RESERVES ON TRANSACTION ACCOUNTS (REGULATION D)

OVERVIEW

Overview

Regulation D establishes the required amount a depository institution must reserve based on the level of transaction accounts on deposit. A transaction account is an account from which a member is allowed to make transfers or withdrawals by negotiable order, check, telephone, or similar device for making third party payments. Examples include demand deposit accounts, NOW Accounts, share draft accounts, savings accounts with automatic transfer service capabilities, and time deposits where the financial institution does not impose a penalty for early withdrawal. A net transaction account is a transaction account less any deductions as allowed in 12 CFR 204.3(f). Institutions are required to maintain a certain level of reserves to assist the Federal Reserve Board in handling monetary policy.

The following chart details the current required reserve levels:

Net Transactional Accounts	**Reserve Requirement**
$0 - $6.6 million	0 percent
Over $6.6 million - $45.4 million	3 percent
Over $45.4 million	$1,164,000 plus 10 percent of amount over $45.4 million

These reserve requirements are effective for 2004. The Federal Reserve Board usually adjusts the reserving levels annually.

Three options are available for the retention of necessary reserves. The required funds must be:

- On deposit with the Federal Reserve Bank;
- Held in vault cash; or
- In a pass through account.

Exempt Transactions

Credit unions with net transactional accounts (primarily share draft accounts) less than $6.6 million are exempt from reserving.

Disclosure and Reporting

Credit unions file a report of deposits directly with the Federal Reserve Bank of its District. The Federal Reserve Bank notifies the credit union of its reserving requirements.

Enforcement

The Federal Reserve Bank is responsible for enforcing compliance for all credit unions.

Associated Risks

Compliance risk can occur when the credit union fails to maintain deposits in compliance with Regulation D.

Additional Information

For additional information visit The Federal Reserve Bank online at http://www.federalreserve.gov/ .

RESERVES FOR TRANSACTION ACCOUNTS
(REGULATION D)

OPERATIONAL REQUIREMENTS

Written programs/Documentation

Reserve requirement ratios (§204.9)

- Reserve percentages. The following reserve ratios are prescribed for all credit unions:

Category	Reserve requirement
Net transaction accounts:	
$0 to $6.6 million	0 percent
Over $6.6 million to $45.4 million	3 percent of amount.
Over $45.4 million	$1,164,000 plus 10 percent of amount over $45.4 million.

- For 2004, each credit union 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 $6.6 million determined in accordance with Section 204.3(a)(3).

Recordkeeping

Record retention

No specific time frame is provided in the regulation for record retention. However, institutions should maintain documentation (typically a copy of the report filed) for examiner review. Examiners should also be able to determine timeliness of the reports based on credit union records.

Reports

Reporting (§204.3)

- Every credit union with total deposits of $6.6 million or more must file a report of deposits directly with the Federal Reserve Bank of its District.
- A Federal Reserve Bank will notify the credit union of its reserve requirements
- The credit union can 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 a pass-through account.
- Reporting time periods based on net transactional accounts and total deposits are as follows (as of September 2004):

- Credit unions with total deposits less than $6.6 million are not required to file deposit reports.
- Credit unions must file Form 2910a **annually** if they have net transaction accounts of $6.6 million or less but have total deposits greater than $6.6 million but less than $1.074 billion.
- Credit unions must file Form 2900 **quarterly** if they have net transaction accounts over $6.6 million but have total deposits of less than $161.2 million.
- Credit unions must file Form 2900 **weekly** if they have net transaction accounts:
    - over $6.6 million and have total deposits of at least $161.2 million or
    - of $6.6 million or less but have total deposits of at least $1.074 billion

Deductions [§204.3(f)]
In determining the reserve balance required, the amount of cash items in process of collection and balances subject to immediate withdrawal due from other depository institutions located in the United States may be deducted from the amount of gross transaction accounts.

Mergers (§204.4)
Special reserve calculations are used in cases of mergers of credit unions. See section 204.4 for further information.

Emergency reserve (§204.5)
Emergency reserves can be imposed by the Board. See section 204.5 for further information.

Supplemental reserve (§204.6)
Supplement reserves can be imposed by the Board after consultation with the Board of Directors of the Federal Deposit Insurance Corporation, the Federal Home Loan Bank Board, and the National Credit Union Administration Board. See section 204.6 for further information.

Enforcement / Liability

If a deficiency exists with the reserves required to be maintained by a financial institution, the Federal Reserve Bank can assess penalties at a rate of 2 percent per year above the lowest rate for borrowing from the Federal Reserve Bank. The borrowing rate used is the rate in effect on the first day of the month in which the deficiency occurred. Violations of Regulation D could also result in assessment of civil money penalties or cease-and-desist proceedings.