



*Guide to the
Federal Reserve's*
**Interstate Branching
Account Structure**

*Federal Reserve System
February 1997*

Table of Contents

This Guide is intended to help you prepare for the Federal Reserve’s new interstate branching account structure which will be implemented in January 1998. The guide will familiarize you with the basic concepts of the new account structure, why it is being implemented, who will be affected, how your accounting transactions will be processed, and what you will need to do to prepare for the transition to the new structure. As an additional training tool, the Federal Reserve also has prepared a video that provides an overview of the new account structure and the changes you may encounter. You may obtain a copy of this video by contacting your local Federal Reserve Office.

- Introduction* 1

- Background*..... 2

- The New Account Structure* 3

- New Accounting Services and Enhanced Information* 7

- Transition Account Arrangements* 16

- What You Need to Do* 18

- Glossary* 20

- Appendix: Commonly Asked Questions* 22

Introduction

Effective January 1998, the Federal Reserve will implement a new account structure to support your account management and information needs in the new interstate branching environment. Under this structure we will provide separately chartered depository institutions with one **master account** and the option of establishing **subaccounts** to segregate transaction information according to certain criteria such as geographic region or type of transaction. All current multiple account relationships for depository institutions operating under a single charter that are not required by regulation (e.g., U.S. branches and agencies of foreign banks) must be phased out by year-end 1998. We encourage you to review carefully the materials contained in this Guide, and to share this information with others in your organization. Although we expect that many institutions will be unaffected by the new structure, staff at your local Federal Reserve Office is available to answer your questions about how best to manage your account relationship in the new interstate branching environment.

The following material will provide you with background information on the development of an interstate branching account model; a detailed explanation of the new account structure; an introduction to new and enhanced accounting services; a discussion of transition account arrangements; and information on what you will need to do to prepare for the new account structure.

Background

The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 is expected to lead to widespread interstate branch banking by year-end 1997. In anticipation of the changing banking landscape, the Federal Reserve reviewed its relationships with depository institutions to ensure that your organizational and business needs will be met in the new interstate branching environment.

Relationships

A key relationship between depository institutions and the Federal Reserve System is the debtor-creditor relationship. The Federal Reserve is a debtor of each depository institution that maintains positive **reserve balances**, and is a creditor when the institution's account is overdrawn or when it borrows from the Federal Reserve's Discount Window.

In order for the Federal Reserve to carry out its responsibilities related to monetary and credit policies most effectively, we envision a single debtor-creditor relationship with each separately chartered depository institution. This type of relationship will provide streamlined control of your account relationship and a focal point for coordinating communications between your institution and the Federal Reserve. Reserve maintenance and intraday and overnight credit access for each separately chartered depository institution will be administered by one Reserve Bank. Based on banking industry comments, this approach appears to be the most efficient and most effective way for you to manage your relationship with the Federal Reserve.

Another key relationship between depository institutions and the Federal Reserve System is the financial services relationship. In an interstate branching environment, we will continue to provide local services (e.g., check collection and cash services) to offices of an interstate branch bank through local Reserve Bank Offices. National services, such as **Fedwire**, also will continue to be provided through multiple electronic access points. Just as today, institutions with interstate branches can obtain financial services from multiple Reserve Bank Offices in one or more Federal Reserve Districts.

Account Model

Two options were considered for achieving a single debtor-creditor relationship, as this relationship can be implemented either directly through a single account or indirectly by netting across multiple accounts. While the Federal Reserve could support either one of these structures operationally, the fact that an institution with interstate branches will ultimately need a single view of its account position suggested that a single account would be a more useful and straightforward approach. Assuming that multiple accounts predominantly serve as a means to organize financial information, the Federal Reserve can support the need to manage a single position through one account, while providing information on transactions in flexible ways to meet various organizational, product, or funding strategies. This can be accomplished with a single account supported by optional subaccounts.

We developed this single account model in response to input from depository institutions and in view of Federal Reserve needs. To ensure that the account model would meet the future needs of the banking industry, we conducted a series of interviews with selected depository institutions from October 1995 through January 1996. Interview participants expressed strong support for having a single account supported by optional subaccounts for each chartered depository institution and provided valuable input which was used to finalize the new interstate branching account structure.

The New Account Structure

Under the new account structure, you will be provided with a single master account at a designated Reserve Bank, where all credits and debits arising from financial transactions with the Federal Reserve will settle. *All aspects of your Federal Reserve account management will be administered by this Reserve Bank through your master account, including reserve/clearing balance administration, **overnight overdraft** monitoring, **daylight overdraft** monitoring, and discount window access.* As is the case today, the location of your master account typically will be determined by the location specified in your institution's charter. However, in an interstate branching environment, we recognize that some of your corporate decision-making activities may reside in a location that differs from your charter location. If this is the case, the Federal Reserve will work with you to determine the most appropriate location for your master account.

