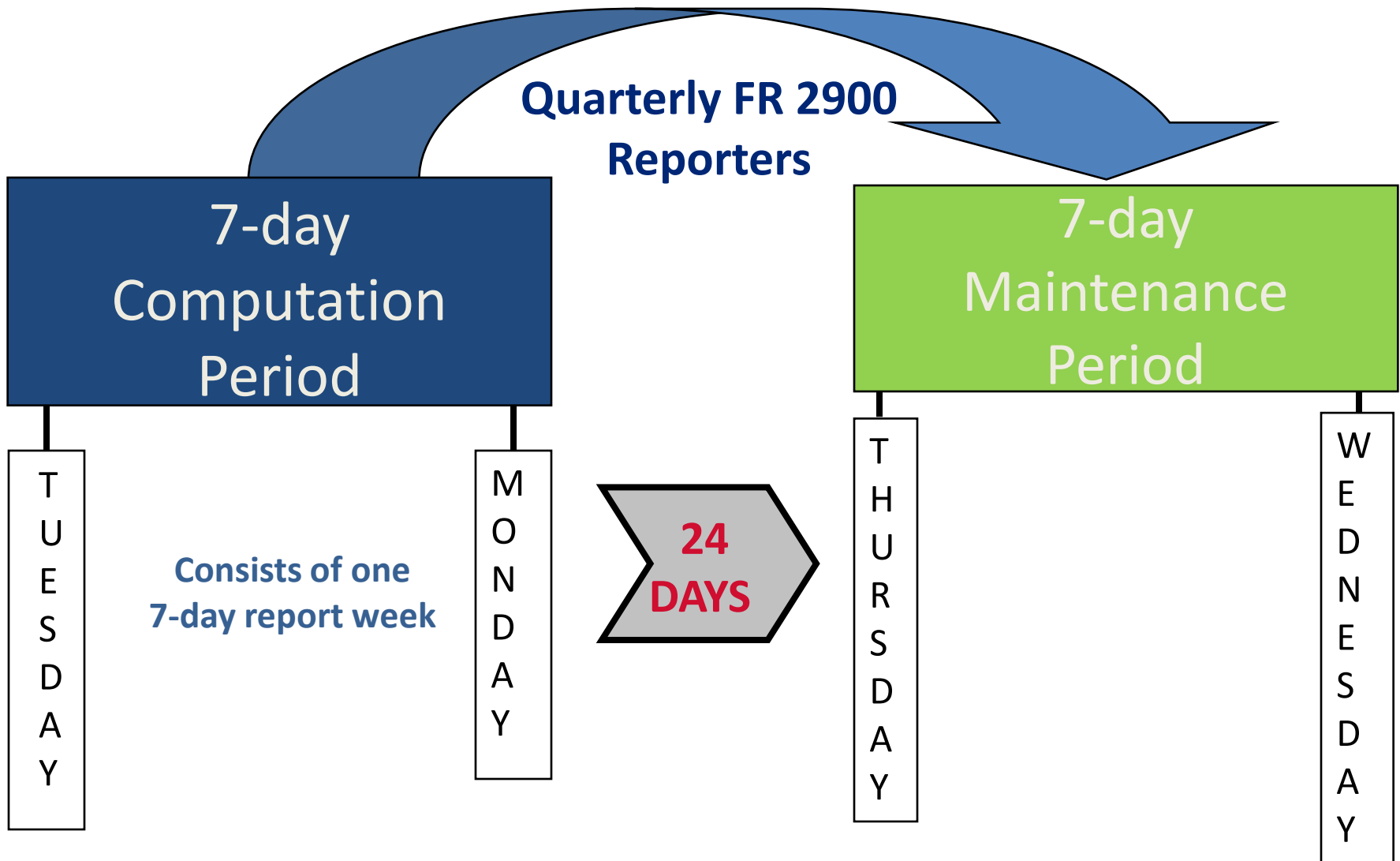
Management of Reserves

14-Day Reserve Maintenance Cycle



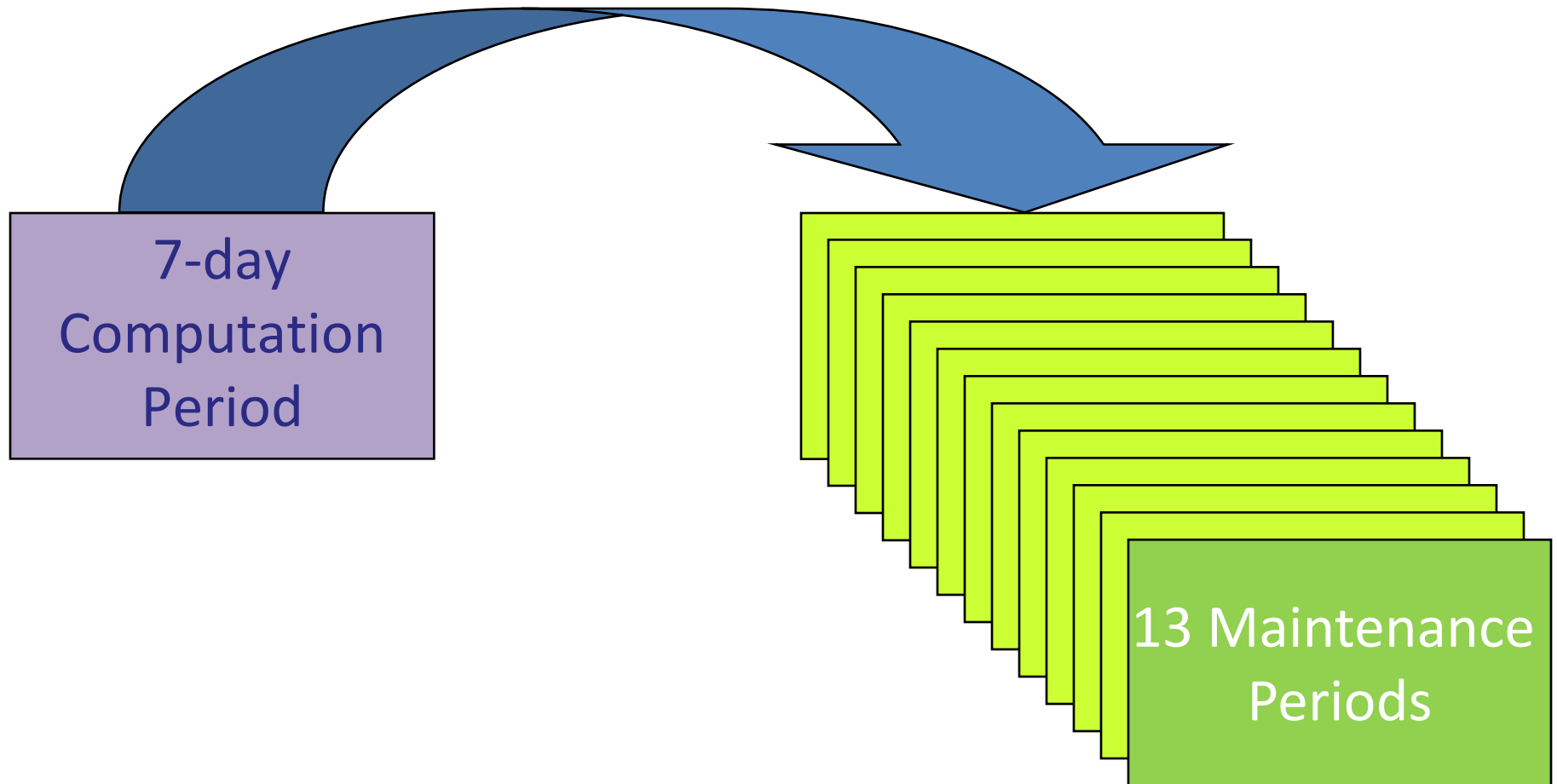
Management of Reserves

7-Day Reserve Maintenance Cycle



Management of Reserves

7-Day Reserve Maintenance Cycle



Management of Reserves

Account Maintenance

■ Position

- Measure of a DI's compliance with reserve and/or clearing balance requirements
- Initially determined by evaluating the difference between total balances maintained and total balances required

