FR 2900 Reporting Seminar

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Purpose and General Instructions

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What is the FR 2900?

- The FR 2900 is a weekly report reflecting daily data (Tuesday through Monday) on which Depository Institutions (DIs) report “sources of funds”.

- Amounts reported on the FR 2900 include
  - Deposits held by the DI
  - Other funds (borrowings obtained from non-exempt entities)

The Purpose of the FR 2900

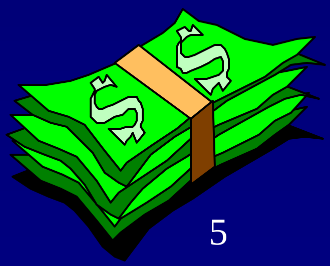
- The FR 2900 has two primary purposes

  1) The calculation of money stock (M1, M2, M3, etc.)

  2) The calculation of reserve requirements

What is Money Stock (or Money Supply)?

- Money supply is the total amount of money in the economy
- Three basic measures of money



What is Money Stock (or Money Supply)?

<u>M1- $1.1 trillion</u>

- Narrowest and most liquid measure of money, comprised of:
  - Currency
  - Travelers Checks
  - Demand deposits
  - Other deposits such as ATS and NOW accounts

What is Money Stock (or Money Supply)?

<u>M2 - $4.4 trillion</u>

- A broader measure. Includes, in addition to M1:
  - Small denomination time deposits (less than $100,000)
  - Savings deposits, including MMDAs and non-institutional money market mutual funds (MMMFs)

What is Money Stock (or Money Supply)?

M3 - $6.1 trillion

- The broadest of the three measures. Includes, in addition to M2
  - Large time deposits ($100,000 or more)
  - Institutional money market mutual funds (MMMFs)

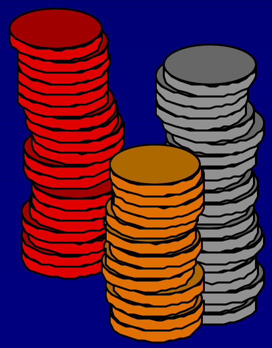
What is Money Stock (or Money Supply)?

M3 - $6.1 trillion

- Overnight repurchase agreements (RPs)
- Overnight Eurodollars
- Term repurchase agreements (RPs); and term Eurodollars

What is Money Stock (or Money Supply)?

- The FR 2900 is the primary source of this information and data reported on the FR 2900 are used to construct the money stock each week
- The aggregate data are released each Thursday afternoon to the public



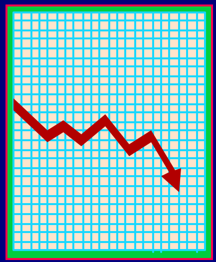
What are Reserve Requirements?

- Reserve requirements are a percentage of a DI's deposits (or fractional reserves) that must be held either as cash in the "Vaults" of the DI or on deposit at the Federal Reserve Bank or at a correspondent bank.

- Reserve requirements are one of the tools used by the Federal Reserve as a means to conduct monetary policy.

What are Reserve Requirements?

- Reserves can be added or removed from the banking system by changing the reserve ratio applied to reservable deposits.
- Other Monetary Policy tools
  - System Open Market Operations
  - Discount Window Lending

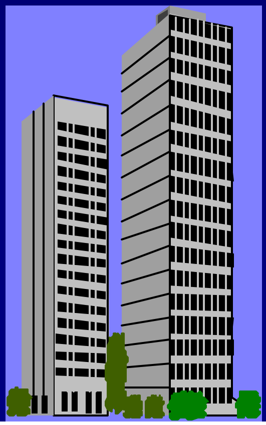


Who Must Report?

- Any U.S. branch or agency of a foreign bank that
  - Has total worldwide consolidated bank assets in excess of a billion; or
  - Is controlled by a foreign company or by a group of foreign companies that own or control foreign banks that in the aggregate have total worldwide consolidated bank assets in excess of a billion

Consolidation

- U.S. branches and agencies of a foreign bank located in the same state and within the same Federal Reserve District are required to submit a consolidated report of deposits to the Federal Reserve Bank in the District in which they operate (excluding any balances of the IBF)



Reporting of Edge and Agreement Corporations

- Deposits of offices of an Edge or agreement corporation should not be aggregated with U.S. branches and agencies of foreign banks when preparing the FR 2900 or FR 2951

FR 2900/FR 2951 vs FFIEC 002 Definitional Differences

- Consolidation of branches and agencies of the same foreign (direct) parent bank

FR 2900

Branches and Agencies in the same Federal Reserve District and state must submit a consolidated FR 2900 report

FR 2900/FR 2951 vs FFIEC 002 Definitional Differences

- Consolidation of branches and agencies of the same foreign (direct) parent bank

FFIEC 002

Branches and Agencies in the same Federal Reserve District and state are not required to consolidate, but may submit a consolidated FFIEC 002 provided

The offices are located in the same city and,
insured and uninsured branches are not combined

Where and When to Submit

- The reporting week is a seven day period that begins Tuesday and ends the following Monday.

- The reports are due to the Federal Reserve by the Wednesday following the Monday as-of-date in the form of a signed hard copy, sent by messenger, fax, or electronic submission. (Please do not submit the same report by more than one of these methods).

Where and When to Submit

- Electronic submissions of these reports is available via the Internet

Close of Business

- The term “close of business” refers to the cut-off time for posting transactions to the general ledger for that day.
  - The time should be reasonable and applied consistently

Close of Business

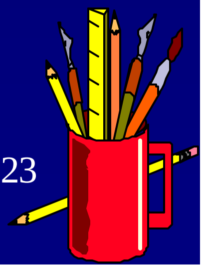
- Selective posting is prohibited
  - A debit or credit cannot be made without the offsetting transaction being posted; and
  - All transactions occurring during the period of time the books are open must be posted

Back-valuing vs Misposting

- The FR 2900 should reflect only the actual general ledger balance as of the "close of business" each day
- Balances should be reflected on the FR 2900 based on
  - When an institution has actually <u>received</u> or sent funds and
  - Has a liability to make payment to a customer or third party

Back-valuing vs Misposting

- Balances should be reported as of "close of business", regardless of when the transaction should have occurred.



Back-valuing vs Misposting

- The only time when an institution is allowed to back-value is in the case of a clerical bookkeeping error.
- The FR 2900 and or FR 2951 may be adjusted to more accurately reflect the transaction as it should have been recorded.

Back-valuing vs Misposting Examples

Question 1

On day 1, Bank A, NY Branch received $10 million dollars for the credit of Corporation A. However, due to a misposting error, Corporation A was credited $1 million. On day 2 the error was discovered.

How should these deposits be reported ?

Back-valuing vs Misposting Examples

Answer

When the error is discovered on day 2, Bank A, NY Branch should revise the $1 million misposted on day 1 to reflect the $10 million deposit from Corporation A received on day 1. Thus, $10 million should be reported in Line A.1.c on both days.

Back-valuing vs Misposting Examples

Question 2

On day 1, Bank A, NY Branch borrows $5 million from an unrelated foreign Bank B. However, Bank B erroneously sent $15 million.

How should these funds be reported ?

Back-valuing vs Misposting Examples

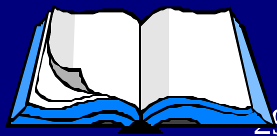
Answer

On day 1, Bank A, NY Branch reports the $5 million borrowing it receives on Line 1 of the FR 2951 as a borrowing from a foreign unrelated bank. The $10 million that Bank A receives in error should be reported in Line A.1.a as "Due to banks"

Back-valuing vs Misposting Examples

<u>Answer</u>

Bank A, NY Branch should deduct the $10 million sent in error from Line A.1.a when those funds are returned to Bank B.



Valuation of Deposits in Foreign Currency

- Transactions denominated in non-U.S. currency must be valued in U.S. dollars each reporting week by using one of the following methods:
  - The exchange rate prevailing on the Tuesday that begins the 7-day reporting week; or
  - The exchange rate prevailing on each corresponding day of the reporting week.

Reporting of Deposits in Foreign Currency

- Once a depository institution chooses to value foreign currency transactions by using either the weekly method or daily method, it must use that method consistently over time for all Federal Reserve reports.