The new account structure is available to all depository institutions eligible to maintain an account with the Federal Reserve, except for those institutions currently required to have multiple accounts pursuant to regulation. These institutions include (1) U.S. branches and agencies of foreign banks and Edge Act and agreement corporations, which are required to maintain one account per state in which they have a presence, and (2) correspondents with out-of-District pass-through respondents, which are required to maintain a separate account in the District in which the respondents are located. Both of these requirements are being reevaluated in light of interstate branching. Additionally, as permitted under current regulation, correspondents with pass-through respondents located in the same Reserve Office may continue to house their respondents' reserve balances in an account separate from their own master account.

While the new account structure clearly benefits centralized account management, we also recognize the need to support the information requirements of decentralized "back-office" and/or branch operations. For this, we created subaccounts. Subaccounts will be identified by nine-digit ABA Routing Transit Numbers (RTNs), or, in some cases, by Customer Identification Numbers (CINs) assigned by the Federal Reserve. (This Guide will refer to both numbers as RTNs.) Subaccounts may be used to segregate information on the transactions settling in your master account, either for reconciliation or other account management purposes. Subaccounts are modeled after existing respondent/correspondent settlement relationships, which allow a depository institution (a respondent) to settle its non-Fedwire transactions, such as check, cash, and **ACH**, in an account held by another institution (a correspondent). Thus, as with respondent/correspondent relationships, transactions initiated by a depository institution using its subaccount RTN will settle in its master account. However, there is an important distinction between respondent and subaccount settlement relationships in that subaccounts can be used to send and receive Fedwire funds transfers, whereas respondent settlement relationships cannot.

Account Structure Definitions

<i>Master Account</i>	A master account is a record of financial transactions that reflects the financial rights and obligations of an account holder and of the Reserve Bank with respect to each other, and where opening and closing balances are determined.
<i>Subaccount</i>	A subaccount is an information record of a subset of the transactions that affect the master account. Subaccounts will not reflect balances, but will contain totals of debit and credit activity.

The new account structure centralizes the account relationship between your institution and the Federal Reserve so that communications about your account are streamlined through a single coordination point. The management of your account position is consolidated, and the use of optional subaccounts provides you with flexibility to organize your account information. Depository institutions have identified these features as the most important aspects of the new account structure.

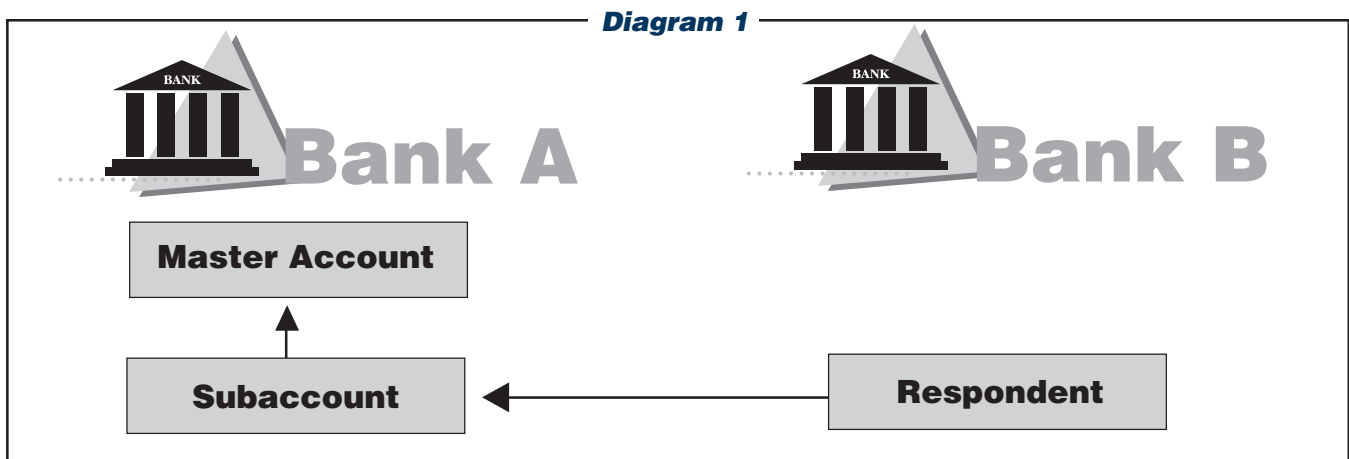
How Can Subaccounts Be Used?

One use for subaccounts is to segregate transaction information according to certain criteria, such as type of service or geographic region. For instance, if you initiate and receive ACH transactions using a subaccount RTN, those transactions will settle in your master account, and - for information purposes - they will be segregated by subaccount RTN on your Federal Reserve accounting and billing statements, inquiry screens, reports, and reconciliation files.