Management of Reserves

Account Maintenance

- Factors that affect Position are:
 - Vault Cash
 - Account Balances
 - Overnight Overdrafts
 - “As-of” Adjustments
 - Clearing Balance Allowance
 - Carryover

Management of Reserves

Account Maintenance

- Vault Cash
 - Used to satisfy reserve requirement
 - Cannot be used to satisfy clearing balance requirement

Management of Reserves

Account Maintenance

- Federal Reserve Account Balances
 - Required reserve balances
 - Required clearing balances
 - Excess reserve balances

Management of Reserves

Account Maintenance

- “As-of” Adjustments
 - Memorandum items used to offset the effect of certain types of errors on a DI’s position and to charge for float attributable to that institution
 - Directly impacts total maintained balances
 - a debit (decrease) “as-of” reduces total maintained balances for the maintenance period
 - a credit (increase) “as-of” increases total maintained balances for the maintenance period

Management of Reserves

Interest on Reserves (“IOR”)

- Payment of interest on required and excess reserve balances
 - Required reserve balances
 - balances held to satisfy reserve requirements
 - Excess reserve balances
 - balances held in excess of required reserve balances and clearing balances

Management of Reserves

Interest on Reserves

- Eligible
 - Depository Institutions
 - U.S. branches & agencies of foreign banks
 - Edge Act & agreement corporations
 - Trust companies
 - Pass-through correspondents that hold balances at the Federal Reserve on behalf of eligible institutions

Management of Reserves

Interest on Reserves

- Current rates paid:
 - required reserve balances = .25%
 - excess balances = .25%
- Board of Governors may adjust rates paid in response to evolving market conditions

Recent Developments

Term Deposit Facility (“TDF”)

- A Federal Reserve Bank program that offers interest-bearing term deposits to eligible institutions

Recent Developments

Term Deposit Facility - Deposits

- Funds deposited by DIs at a Reserve Bank for a set term
- Cannot be used to
 - satisfy reserve/clearing balance requirements
 - offset overdrafts
- Early withdrawals are not permitted
- Deposits automatically pledged as collateral for discount window and payment system risk purposes

Recent Developments

Term Deposit Facility – Auctions

- Competitive and Noncompetitive
- Single-price auction mechanism will determine competitive auction awards
- Noncompetitive tenders that comply with the offering rules will be accepted in full
- Interest rate paid will be the highest accepted rate in the competitive portion of the offering

Recent Developments

Term Deposit Facility – Auction Rules

- A DI must
 - be eligible to receive IOR to participate
 - execute a Term Deposit Agreement
 - complete set-up process and obtain necessary credentials from Federal Reserve
- TDF participants may
 - submit a tender to either the competitive portion (multiple bids) or the noncompetitive portion (only one bid) of an offering, but not to both
 - choose to have an agent submit a tender on its behalf

Recent Developments

TDF Auction Timeline



Prior to each offering, the Federal Reserve will make an announcement and post the offering details to the TDF Resource Center.

On the offering date, after the open time, and prior to the close time, the TDF participant can submit a tender using the TDF application.

After the notification date and time, the TDF participant can view the results of its tender submission in the TDF application. The aggregate results of the TDF offering (for example, total number of bidders) will be announced on the TDF Resource Center.

On the settlement date, the TDF participant's settlement account will be debited for its accepted bid(s). The TDF participant now holds a term deposit.

On the maturity date, the TDF participant's settlement account will be credited with principal from the term deposit and the interest earned. The TDF participant can view interest earned and historical information on its holdings of term deposits in the TDF application.

Recent Developments

Excess Balance Account (EBA) Program

- Limited-purpose accounts for maintaining excess balances of one or more institutions that are eligible to earn IOR
- Each participant in an EBA will designate an institution to act as agent for purposes of managing the account
- Balances in the EBA
 - represent a liability of the Federal Reserve Bank solely to the participants in the EBA
 - do not represent a liability to the agent for the EBA

QUESTIONS?