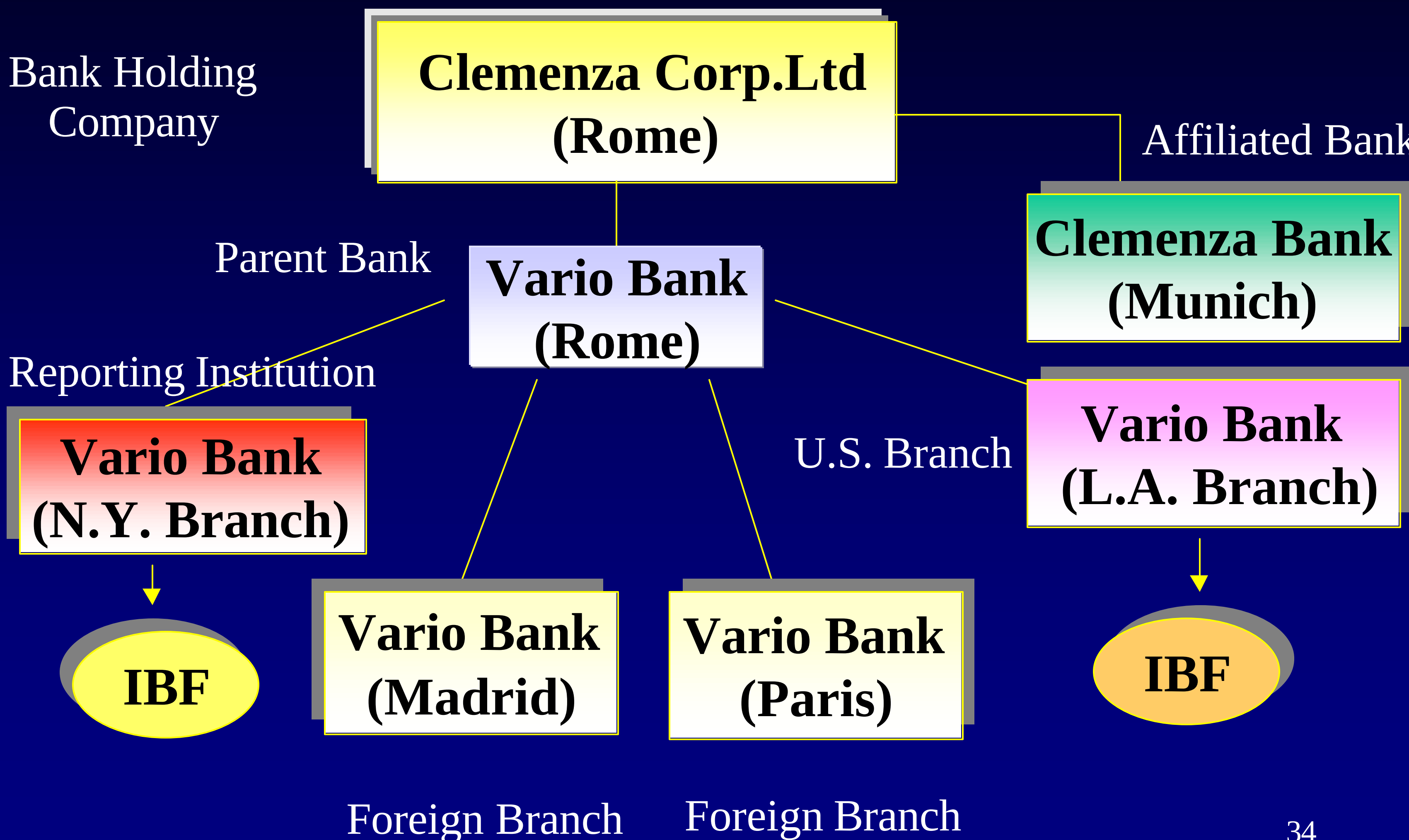
Reporting of Deposits in Foreign Currency

- If the depository institution wishes to change its valuation procedure from one of these two methods to the other, the change must be applied to all Federal Reserve reports and then used consistently thereafter.
- The Federal Reserve Bank of New York should be notified of any such change.

Quarterly Report of Foreign (Non-U.S.) Currency Deposits (FR 2915)

- In addition, FR 2900 respondents offering foreign currency denominated deposits must file the Report of Foreign (Non-U.S.) Currency Deposits (FR 2915)
- This report is filed on a quarterly basis, and includes weekly averages for selected items from the FR 2900

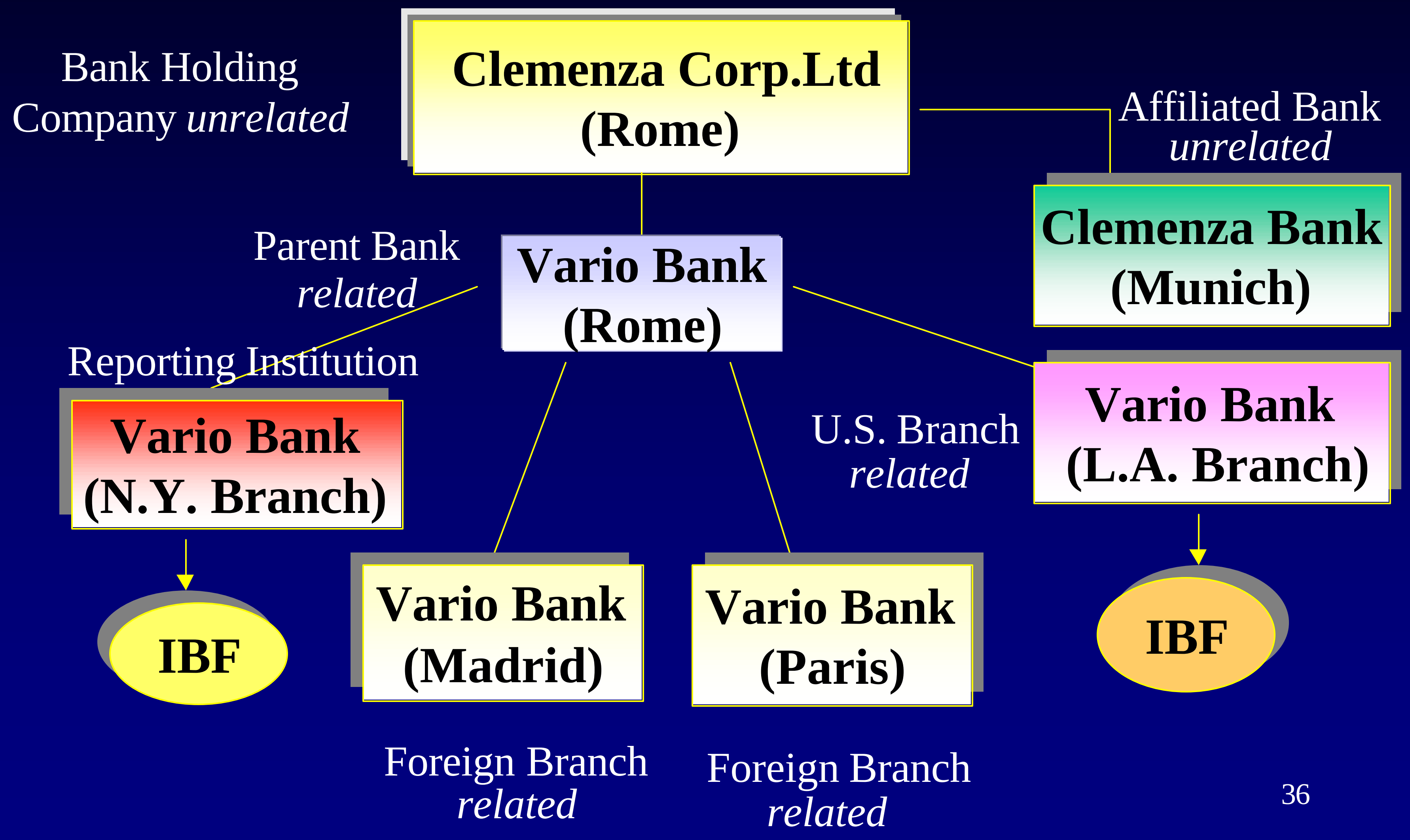
Foreign Bank Organizational Chart



Related Institutions

- On the FR 2900 and the FR 2951 related institutions are defined as
  - The foreign (direct) parent bank
  - Offices of the same foreign (direct) parent bank

Foreign Bank Organizational Chart

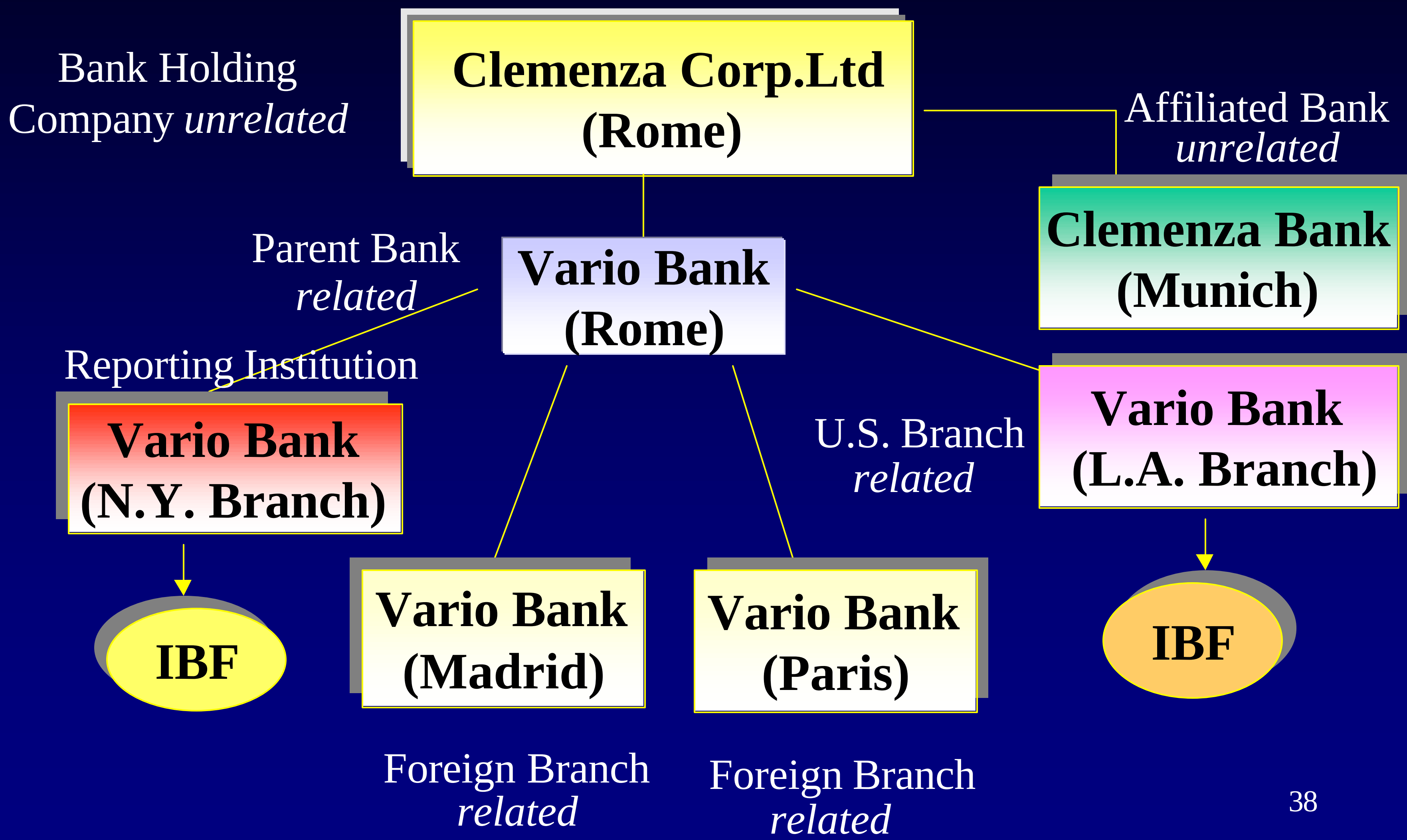


Reporting of Related Institutions

- Deposits due to or due from U.S. branches and agencies of the same (direct) parent bank should be <u>excluded</u> from the FR 2900 <u>and</u> FR 2951