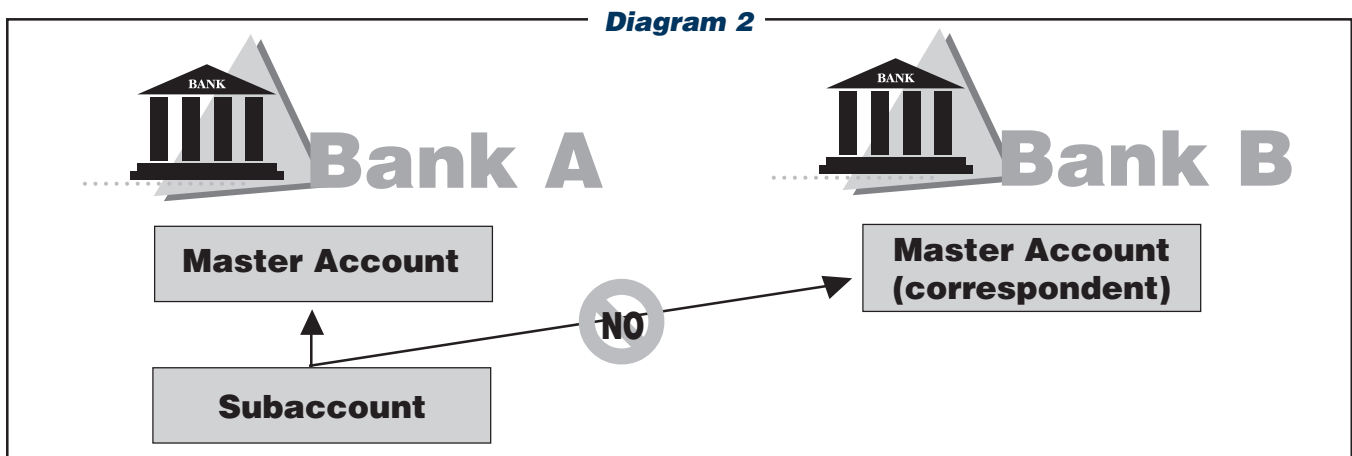
You also may want to use subaccounts to receive and send Fedwire funds transfers using subaccount RTNs. This could help you direct these wires to the appropriate customers' accounts.

As another example, if you currently maintain multiple accounts with one or more Reserve Banks, you might want to convert some of these accounts to subaccounts as you move to the single account structure. Again, the benefit is a centralized balance in one master account at one Reserve Bank and segregated account information in subaccounts under multiple RTNs.

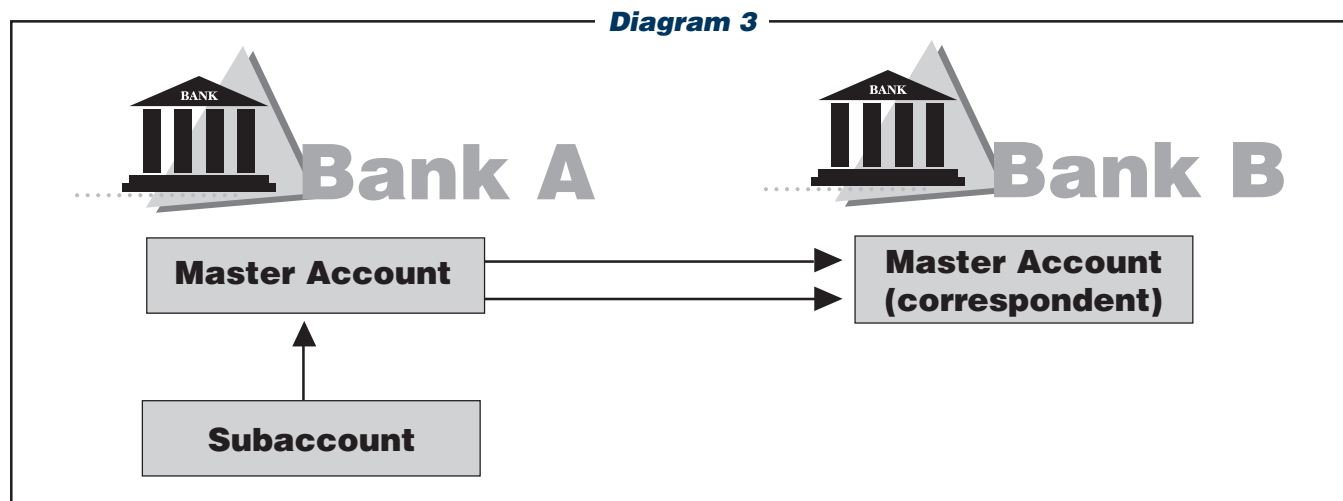
Subaccounts also may be useful to correspondent institutions that wish to segregate the transaction information of their respondents by having the transactions "flow through" different subaccounts. By doing so, respondent transactions could be segregated by subaccount according to certain geographic regions. Some correspondents have indicated a preference for this level of flexibility. Diagram 1, illustrates this concept.



Transactions processed using your subaccount RTNs will not be allowed to settle directly in another institution's (i.e., a correspondent's) account. In other words, settlement relationships will not be established directly between your subaccount RTNs and another correspondent. Diagram 2 helps to clarify this point.



However, you will be able to settle your subaccount's transactions together with your master account's transactions for a given transaction type (e.g., check or ACH) in a correspondent's account. This level of flexibility will allow you to settle all of a certain type of transaction in your correspondent's account, regardless of whether your master account RTN or subaccount RTN is used to process the transactions. Diagram 3 demonstrates this type of settlement arrangement.



What Types of Transactions Can Be Processed Using Subaccounts?

The RTN that you use to identify your subaccount can be used to process all types of Federal Reserve financial services, with the exception of Fedwire book-entry securities transfers. In order to facilitate collateral administration in an interstate branching environment, all of your security holdings will be recorded on the books of the Reserve Bank where your master account is located. All book-entry securities will be held under the RTN that identifies your master account. As a result, all book-entry securities must be transferred using the master account RTN, and the resulting accounting entries will settle in your master account. The advantage of this policy from a depository institution's perspective is the ability to determine easily how much collateral has been pledged for various purposes. From the Federal Reserve's perspective, Reserve Banks can easily review an institution's collateral holdings.

How Many Subaccounts Can You Own?

There are no current plans to restrict the number of subaccounts that a depository institution may own, nor are there plans to charge a fee for their use. Beyond a certain number of subaccounts, institutions may find that the incremental complexity of reconciling subaccount information outweighs the benefits of the additional transaction information. Industry feedback has indicated that ten or fewer subaccounts should be sufficient.

If you already have capabilities to segregate account information, such as systems that automatically reconcile your accounting files with ours, you may not need subaccounts. Accounting staff at your local Reserve Office can assist you in determining the optimal structure for your account relationship and whether or not subaccounts are necessary to meet your information and settlement needs.

New Accounting Services and Enhanced Information

New and enhanced accounting information services are being developed to support your information needs under the new account structure. Accounting and billing statements, reports, and online inquiries will be enhanced so that activity for your master account and subaccount(s) can be segregated or combined. Also, subaccount transactions will be identified separately from your respondents' transactions. Reconciliation files will continue to be segregated according to the RTN used to process your transactions and will include your own master account's activity, your subaccount(s)' activity, and your respondent(s)' activity. These new features will support your needs for a flexible and efficient way to manage your Federal Reserve account relationship regardless of your organizational structure, and they will allow you to tailor your account relationship to facilitate your informational needs.

Real-time Intraday Account Monitoring

The **Account Balance Monitoring System (ABMS)** provides you with real-time credit and debit information for Fedwire transactions and updates information for non-Fedwire transactions (e.g., check or ACH) every fifteen minutes. With the enhanced services that will be available in January 1998, you can view the combined total of your master account and its subaccount(s) - a "Master" view - or you can view your master account and each subaccount separately - a "Self" view. Institution's may access the data via **Fedline** or computer interface (Computer Interface Protocol Specifications (CIPS) will be available to support these new capabilities).

Fedline ABMS screen menus will be changing to allow you to (1) perform inquiries using either your subaccount or master account RTN and (2) select a new Balance Report Type (e.g., "Master" or "Self"). Following are two sample reports you can receive by submitting a balance report request.

Sample "Master" Balance Report

		DI Balance Inquiry	Bal Type: Master	04/22/1996
Inquiry ABA:	021011111	Reported ABA:	021011111	Best Bank NYC
	Status	Debit	Credit	Net
Open Bal :	8:30			288,676.56
Funds (\$) :	12:17	1,224,472.00	285,038.00	939,434.00-
(#) :		5	7	
Secty (\$) :	11:00	984,706.00	120,000.00	864,706.00-
(#) :		2	1	
Othr Avail:	12:15	2,731,229.00	1,691,067.00	1,040,162.00-
DLOD Bal :		----->		2,555,625.44-
Non Avail :	12:15	311,767.07	299,913.46	11,853.61-
Acct Bal :		----->		2,567,479.05-
Memo Post :	10:46	0.00	0.00	0.00
Debit Cap :	04/18		100,000.00	100,000.00
Funds Coll:	04/11			0.00
Secty Coll:	04/11		900,000.00	864,706.00
Avail Fund:	DLOD	----->		1,590,919.44-

The following fields are new:

- Balance Type (displays the balance type requested, i.e., "Master" or "Self" View)
- Inquiry ABA (reflects the RTN that is submitting the request)
- Reported ABA (reflects the RTN associated with the data returned)
- Status Column Fields (reflect the time or date of the last update, or the balance used to calculate your Available Funds)

These fields are applicable only to "Master" balance type requests:

- Memo Post (allows for provisional posting by a Reserve Bank - this field is typically left blank)
- Debit Cap (the daylight overdraft (DLOD) cap capacity for the master account)
- Funds Collateral (the collateral required on an exception basis - this field is typically left blank)
- Securities Collateral (the collateral value pledged for daylight overdrafts caused by book-entry securities transactions)
- Available Funds (the amount calculated using either the DLOD balance or the account balance net of the amounts shown in the Memo Post, Debit Cap, Funds Coll, and Secty Coll Fields)