- Deposits due to or due from non-U.S. branches and agencies of the same foreign (direct) parent bank should be excluded from the FR 2900, but included on the FR 2951

Foreign Bank Organizational Chart

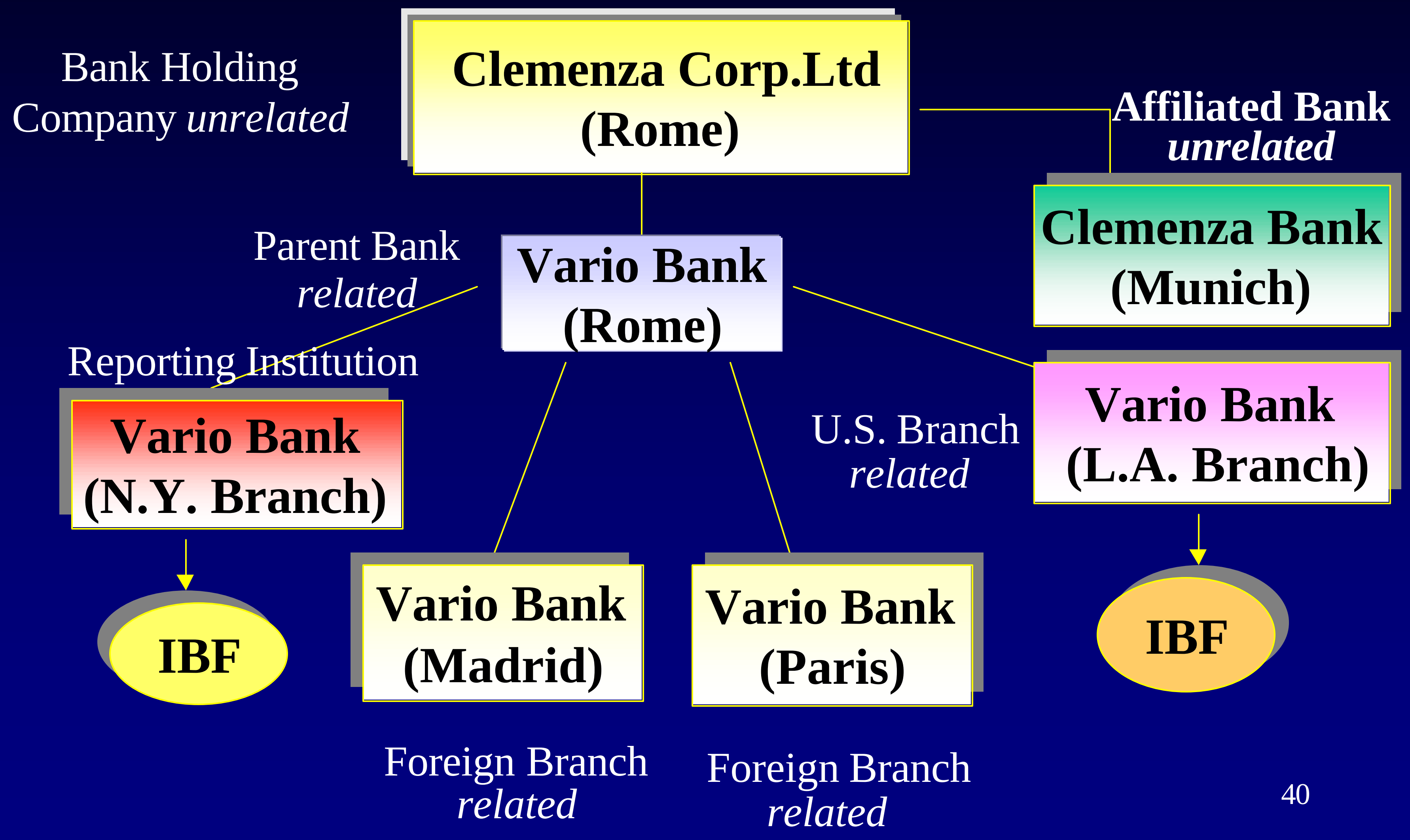


Affiliates and Subsidiaries

- Affiliates and subsidiaries of the foreign (direct) parent bank should be treated as <u>unrelated</u> for the purposes of Regulation D

- They should be classified on the FR 2900 according to the type of entity (e.g., banking or nonbanking) and maturity of the deposit

Foreign Bank Organizational Chart



FR 2900 and the FFIEC 002 Definitional Difference

FR 2900

Deposits of U.S. and non-U.S. subsidiaries are included on the FR 2900 (according to entity and maturity)

FFIEC 002

Deposits of U.S. and non-U.S. banking subsidiaries are excluded from Schedule E and included on Schedule M

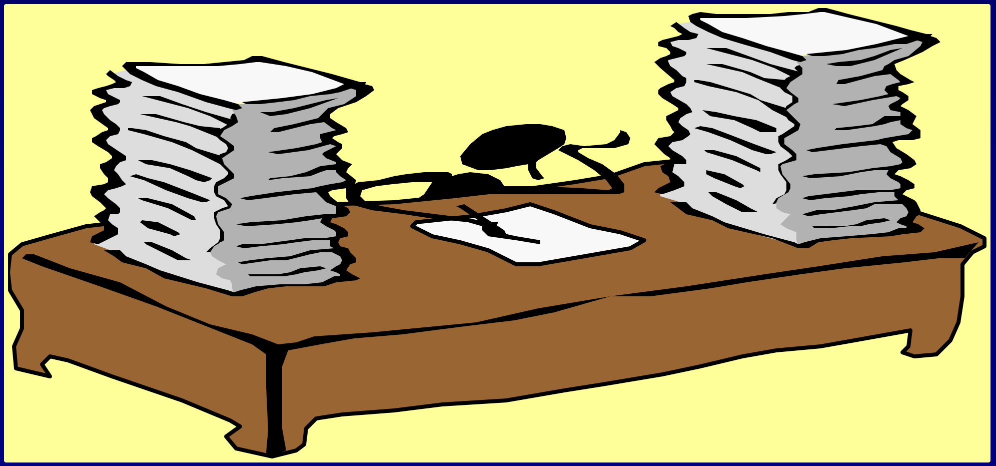
Non-banking (majority owned) subsidiaries are include both in Schedules E and M, Part III

Summary

- Purpose of the FR 2900
- FR 2900 Filing Requirements
  - Who must File
  - Consolidation
- Reporting Issues
  - Back Valuing vs Misposting
  - Foreign Currency Valuation
  - Related vs Non-related Institutions
  - Reporting Differences between the FFIEC 002 and the FR 2900 Report

Deposits vs Borrowings

Patricia Selvaggi



Deposits vs Borrowings

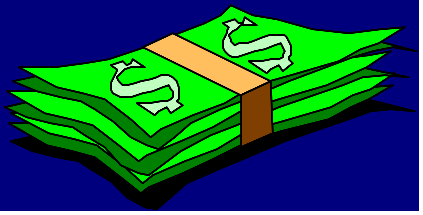
- A deposit is defined by Regulation D as the unpaid balance of money or its equivalent received or held by a depository institution in the usual course of business.
- In economic terms, deposits and borrowings are similar. However, they are different transactions from a legal and regulatory perspective.

Deposits vs Borrowings

- There are two rules of thumb to distinguish a specific deposit from a borrowing. These are:
  - If a transaction is called a deposit it must be treated as a deposit, regardless of the counterparty and the terms of the transaction

Deposits vs Borrowings

- Whether a transaction may be considered a borrowing depends on the terms of the transaction. If the document does not specifically refer to the transaction as a borrowing, it should be recorded on the general ledger as a deposit.



Primary Obligations

- Primary obligations are funds that may be required to be reported as:
  - Transaction accounts
  - Savings deposits
  - Time deposits

Primary Obligations

- There are two factors to consider when determining if a transaction or instrument is a “Primary obligation”. These are:
  - The nature of the transaction or instrument; and
  - The type of entity with which the transaction is entered

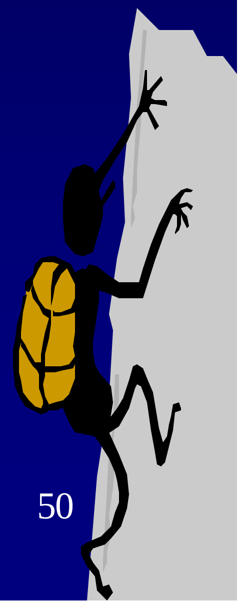
Primary Obligations
Exempt and Non-Exempt Entities

- The concept of exempt and non-exempt entity applies only to primary obligations.