Sample "Self" Balance Report

		DI Balance Inquiry	Bal Type: Self	04/22/1996
Inquiry ABA:	021012345	Reported ABA:	021012345	Best Bank Branch NYC
	Status	Debit	Credit	Net
Open Bal :	N/A			0.00
Funds (\$) :	12:15	224,472.00	85,038.00	139,434.00-
(#) :		5	7	
Secty (\$) :	00:00	0.00	0.00	0.00
(#) :		0	0	
Othr Avail:	12:15	731,229.00	691,067.00	40,162.00-
DLOD Bal :		----->		179,596.00-
Non Avail :	12:15	211,767.07	199,913.46	11,853.61-
Acct Bal :		----->		191,449.61-
Memo Post :	N/A	0.00	0.00	0.00
Debit Cap :	N/A			0.00
Funds Coll:	N/A			0.00
Secty Coll:	N/A			0.00
Avail Fund:	N/A	----->		0.00

Statement of Your Subaccount's Activity
(available to master account holders)

ADPB501U
 FEDERAL RESERVE BANK OF CHICAGO 05/17/96

BANK A 0710-XXXX-X PAGE 7

 * STATEMENT OF YOUR SUBACCOUNTS' ACTIVITY *

BR	BATCH REF	OFFSET FI	DEBIT	CREDIT
FOR THE ACCOUNT OF 0719-XXXX-1 BANK A SUBACCOUNT 1 CHICAGO				
		05030 MAT. DEF CREDITS		
	PROCESSED 05/16			500.00
9617	(312) 322-5555	08020 TT&L WITHDRAWAL		
	01001 0282		400,000.00	
8802	(312) 322-5556	15010 CITY CASH LETTER		
	45003 0427 011100481			500.00
8000	(312) 322-5556	15290 CASH LETTER ADJUSTMENT		
	45003 0427			983,452.51
RESPONDENT ACTIVITY				
	0719-XXXX-X			100.00
TOTAL FOR 0719-XXXX-1		4	400,000.00	984,552.51

 *STATEMENT OF YOUR SUBACCOUNTS' DEFERRED ACTIVITY *

AVAILABLE 05/20				
8806	(312) 322-5558	30250 MIXED RET- LOC FRB		
	45080 7004 011100481 0265			200.00
TOTAL AVAILABLE 05/20				200.00
NET AVAILABLE 05/20				200.00

 * STATEMENT OF YOUR SUBACCOUNTS' FUTURE ACTIVITY *

AVAILABLE 05/20				
3301	(312) 322-5558	57040 ACH CR TRANS REC		
	40206 0002			47,669.32
TOTAL AVAILABLE 05/20				47,669.32
NET AVAILABLE 05/20				47,669.32

**Statement of Items Through Your Master Account
(available to your subaccount)**

ADPB501U FEDERAL RESERVE BANK OF CHICAGO 05/17/96

BANK A SUBACCOUNT 1 0719-XXXX-1 PAGE 1

* STATEMENT OF ITEMS THROUGH YOUR MASTER ACCOUNT *

BR	BATCH REF	OFFSET FI	DEBIT	CREDIT
FOR YOUR ACCOUNT AT 0710-XXXX-X BANK A				
		05030 MAT. DEF CREDITS		500.00
	PROCESSED 05/16			
9617	(312) 322-5555	08020 TT&L WITHDRAWAL		
	01001 0282		400,000.00	
8802	(312) 322-5556	15010 CITY CASH LETTER		
	45003 0427 011100481			500.00
8000	(312) 322-5556	15290 CASH LETTER ADJUSTMENT		
	45003 0427			983,452.51
RESPONDENT ACTIVITY				
	0719-XXXX-X			100.00
TOTAL APPLIED TO 0710-XXXX-X 5				584,552.51

* STATEMENT OF DEFERRED ITEMS THROUGH YOUR MASTER ACCOUNT *

AVAILABLE 05/20				
8806	(312) 322-5558	30250 MIXED RET- LOC FRB		
	45080 7004 011100481 0265			200.00
TOTAL AVAILABLE 05/20				200.00
NET AVAILABLE 05/20				200.00

* STATEMENT OF FUTURE ITEMS THROUGH YOUR MASTER ACCOUNT *

AVAILABLE 05/20				
3301	(312) 322-5558	57040 ACH CR TRANS REC		
	40206 0002			47,669.32
TOTAL AVAILABLE 05/20				47,669.32
NET AVAILABLE 05/20				47,669.32

Daylight Overdraft Reporting and Pricing

The Daylight Overdraft Reporting and Pricing System (DORPS) will use the master account intraday position to monitor compliance with the Federal Reserve's Payments System Risk policy and for pricing daylight overdrafts. Subaccount activity is included in the master account intraday position, and is not monitored separately for daylight overdrafts.

Account Statements, Reports, Notifications, and Inquiry Screens

The Federal Reserve's Integrated Accounting System (IAS) provides you with a variety of statements, reports, notifications and inquiry capabilities to help manage your account balance. Changes to the daily accounting statements and reports in support of the new account structure are described below.