- A “deposit” is reservable regardless of the counterparty.

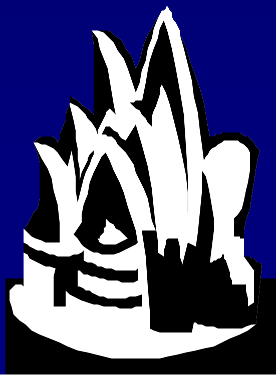
Primary Obligations
Exempt and Non-Exempt Entities

- An exempt entity is an institution that is required to maintain reserves; therefore, a primary obligation due to an exempt entity is not reservable.
- A non-exempt entity is an institution that is not required to hold reserves under U.S. banking laws; therefore, the primary obligation due to this entity is reservable.



Include as Exempt Entities

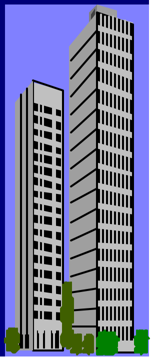
- The following are exempt entities
  - U.S. commercial banks and trust depository companies and their subsidiaries
  - A U.S. branch or agency of a foreign bank organized under Foreign (non-U.S.) law
  - Edge and Agreement corporations
  - Industrial banks



Include as Exempt Entities

– Mutual and stock savings banks, and savings and loan associations
– Credit unions

- Also include as exempt entities
– Federal Reserve Banks
– U.S. Government and its agencies



Include as Non-Exempt Entities

- The following are non-exempt entities
  - Individuals, partnerships, and corporations (wherever located)
  - Securities brokers and dealers, wherever located. (Except when the borrowing has a maturity of one day, is in immediately available funds, and is in connection with securities clearance)
  - State and local governments in the U.S. and their political subdivisions

Include as Non-Exempt Entities

- The following are non-exempt entities
  - A bank's parent holding company if the holding company is not a bank
  - A bank's non-bank subsidiaries
  - International Institutions (IBRD, IMF, etc.)
  - Non-U.S. banks (related or unrelated)

Examples of Primary Obligations

- The following are examples of primary obligations to be included on the FR 2900 or the FR 2951 *if entered into with a non-exempt entity*
  - Repurchase agreements collateralized with assets other than U.S. government or federal agency securities
  - Purchases of federal funds (immediately available borrowings)
  - Promissory notes (acknowledgments of advance)

Repurchase Agreements

- A repurchase agreement is an arrangement involving the sale of a security or other asset under a prearranged agreement to buy back that asset at a fixed price
- If repurchase agreements with non-exempt entities are not collateralized by U.S. government or federal agency securities, they are to be reported on the FR 2900

FR 2900 and the FFIC 002 Definitional Differences

FR 2900

Repurchase agreements, collateralized with assets other than U.S. Government or Federal Agency securities, are reported as deposits on the FR 2900

FFIEC 002

Repurchase agreements, collateralized with assets other than securities and with a maturity greater than one business day, are reported as borrowings in Schedule P

Federal Funds Purchased

- Federal funds are unsecured borrowings of immediately available funds
- Immediately available means funds that can be used or disposed of on the same business day that the funds become available
- Fed funds purchased from a non-depository institution are reportable on the FR 2900

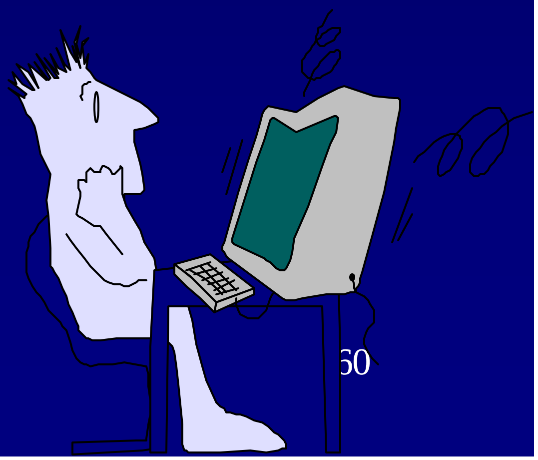
Promissory Notes/Commercial Paper

- A promissory note, otherwise known as an acknowledgment of advance, is a negotiable instrument which is evidence of a liability of a depository institution for funds that have been received.

- If the promissory note is issued to a non-exempt entity it should be reported on the FR 2900 or FR 2951.

Promissory Notes/Commercial Paper

- Commercial paper is an unsecured promissory note.



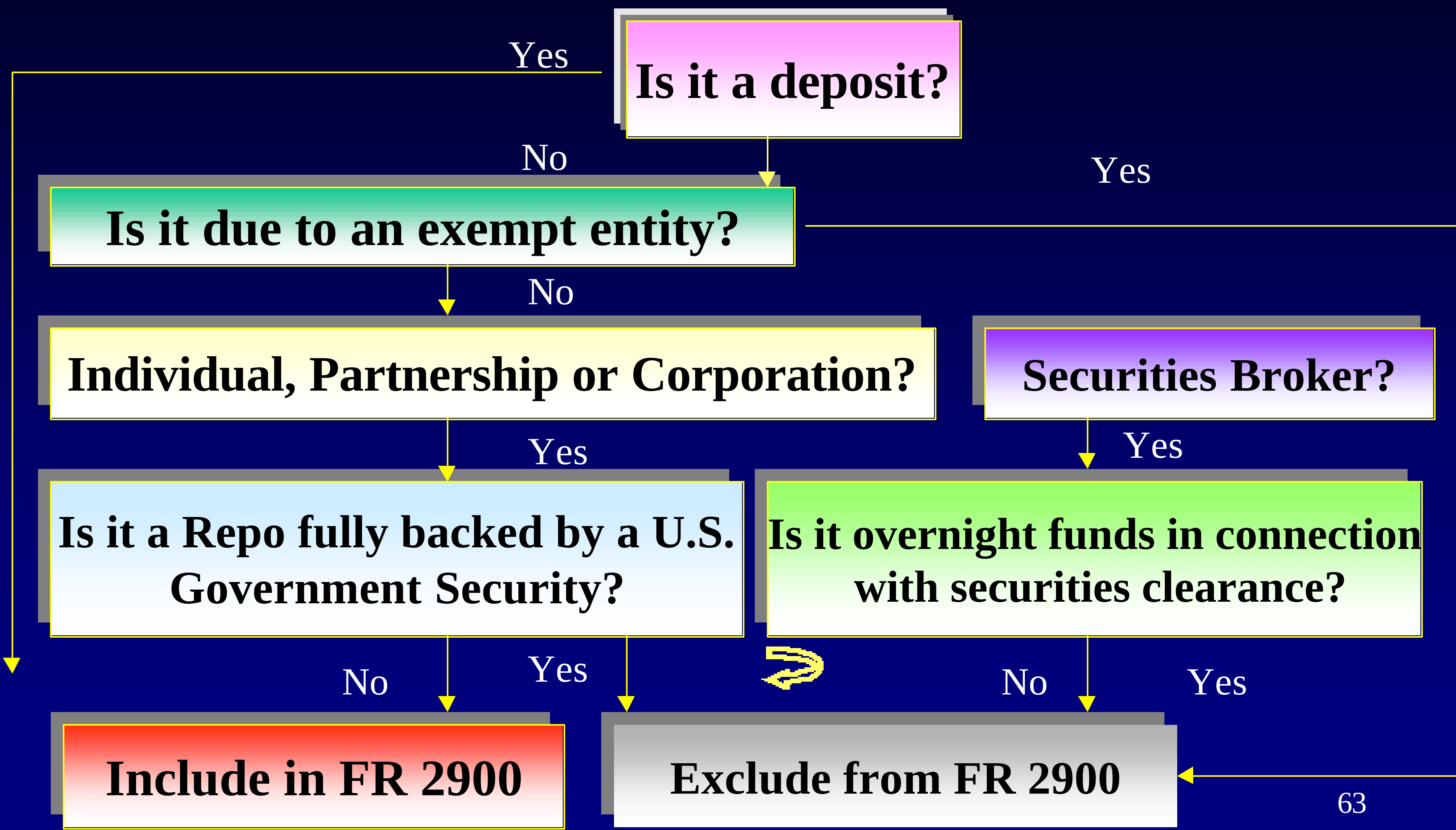
Due Bills

- A due bill is an instrument evidencing the obligation of a seller to deliver securities at some future date.
- If the due bill is not collateralized within 3 business days, it becomes reservable on the fourth business day regardless of the purpose of the due bill and to whom it was issued.

Reporting of Primary Obligations

- Any primary obligation of the reporting institution due to a non-exempt entity must be reported unless all of the following conditions are met
  - Is not insured by a federal agency
  - Is subordinated to the claims of the depositors
  - Has a weighted average maturity of five years or more
  - Is issued by a DEPOSITORY INSTITUTION with the approval of, or under the rules and regulations of, its primary federal supervisor

Guidelines for Reporting Primary Obligations



Borrowings of "Cash Equivalents"

- Borrowings of uncollateralized U.S. Government or Agency security from non-exempt entities are reservable
- If securities borrowings are collateralized with cash, then the transaction is treated as a repurchase agreement, not a deposit

Borrowings of "Cash Equivalents"

- For purpose of Regulation D the term deposit is defined as the unpaid balance or its "equivalent". Precious metals and U.S. government securities are considered the equivalent to money.