Statement of Account

In addition to the statements you currently receive, you will be able to receive a detail statement of your subaccount's activity settling through your master account. Your master account summary and detail statements will include debit and credit totals for each of your subaccounts. Also, detail or summary statements can be provided for each subaccount, showing the activity for that subaccount settling in your master account. Subaccount statements will not contain balance information, as balances will only be recorded under your master account. However, subaccount statements will list the detailed transactions with debit and credit totals.

The new subaccount statements look very similar to the current respondent and correspondent statements, with changes made to some titles and categories. Following are some examples of new types of information that will be available on your detail statement of account.

Reconciliation Files

No changes will be made to the file format currently provided to automated reconciliation banks for reconciliation or posting purposes. However, you will be able to have separate subaccount reconciliation files routed directly to subaccount locations.

Cash Management Service Reports

The *Cash Management Service (CMS)* reports also will be changed to display information for subaccounts. These reports follow the same format of the existing reports used to show respondent activity to correspondents. Your master account's own activity report will now show a new line summarizing all your subaccount(s)' activity. A new subaccount recap report will show all of your subaccount(s)' activity broken down by transaction category. Also, you will be able to receive a report showing the activity for each subaccount by transaction category. The following is an example of a new CMS report.

Master Account Holder's Own Activity Report

FEDERAL RESERVE BANK OF CHICAGO
MID-MORNING ADJUSTED ACCOUNT BALANCE
ACCOUNT HOLDER'S OWN ACTIVITY REPORT

0710-XXXX-X BANK A

05/17/96
10:01:53

MESSAGE BLOCK: [Free form text can be inserted here]

	\$ - DEBITS	\$- CREDITS	\$ - NET
OPENING BALANCE:	0	1,000,000.00	1,000,000.00
MATURING DEFERREDS:	0	3,000.00	3,000.00
CASH LETTERS:			
CITY:	600,000.00	700,000.00	100,000.00
COUNTRY:	0	0	0
RCPC:	0	0	0
MIXED:	0	0	0
GROUP SORT:	0	0	0
ALL OTHER CHECK:	0	0	0
<hr/>			
SUBACCOUNT RECAP:	0	985,552.51	985,552.51
<hr/>			
RESPONDENT RECAP:	4,000.00	101,499.25	97,499.25
RETURN ITEMS IMMEDIATE:	4,777.44	5,563.13	785.69
ACH IMMEDIATE:	1,000.00	0	-1,000.00
=====	=====	=====	=====
TOTALS:	609,777.44	2,795,614.89	2,185,837.45
-----	-----	-----	-----
ONE DAY DEFERRED (05/20/96)	0	29,696.25	29,696.25
TWO DAY DEFERRED (05/21/96)	0	0	0
THREE DAY DEFERRED (05/22/96)	0	0	0

Note: All transactions for this entity will be included on these reports regardless of processing Federal Reserve Office.

IAS Notifications

The on-line notification illustrated below will advise you of the transactions processed through your subaccount(s). Notifications of select transactions also can be provided to your subaccount locations.

Notification to a Master Account of Subaccount Activity

0710-XXXX-X BANK A						PROCESS DATE
05/17/96						
THE FOLLOWING TRANSACTION HAS BEEN POSTED TO YOUR ACCOUNT.						
AMOUNT	DR/ CR	TRAN CODE	BATCH NO.	REF. NO.	OFFSET	POST TIME
\$500.00	CR	15010	111100481	0427		10:14
<hr/>						
AFFECTING SUBACCOUNT:						
0719-XXXX-1 BANK A SUBACCOUNT 1, CHICAGO						
<hr/>						
CITY CASH LETTER						
FRB CONTACT: (312) 322-5054						
SEQ. NO.	00001			DATE	05 17	
LTERM	G1QPA02F			TIME	10:30	

IAS Account Inquiries

IAS online inquiry screens will be enhanced to provide additional views of your account and subaccount transaction activity. It is important to note that the organizational units that manage and control your master account and its subaccount(s) (e.g., your headquarters, branches, regional processing centers, etc.) may have different on-line access privileges for viewing transaction information.

The master account holder will be provided with views of its own activity and the following views of its subaccount activity: (1) subaccount debit and credit totals, either individually or on a combined basis; (2) selected detail for each subaccount by service area, SIR code (i.e., the first two digits of the IAS transaction code), or transaction code; (3) your subaccount(s)' deferred activity; or (4) the activity of your subaccount(s)' respondents, if any.

Your subaccount will be provided with views of its own activity, or the activity of its respondents, if any. Also, with the approval of the master account holder, a subaccount can view its master account's activity, including the activity of any other subaccounts belonging to that master account.

Below is a sample of a modified DFI Inquiry Menu that can be accessed via Fedline or computer interface connection.