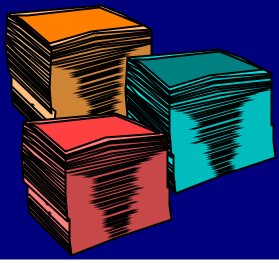
- A borrowing of any security whose principal and interest payments is not fully guaranteed by U.S. Government or Agency securities should be reported as a deposit for purposes of Regulation D.

Assets Held Other Than Currency (Gold Deposits)

- Deposits of precious metals or other equivalents of money are to be reported on the FR 2900 or FR 2951 in the same manner as other currency (e.g., U.S. dollars)

Assets Held Other Than Currency (Gold Deposits)

- For example, deposits and borrowings of gold are considered reservable liabilities. These are reported on either the FR 2900 or FR 2951 on the appropriate line, depending on the depositor or lender and the maturity.



Review

True or False **False**

Repurchase agreements backed by U.S. Treasury securities where the counterparty is a non-exempt depository institution are reportable on the FR 2900

Review

Federal funds purchased from which of the following are reported on the FR 2900?

a) Bank of Spain, NY Branch
b) Finance Corp.
c) ABC Bank N.A.
d) World Bank

Review

True or False **False**

Commercial paper issued to IBM would not be reported on the FR 2900

Transaction Accounts

Evelyn Castillo

Transaction Accounts

- In general, there are two types of transaction accounts
  - Demand deposits
  - "Other" transaction accounts (ATS, NOW, telephone and pre-authorized transfer accounts)

Demand Deposits

- Demand deposits are defined as
  - Deposits which are payable immediately on demand, or that are issued with an original maturity of less than seven days; or
  - Deposits for which the depository institution does not reserve the right to require seven days written notice before an intended withdrawal

Demand Deposits

– In addition, under the requirements of Regulation Q, interest cannot be paid on demand deposits

Demand Deposits

- Demand deposits include
  - Checking accounts
  - Outstanding certified, cashier's, teller's and official checks and drafts
  - Outstanding traveler's checks and money orders (unremitted)
  - Suspense accounts

Demand Deposits

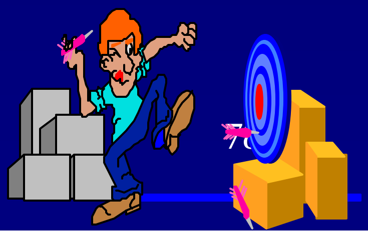
- Demand deposits include
  - Funds received in connection with letters of credit sold to customers, including cash collateral accounts
  - Escrow accounts that meet the definition of a demand deposit
  - “Primary obligations” with original maturities of less than seven days entered into with non-exempt entities

Demand Deposits
Due to Depository Institutions (Line A.1.a)

- Include deposits in the form of demand deposits due to
  - U.S. commercial banks
  - Non-U.S. depository institutions (including banking affiliates and subsidiaries)
  - U.S. offices of branches and agencies of other foreign (non-U.S.) banks, including branches and agencies of foreign official banking institutions

Demand Deposits
Due to Depository Institutions (Line A.1.a)

- Include deposits in the form of demand deposits due to:
  - U.S. and non-U.S. offices of other U.S. banks and Edge and agreement corporations
  - Mutual savings bank
  - Savings and loan associations
  - Credit unions



Demand Deposits
Due to U.S. Government (Line A.1.b)

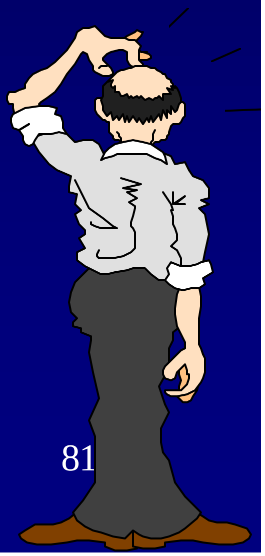
- Include in this item deposit accounts in the form of demand deposits that are designated as federal public funds, including U.S. Treasury Tax and Loan accounts
- Federal public funds are funds of the U.S. government and funds the deposit of which is subject to the control and regulation of the U.S.
- Include only deposits held for the credit of the U.S. government

Demand Deposits
Due to U.S. Government (Line A.1.b)

- Funds credited to Tax and Loan Demand Deposit Accounts as of the close of business on previous days should already have been remitted to FRB or automatically converted into open-ended interest-bearing notes, depending on the option selected by the reporting institution.

Demand Deposits
Due to U.S. Government (Line A.1.b)

- Interest-bearing U.S. Treasury Tax and Loan Account Note Balances are exempt from reserve requirements and should NOT be reported as deposits.



Other Demand Deposits (Line A.1.c)

- Include in this item all other deposits in the form of demand deposits, including
  - Demand deposits held for
    - Individuals, partnerships, and corporations State and local governments and their political subdivisions
    - Foreign governments (including foreign official banking institutions), and international institutions
    - U.S. government agencies

Cashier's and Certified Checks

- Cashier's checks are those checks drawn by the reporting institution on itself

- Certified checks are any business or personal checks stamped with the paying bank's certification that:

  - The customer's signature is genuine, and
  - There are sufficient funds in the account to cover the check.

Teller's Checks

- Teller's checks are those checks drawn by the reporting institution on, or payable at or through, another depository institution, a Federal Reserve Bank, or a Federal Home Loan Bank.

Teller's Checks

- Those checks drawn on, or payable at or through, another depository institution, on a zero-balance account or an account not routinely maintained with sufficient balances to cover checks or drafts drawn in the normal course of business should be reported in Line A.1.c.

Teller's Checks

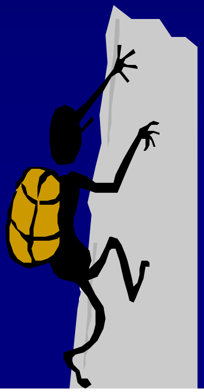
- However, those checks drawn on an account in which the reporting institution routinely maintains sufficient balances should be:
  - excluded from Line A.1.c.
  - the amount of the check should be deducted from the balances reported in Line B.1.

Suspense Accounts

- Unidentified funds received and held in suspense are considered deposits and are to be reported on the FR 2900.
- These funds should be reported as “Other demand deposits” in Line A.1.c

Suspense Accounts

- If it is known that funds were received for the credit of a depository institution, but the name of the depository institution is not known, the funds should be reported as “Due to depository institutions” in Line A.1.a

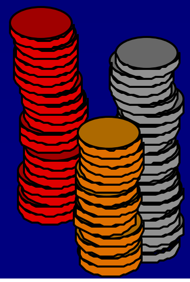


Suspense Accounts

- If it is known that funds were received for the credit of a non-U.S. branch or agency of your parent bank, the funds should be reported in Line 2 of the FR 2951

Reporting of Overdrafts

- Overdrafts in deposit (due to) accounts
  - When a deposit account is overdrawn, the balance in the account should be raised to zero and not included as an offset to other demand deposit accounts
  - Instead the overdrawn amount should be regarded as a loan made by the reporting institution and excluded from this report



Reporting of Overdrafts

- Overdrafts in deposit (due to) accounts
  - The amount of the overdraft should not be netted against positive balances in the depositors' other accounts unless a bona fide cash management function is served

Reporting Overdrafts

- Overdrafts in an account maintained at another depository institution (due from)
  - When a due from account becomes overdrawn, the balance should also be raised to zero
  - If the account is routinely maintained with sufficient funds, the overdrawn amount is considered a borrowing and excluded from this report

Reporting Overdrafts

- Overdrafts in an account maintained at another depository institution (due from)
  - If the due from account is <u>not</u> routinely maintained with sufficient funds (e.g., zero balance account) the overdrawn amount is considered a demand deposit and must be reported in other demand in Line A.1.c

Review

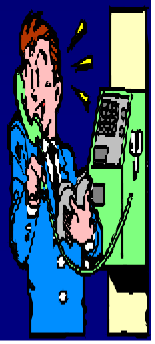
Bank ABC maintains the following demand deposits.

DDA Account	Amount
Corp. A	$10,000
Corp. B	$15,000
Corp. C	($5,000)
Corp. D	$20,000

What should be reported on line A.1.c? **$45,000**

Bona Fide Cash Management

- A bona fide cash management plan exists when a depository institution:
  - allows a depositor to use the balance in one deposit account to offset overdrafts in another deposit account,
  - some genuine cash management purpose is served.



Guidelines for Bona Fide Cash Management Agreements

- Although a written agreement does not have to be in place to be "bona fide", the cash management agreement must have some indication that the depository institution intends to use two or more checking accounts in order to control receipts and disbursements more accurately.

Guidelines for Bona Fide Cash Management Agreements

Example 1

Establishing one account for receipts and another for disbursements would be considered bona fide.

Example 2

Establishing one account for payroll and another account for receipts and disbursements would not be considered bona fide.

Guidelines for Bona Fide Cash Management Agreements

Positive balances in one type of deposit account cannot be used to offset balances in another type of deposit account.

Example 3

An overdraft in a demand deposit account cannot be covered by positive balances in an MMDA account

Escrow Accounts

- An escrow agreement is a written agreement authorizing funds to be held by a third party
- The funds are placed with the depository institution until the agreement has been met, at which time the escrow funds are sent to the proper party
- Escrow accounts are reported on the FR 2900 according to the terms of the escrow agreement

Escrow Accounts

- If when the funds are deposited they may be withdrawn on demand or are to be disbursed within seven days, then this escrow account is a transaction account.