Sample DFI Inquiry Menu

<u>Create a Message</u>		Accounting Services MM/DD/YYYY 16:03:43L 6	
INTEGRATED ACCOUNTING SYSTEM DFI INQUIRY			
TYPE	SUBTYPE		
TYPE 2 INFORMATION	SUBTYPE 3 AND 6 INFORMATION		
SIR CODE TRAN CODE AMOUNT	RESPONDENT DFI NO NAME		
	SUBACCOUNT DFI NO NAME		
TYPE 4 INFORMATION			
AVAIL DATE			
Affiliate ABA: _____		(If applicable)	
CNTL#: none	STATUS: _____	ACTION: _____	

Notes:
 This screen can be accessed by the master account holder/correspondent or subaccount [entity] via Fedline or Computer Interface Link. Respondents may not inquire into their correspondent's master account.

The following Inquiry Types and Subtypes will be available effective January 1998. (Note: Changes and additions are highlighted in bold.)

<p>Types of Inquiry [What]</p> <p>1 - Balance</p> <p>2 - Selected Detail</p> <p>4 - Deferred Totals</p>	<p>Subtypes of Inquiry [Who]</p> <p>1 - Combined [Own, Resp and/or Subs]</p> <p>2 - Own</p> <p>3 - Single Respondent</p> <p>4 - All Respondents</p> <p>5 - Information Trans</p> <p>6 - Single Subaccount</p> <p>7 - All Subaccounts</p>
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Note: The format of this screen has not been finalized.

The Balance Inquiry option will be modified to allow you to view the combined activity totals of your master account, your subaccount(s), and your respondent(s). However, the format of the output will not change. Access to this inquiry option will be available to both the master account holder and its subaccounts, but will not be available to respondents. It is important to note that subaccount inquiry output will not contain balance information, but it will contain totals of transaction activity and unposted activity, if present.

Similar to the Balance Inquiry option, no changes will be made to the format of the output generated by the Detail Inquiry option. However, as with other inquiry screens, this option will be available for viewing the detail transactions processed for your subaccount(s).

Daylight Overdraft Inquiry

The format of Daylight Overdraft Inquiry output will be modified to support subaccount activity. These inquiries are intended to assist you in managing your account position by providing additional information to supplement ABMS inquiry capabilities. The following new views will be available:

- (1) the master account holder can view the combined total of its own activity plus the activity of its respondent(s), its subaccount(s), and its subaccount(s)' respondent(s), if any;
- (2) a master account holder can view totals for any individual subaccount;
- (3) a master account holder can view combined totals for its own and its respondent(s)' activity, excluding its subaccount(s) and their respective respondent(s);
- (4) a subaccount can view totals for its own activity, including its respondents, if any; and
- (5) with the approval of the master account holder, a subaccount can view its master account information as described in 1), above.

One example of a modified Daylight Overdraft Inquiry report is illustrated below.

Check Activity by Posting Time

ET	-----DR\$-----	-----CR\$-----	-----NET\$-----
AD334A			01/14/97
ADO334A			08:10:25 ET
			CYCLE DATE: 01/17/97
Report Type:MASTER-INCLUDES ALL ACTIVITY (OWN, RESP AND SUBACCT IF APPROPRIATE)			
INQUIRY ABA: 011000000 REPORTED ABA: 011000000 NAME: ANYBANK USA			
DORPS CHECK POSTING OPTION: FRACTIONAL			
OPENING	0.00	2,026.00	2,026.00
9:00 AM	0.00	1,000.00	1,000.00
10:00 AM	1,000.00	1,010.00	10.00
11:00 AM	0.00	27.22	27.22
12:00 NOON	4.00	0.00	4.00-
1:00 PM	0.00	7.00	7.00
2:00 PM	500.00	1,000.10	500.10
3:00 PM	0.00	1,000.00	1,000.00
4:00 PM	3.00	1.50	1.50-
5:00 PM	0.00	1,003.00	1,003.00
6:00 PM	0.00	1,003.00	1,003.00
AFTER FEDWR	3,000.00	0.00	3,000.00-
TOTAL	4,507.00	8,077.82	3,570.82

Billing Statements

Your Billing Statement will be enhanced to reflect the new account structure and other changes related to inter-state branching. The statement will reflect tiered settlement arrangements and may reflect respondent and subaccount totals by service area, at the option of the correspondent/master account. The statement will be printed in portrait format instead of the current landscape format. The new format will be consistent with that of other Federal Reserve accounting statements, and it will allow customers to receive their electronic statements more easily.

Transition Account Arrangements

We recognize that special account arrangements will be needed during transition periods, both as we transition to the new account structure (pre-implementation transition), and as we proceed on an ongoing basis following mergers and acquisitions (post-implementation transition). Today, transition account arrangements are provided to institutions which merge within a District for up to six months to allow sufficient time to combine dissimilar back-end operating systems and/or to eliminate duplicate customer account numbers. As an interim accommodation for these institutions that plan to establish subaccounts under the new account structure, multiple transition account arrangements will be allowed to continue through January 1998. At that time, these multiple account holders will be expected to move to one master account with subaccounts.