Review

True or False **True**

An escrow account structured to accept deposits daily and disburse funds bi-weekly is a transaction account

“Other” Transaction Accounts

Evelyn Castillo

"Other" Transaction Accounts

- "Other" transaction accounts are
  - Deposit accounts, other than savings deposits
  - On which the depository institution reserves the right to require seven days written notice prior to withdrawal or transfer of any funds in the account
  - Subject to check, draft, negotiable order of withdrawal, electronic transfer, or other similar items
  - <u>Provided</u> the depositor is eligible to hold a NOW account

Difference Between Demand Deposits and Other Transaction Accounts

- Demand deposits differ from “other” transaction accounts in that
  - The depository institution does not reserve the right to require seven days written notice before an intended withdrawal
  - There are no eligibility restrictions on who can hold a demand deposit account
  - Interest may not be paid on a demand deposit account

Negotiable Order of Withdrawal (NOW) Accounts (Line A.2)

- NOW accounts are deposits
  - Where the depository institution reserves the right to require seven days written notice prior to withdrawal or transfer of any funds in the account
  - That can be withdrawn or transferred to third parties by a negotiable or transferable instrument

NOW Account Eligibility

- NOW account eligibility is limited to accounts for which the entire beneficial interest is held by
  - Individuals or sole proprietorships
  - U.S. governmental units, including the federal government and its agencies and instrumentalitites
  - Non-profit organizations, such as churches, professional, and trade associations

Deductions From Transaction Accounts

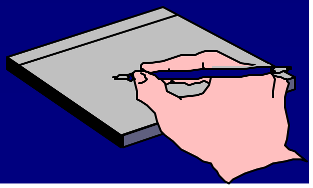
Mario Leon

Demand Balances Due From Depository Institutions in the U.S. (Line B.1)

- Consists of all balances subject to immediate withdrawal that are due from U.S. offices of depository institutions
- For purposes of the FR 2900 reporting, immediately available funds are
  - Funds that the reporting institution has full ownership of and can invest or dispose of on the same day the funds are received

Demand Balances Due From Depository Institutions in the U.S. (Line B.1)

- Balances to be reported should be the amount reflected on the reporting institution’s books rather than the amount on the books of the other depository institution.



Demand Balances Due From Depository Institutions in the U.S. (Line B.1)

- However, the use of your correspondent books is permissible if the following are true
  - The transaction actually occurred on the previous day and the balances on the books of your correspondent are accurate
  - Both credit and debit entries are reported and there is no "selective" booking

Demand Balances Due From Depository Institutions in the U.S. (Line B.1)

– The transaction is segregated from transactions occurring the following day

– The reporting treatment is consistent for all regulatory reports

Demand Balances Due From Depository Institutions in the U.S. (Line B.1)

- Include balances due from
  - U.S. offices of
    - Commercial banks
    - Banker's banks
    - Edge and agreement corporations
    - U.S. branches and agencies of foreign (non-U.S.) banks
- The reporting institution may report reciprocal demand balances with the above institutions on a net-by-institution basis

Demand Balances Due From Depository Institutions in the U.S. (Line B.1)

- Also include balances due from
  - Savings banks
  - Credit unions
  - Savings and loan associations

However, demand balances with these institutions must be reported on a gross basis

Demand Balances Due From Depository Institutions in the U.S. (Line B.1)

- Exclude balances due from
  - Federal Reserve Banks including
    - The reporting institution's reserve balances held directly with the Federal Reserve
    - The reporting institution's reserve balances passed through to the Federal Reserve Bank by a correspondent
    - The reporting institution's clearing balance maintained at a Federal Reserve Bank

Demand Balances Due From Depository Institutions in the U.S. (Line B.1)

Also exclude

- Balances due from other U.S. branches and agencies of the same foreign parent bank

- Any “clearing house” or “next day funds”

- Balances due from any non-U.S. office of any U.S. depository institution or foreign (non-U.S.) bank

Demand Balances Due From Depository Institutions in the U.S. (Line B.1)

Also exclude

– Balances due from Federal Home Loan Banks

– Demand deposit balances due from other depository institutions that are pledged by the reporting institution and are not immediately available for withdrawal

Demand Balances Due From Depository Institutions in the U.S. (Line B.1)

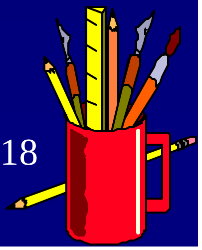
Also exclude

– Cash Items in the process of collection

<u>However,</u> cash items in process of collection for which the reporting institution's correspondent provides immediate credit should be reported in this item

Reciprocal Balances

- Reciprocal balances arise when two banks maintain deposit accounts with each other (i.e., each bank has a “due to” and “due from” balance with the other bank)



Reciprocal Balances

Gross Method

	Due to" banks	"Due from" banks
Bank A	3M	5M
Bank B	10M	2M
Bank C	6M	9M
Total	19M	16M

Reciprocal Balances

Net Method

	"Due to" banks	"Due from" banks
Bank A	0	2M
Bank B	8M	0
Bank C	0	3M
Total	8M	5M

FR 2900 and the FFIEC 002 Definitional Differences

Due from depository institutions (Line B.1)

- Reciprocal Balances

FR 2900	**FFIEC 002**
Reported net or gross on the FR 2900.	Reported net if a valid right of setoff exists.

FR 2900 and the FFIEC 002 Definitional Differences

Due from depository institutions (Line B.1)

- Overdrafts in due from accounts

FR 2900	FFIEC 002
Reported as demand deposits in other demand (Line A.1.c) if they are not routine.	Reported as borrowings in Schedule P regardless whether routine or not routine

FR 2900 and the FFIEC 002 Definitional Differences

Due from depository institutions (Line B.1)

- Pass through reserve balances

FR 2900	**FFIEC 002**
Excluded from the FR 2900 if passed through to a Federal Reserve Bank by a correspondent	Included in Schedule A even if passed through to a Federal Reserve Bank by a correspondent

Cash Items in the Process of Collection (Line B.2)

- A cash item is defined as any instrument for payment of money immediately on demand
- Include as cash items
  - Checks or drafts drawn on another depository institution, or drawn on the Treasury of the United States, that are in the process of collection with
    - Other depository institutions
    - Federal Reserve Banks
    - Clearing houses

Cash Items in the Process of Collection (Line B.2)

- Include as cash items
  - Other items that are customarily cleared or collected, such as
    - Redeemed government bonds and coupons
    - Money orders and traveler's checks

Cash Items in the Process of Collection (Line B.2)

- Also include as cash items
  - **Unposted debits**: Cash items on the reporting institution that have been "paid" or credited by the institution and that have not been charged against deposits as of the close of business

Example

A check is presented to a bank for collection and the bank pays the check without debiting the customer's account.

Cash Items in the Process of Collection (Line B.2)

- Exclude as cash items
  - Checks or drafts drawn on foreign banks or foreign institutions
  - Funds not received as a result of failed transactions (e.g., funds, securities, and/or foreign currency fails)
  - Checks or drafts deposited with its correspondent for which the reporting institution is given immediate credit (reported in Line B.1)

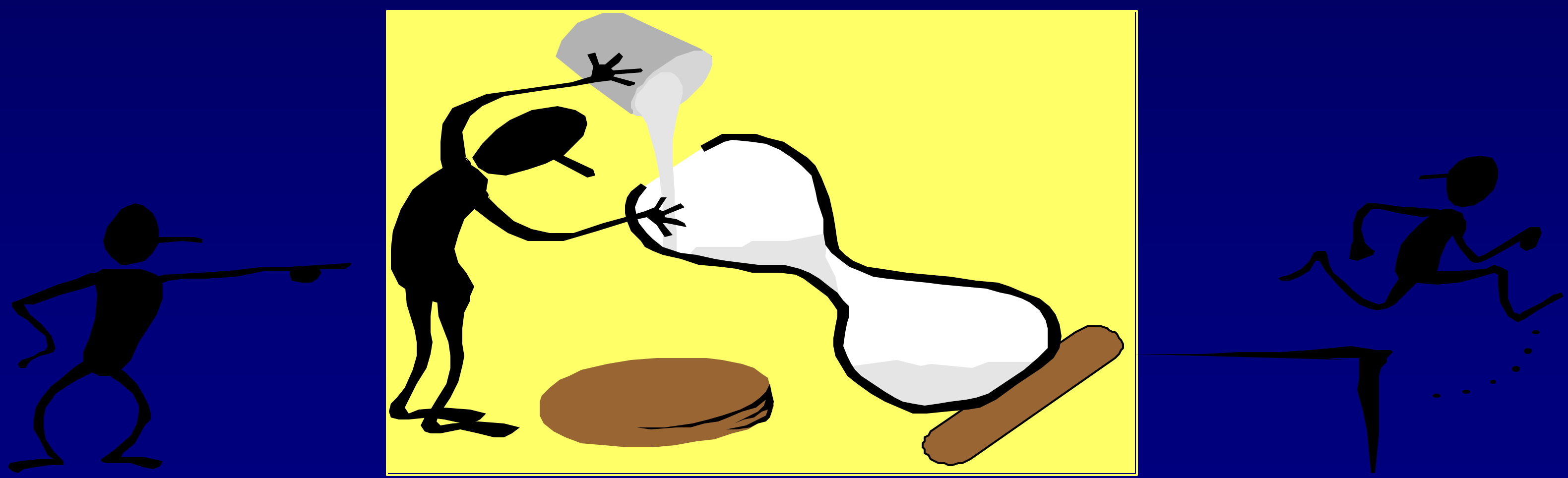
FR 2900 and the FFIEC 002 Definitional Differences

- Cash Items in the Process of Collection (Line B.2)

FR 2900	**FFIEC 002**
Excludes checks drawn on a Federal Reserve Bank	Includes checks drawn on a Federal Reserve Bank on Schedule A, Column A, Item 1
Excludes checks drawn on a bank outside the U.S.	Includes all checks drawn on depository institutions, regardless of their location

Savings Deposits

Mario Leon



Total Savings Deposits (Line C.1)

- Depository institutions must reserve the right to require seven days' written notice before an intended withdrawal
- These deposits are not payable on a specified date or at the expiration of a specified time after the date of deposit

Terms of a Savings Deposit (Line C.1)

- The depositor is authorized to make no more than <u>six</u> transfers and withdrawals, or a combination of such transfers and withdrawals per calendar month or statement cycle of at least four weeks to a third party
- No more than three of the six transfers or withdrawals can be made by
  - Check or draft
  - Debit card
  - Similar order made by the depositor and payable to third parties

Types of Third Party Transfers (Line C.1)

- Third party transfer is a movement of funds
  - From a depositor's account to another account of the same depositor at the same institution or,
  - From a depositor's account to a third party at the same depository institution or,
  - From a depositor's account to a third party at another depository institution by:
    - Preauthorized or automatic transfer
    - Telephonic transfer
    - Check or draft

Types of Third Party Transfers (Line C.1)

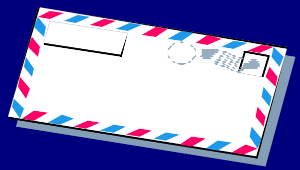
- A preauthorized transfer is an arrangement by the depository institution to pay a third party upon written or oral instruction by the depositor. This includes orders received
  - Through an automated clearing house (ACH) or
  - Any arrangement by the reporting institution to pay at a predetermined time or on a fixed schedule

Types of Third Party Transfers (Line C.1)

- A <u>telephonic transfer</u> is when the depository institution receives an agreement, order, or, instruction to transfer funds in the depositor's account either by:
  - Telephone
  - Fax
  - Remote Service Unit (RSU)

Third Party Transfers (Line C.1)

- Not considered third party transfers
  - Transfers of funds from one account to another when made by
    - Mail
    - Messenger
    - ATM
    - In person



Third Party Transfers (Line C.1)

- Not considered third party transfers
  - Withdrawals for payment directly to the depositor when made by:
    - Mail
    - Messenger
    - ATM
    - In person
    - Telephone (Via check mailed to the depositor)

Procedures For Ensuring Permissible Number of Transfers (Line C.1)

- To ensure that the permitted number of transfers or withdrawals do not exceed the limits a depository institution must either
  - Prevent withdrawals or transfers of funds in this account that are in excess of the limits established by savings deposits; or

Procedures For Ensuring Permissible Number of Transfers (Line C.1)

– Adopt procedures to monitor those transfers on an ex-post basis and contact customers who exceed the limits established on more than an occasional basis for the particular account

Procedures For Ensuring Permissible Number of Transfers (Line C.1)

- For customers who continue to violate these limits after being contacted, the depository institution must either
  - Close the account and place the funds in another account that the depositor is eligible to maintain; or
  - Take away the account's transfer and draft capabilities

Procedures For Ensuring Permissible Number of Transfers (Line C.1)

- If a depository institution does not monitor third party transfers from a savings deposit, the institution may be required to reclassify the account as a transaction account for current and previous periods.

Include as Savings Deposits (Line C.1)

- The following should be included if they meet the definition of a savings deposit
  - Interest and non-interest bearing savings deposits
  - Compensating balances or funds pledged as collateral for loans
  - Escrow deposits
  - IRAs, Keogh, Club Accounts

Exclude From Savings Deposits (Line C.1)

- The following should be excluded from savings deposits
  - Transaction accounts
  - Interest accrued on savings deposits but not yet credited to the customer's account
  - Any account with a specified maturity date

Time Deposits

Marc Plotsker

Agenda

- Total Time Deposits (Line D1)
- Time Deposits >= $100k (Line F1)
- Non-Personal Savings & TDs (Line F2)
- Brokered Deposits
- Guaranteed CDs
- Vault Cash (Line E1)

Total Time Deposits (Line D.1)

- The depositor does not have the right and is not permitted to make withdrawals on these deposits that
  - Have a maturity date of at least seven days from the date of deposit
  - Are payable after a specified period of at least seven days after the date of deposit
  - Are payable at least seven days after written notice of an intended withdrawal has been given

Total Time Deposits (Line D.1)

- If a withdrawal is made less than seven days after a deposit, the depositor is
  - Penalized at least seven days simple interest on amounts withdrawn within the first six days after deposit
  - If early withdrawal penalties are not in place then the account could be reclassified as a transaction account (if it meets the requirements)

Include as Time Deposits (Line D.1)

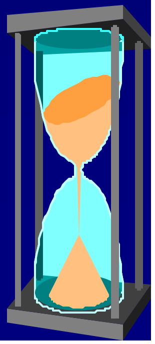
- A depository institution should include as time deposits
  - All funds that are payable at the expiration of a specified time not less than seven days after deposit, or
  - Payable only upon written notice that is required to be given by the depositor not less than seven days prior to withdrawal, or

Include as Time Deposits (Line D.1)

- A depository institution should include as time deposits
  - Time open accounts (maturity greater than seven days)
  - Escrow accounts
  - Brokered deposits
  - IRA, Keogh Plans
  - Compensating balances for funds pledged as collateral for loans

Include as Time Deposits (Line D.1)

- Also include as time deposits
  - Liabilities arising from primary obligations that are issued in original maturities of seven days or more to non-exempt entities



Exclude as Time Deposits (Line D.1)

- A depository institution should exclude any deposit that does not meet the definition of a time deposit such as
  - Matured time deposits even if interest is paid after maturity, unless the deposit provides for automatic renewal at maturity
  - Transaction accounts
  - Interest accrued on time deposits but not yet paid or credited to the customer's account

Other Time Deposits

- The following items could also be considered time deposits
  - Deposit notes
  - Bank notes
  - Medium term notes
  - Primary obligations, such as commercial paper issued to non-exempt entities

FR 2900 and the FFIEC 002 Definitional Differences

Time Deposits (Line D1)

- Primary Obligations

FR 2900

Primary obligations with non-exempt entities and an original maturity of greater than seven days are reported as time deposits.

FFIEC 002

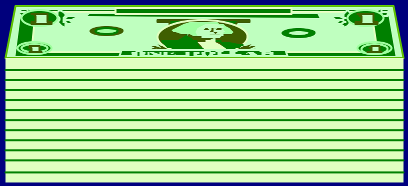
Primary obligations are classified and reported as borrowings.

Summary of Line D1

- Seven days or greater.
- May be issued to personal and/or non-personal entities.
- Penalties for early withdrawal.
- Interest bearing.
- Non-Interest bearing.
- Interest accrued and credited.
- Primary obligations issued to non-exempt entities.

Large Time Deposits (Line F.1)

A depository institution should report in this item all time deposit accounts with balances $\geq$ \$100 thousand.



Include as Large Time Deposits (Line F.1)

- A depository institution should include in large time any deposit already reported as total time with balances of $100 thousand or more and
  - Negotiable and nonnegotiable, certificates of deposits issued in denominations of $100 thousand or more; and
  - Time deposits originally issued in denominations of less than $100 thousand but because of interest credited or paid, or additional deposits, have balances of $100 thousand or more

Criteria For Determining Large Time Deposits (Line F.1)

- Time deposits issued on a discount basis should be reported initially on the amount of funds received by the reporting institution.

<u>Example</u>

Depository institution receives $96 thousand in exchange for a CD issued at face value of $100 thousand. This CD should be regarded as having a denomination less than $100 thousand and excluded from Line F.1.

Criteria For Determining Large Time Deposits (Line F.1)

- The interest earned on these deposits should also be reported as time deposits when credited to the account.

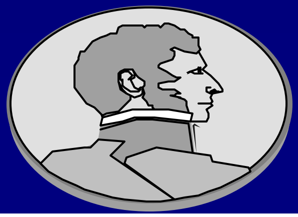
- A depository institution should not include combined deposits totaling $100 thousand that are represented by separate certificates or accounts, even if held by the same customer.

Criteria for Large Time Deposits (Line F.1)

- If the value of foreign currency denominated deposits falls below $100 thousand (because of a change in exchange rates) the deposit must still be reported as a large time deposit based on the original value.

Exclude from Large Time Deposits (Line F.1)

- Time deposits that do not meet the definition of a large time should be excluded such as
  - Matured large time deposits
  - Time deposits less than $100 thousand



True or False

- True or False:
  - A depositor has several time deposits issued in denominations of $30k, $50k, and $20k. Since the total equals $100k, this activity should be reported in lines D1, and F1.

True or False

- True or False:

  False.

  This activity should only be reported in line D1 - Total time. Line F1 should not reflect this activity since these <u>individual</u> deposits are not equal to or greater than $100k.

Non-Personal Savings and Time Deposits (Line F.2)

- Non-personal savings and time deposits represent funds in which the beneficial interest is not held by a natural person

- Natural person means an individual or a sole proprietorship (does not include a corporation owned by an individual, a partnership or other association)

Include as Non-Personal Savings and Time Deposits (Line F.2)

- Include as non-personal savings and time deposits
  - Funds deposited to the credit of or in which the beneficial interest is held by a depositor that is not a natural person
  - Brokered deposits if the beneficial interest is held by a non-natural person
  - Funds that are transferable whether or not the entire beneficial interest is held by a natural person

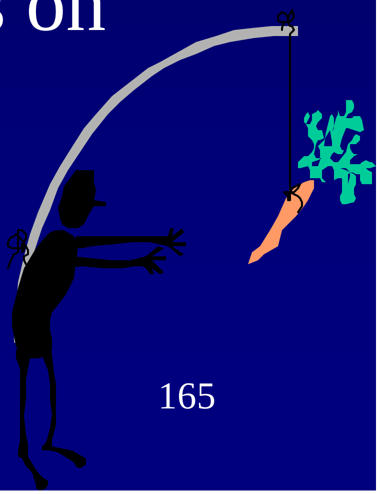
Exclude from Non-Personal Savings and Time Deposits (Line F.2)

- Funds which are not transferable and that the entire beneficial interest is held by a depositor who is a natural person

Treatment of Brokered Deposits

- What is a brokered deposit?

  Funds in the form of deposits that a depository institution receives from brokers or dealers on behalf of individual depositors.



Treatment of Brokered Deposits

- For purposes of the FR 2900, brokered deposits are usually reported as
  - Large time deposits with balances $\geq$ \$100 thousand (Line F.1)
  - Total non-personal savings and time deposits (Line F.2) unless any of the following are true:

Treatment of Brokered Deposits

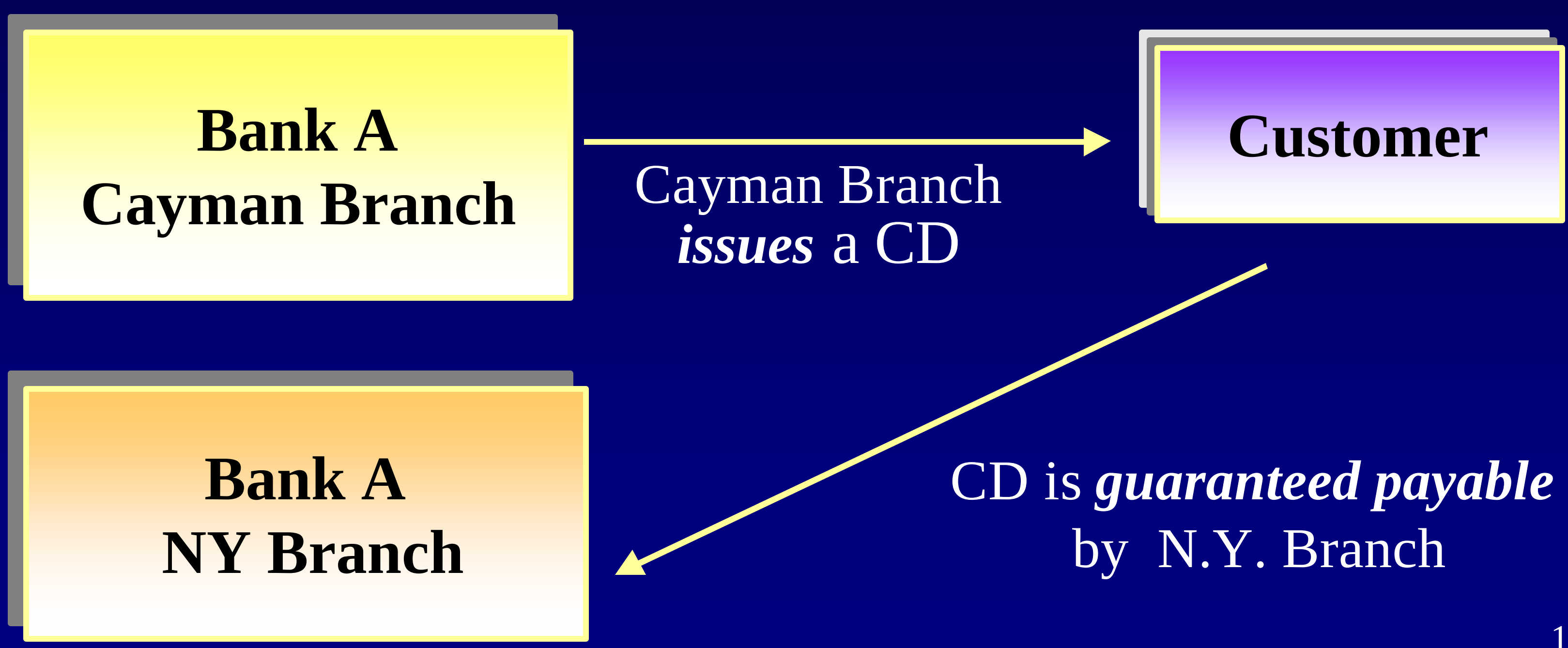
- The deposit and beneficial interest is held by a natural person; or
- The depository institution has the following agreement with the deposit broker:
  - The broker maintains records of the owners of all brokered deposits, and these records are available to the depository institution;

Treatment of Brokered Deposits

- These records will provide the depository institution with the amounts of the deposits owned by natural and non-natural persons;
- A breakout of large time deposits;
- The depository institution must have access to these records; and
- The broker must commit to provide any other data needed by Federal or state regulators.

Guaranteed CDs

Guaranteed CDs are CDs issued by non-U.S. offices of a foreign bank, and guaranteed payable in the U.S. by a U.S. branch or agency.

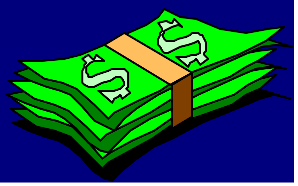


Guaranteed CDs

- Payment of a deposit in a non-U.S. branch of a depository institution that is guaranteed by a promise of payment at an office in the U.S. is subject to Regulation D requirements and therefore is included on the FR 2900
- Since the payment is guaranteed at an office in the U.S., the customer no longer assumes country risk but enjoys the same rights as if the deposit had been made in the U.S.

Guaranteed CDs

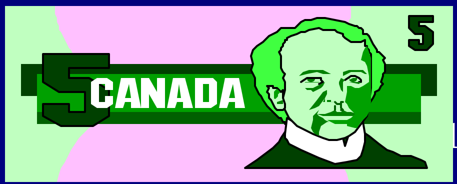
- These deposits usually have a maturity of seven days or greater and are over $100 thousand. Therefore these are usually reported in Lines D.1, F.1, and F.2. (If issued to non-personal entities.)



Vault Cash

Vault Cash
(Line E.1)

- Vault cash consists of U.S. coin and currency owned and held by the reporting institution that may be used at any time to satisfy depositors' claims.



Vault Cash
(Line E.1)

- The following are items that should be included as vault cash
  - U.S. coin and currency in transit to a Federal Reserve Bank or correspondent bank for which the reporting institution has not yet received credit
  - U.S. coin and currency in transit from a Federal Reserve Bank or correspondent bank for which the reporting institution has already been charged

Vault Cash
(Line E.1)

- Also included, is vault cash placed on the premises of another institution provided
  - The reporting institutions has full rights of ownership to obtain the coin and currency immediately in order to satisfy customer demands
  - The institution from which the vault is rented does not include that coin and currency as its own vault cash

Vault Cash
(Line E.1)

- Exclude the following items from vault cash
  - Foreign coin and currency
  - Silver or gold coin (bullion) and other currency where its nominal value exceeds its face value
  - Coins and collections held in safekeeping for customers
  - Any currency and coin that the reporting institution does not have the full and unrestricted right to use to satisfy depositor's claims

Definitional Differences on FR 2900 vs the FFIEC 002

Vault Cash

FR 2900

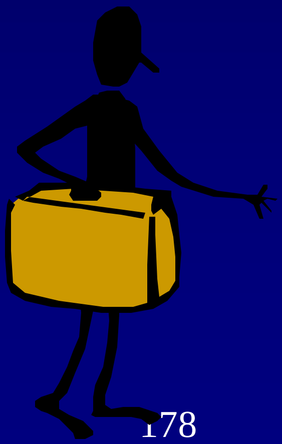
Vault cash includes only U.S. coin and currency

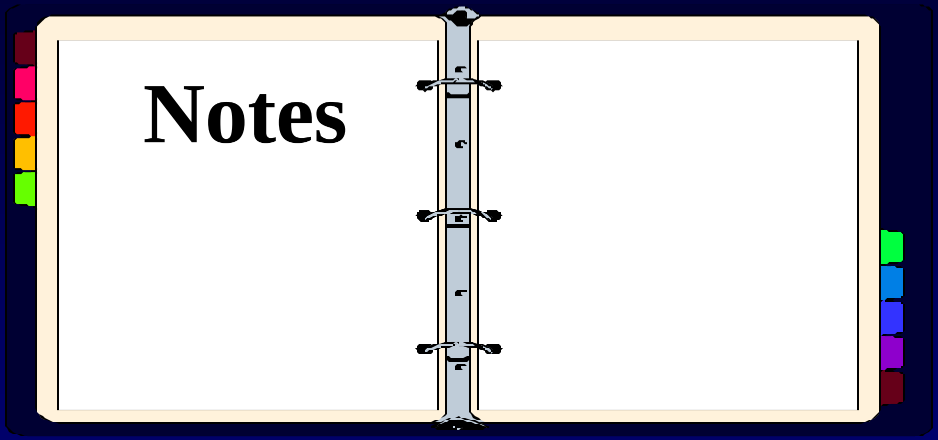
FFIEC 002

Vault cash includes both U.S. and non-U.S. currency (converted to U.S. dollars)

Summary

- Time Deposits
  - Minimum maturity of seven days
  - Early withdrawal penalty must be in place
  - Large time deposits
- Guaranteed CDs
- Vault cash (immediately satisfy customers' demand)

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