It is important to note that existing rules for managing transition account arrangements will change, effective January 1998, under the new account structure. Under the post implementation transition arrangement, a merged institution may retain the account of the nonsurviving entity for up to one year. For instance, if Bank A is acquiring and then converting Bank B to a branch office, Bank A will be allowed to retain Bank B's account for a twelve month transition period. If Bank A later acquires Bank C, it will be allowed another 12-month transition period to keep Bank C's account open. The Federal Reserve will treat the master account and the temporary "transition" accounts separately for real-time account monitoring and overnight overdraft monitoring, and will combine the accounts for ex post daylight overdraft monitoring.

Additionally, the two options listed below will be available for satisfying Regulation D reserves and reporting requirements during post implementation transition periods.

One option is to file separate Reports of Deposits (FR2900) for your surviving and nonsurviving entities. Reserve requirements will be calculated and managed separately for the surviving and nonsurviving entities. One exemption and low reserve tranche amount will be allocated among the surviving and nonsurviving entities' accounts.

The other option is to file a consolidated Report of Deposits where only the surviving entity's master account balances can be used to satisfy one reserve requirement. Balances in a nonsurviving entity's master account may be used for clearing (i.e., settlement) purposes only.

Table 1, summarizes the characteristics of the post-implementation multiple transition account options.

Table 1
Post-Implementation Transition Account Options

	<i>OPTION 1: Multiple Reserve/</i>	<i>OPTION 2: One Reserve Balance; Multiple Clearing Balances</i>
FR 2900 Reporting	FR 2900 reports will be filed separately for the surviving entity (SE) and nonsurviving entity (NSE).	One consolidated FR 2900 report will be filed for the combined deposits of the SE and NSE.
Reserves Administration	<p>Separate reserve requirements will be calculated for the SE and NSE based on separate FR2900 reports.</p> <p>Reserve balances maintained in master accounts of the SE and NSE will be measured against the separate reserve requirements for the SE and NSE.</p> <p>One exemption and low reserve tranche amount will be allocated among the SE and NSE.</p>	<p>Only the SE's master account balances may be used to satisfy the merged institution's combined reserve requirement.</p> <p>The NSE's master account contains clearing balances only and will not count toward the reserve requirement.</p>
Overnight Overdraft Monitoring	SE and NSE master accounts will be monitored separately.	Same as <u>Option 1</u>
Daylight Overdraft Monitoring (DORPS)	SE and NSE master accounts will be monitored on a combined basis	Same as <u>Option 1</u>
Real-time Intraday Overdrafts (ABMS)	SE and NSE master accounts will be monitored separately.	Same as <u>Option 1</u>
Transition Period	Twelve months following the conversion of a chartered depository institution to a branch.	Same as <u>Option 1</u>

What You Need to Do

If you already have a single Federal Reserve account and do not want subaccounts, you will not have to do anything.

If you currently have multiple accounts and are operating under a single charter, we will work with you to move to one master account, either by closing your remaining accounts or by converting them to subaccounts. If you intend to convert some accounts to subaccounts, we will relabel these account RTNs as subaccounts. By doing so, all accounting entries processed using these subaccount RTNs will settle in your single master account. However, you must change any existing correspondent settlement relationships for these closed accounts, as subaccount transactions cannot settle directly in a correspondent's account (as shown in Diagram 2, page ___). All current multiple account arrangements for depository institutions operating under a single charter that are not required by regulation (e.g., U.S. branches and agencies of foreign banks) must be phased out by year-end 1998.

If you wish to establish a new subaccount and you do not have an RTN available, you will need to apply for an additional routing number from Thomson Financial Publishing. Thomson typically requires three weeks to process routing number applications. Each Reserve Bank has an RTN Coordinator who can assist you during this application process. If you do not meet Thomson's criteria for an additional RTN, you may request a Customer Identification Number (CIN) from the Reserve Bank where your account is located. However, we expect that most subaccounts will be identified by regular RTNs issued by Thomson.

We encourage you to begin your preparations for the new account structure as soon as possible, particularly if you have multiple accounts with the Federal Reserve. To assist you in this regard, the Federal Reserve can provide additional training information and materials if you are interested. In addition, a list of answers to commonly asked questions is provided in the Appendix to clarify further the information contained in this Guide to the Federal Reserve's Interstate Branching Account Structure.

Glossary

Account Balance Monitoring System (ABMS)

The Federal Reserve's computer application that allows a depository institution with on-line access to Fedwire to view account balance information, and to monitor account position and payment activity in real-time.

Automated Clearing House (ACH)

An electronic batch processing service used to disburse or collect funds.

Clearing Balance

A balance maintained by a depository institution in its single master account at one Federal Reserve Bank that is used to facilitate access to Federal Reserve services, provide protection against overnight overdrafts, and/or generate earnings credits to pay for certain Federal Reserve services.

Clearing Balance Bands

Upper and lower ranges applied to a clearing balance requirement, equal to two percent of the requirement, or \$25,000, whichever is greater. Balances below the lower band may result in penalties; balances above the upper band do not generate earnings credits.

Clearing Balance Requirement

A required balance maintained by a depository institution in its master account at a Federal Reserve Bank; the minimum clearing balance requirement is \$25,000.

Cash Management Services (CMS)

A Fedline report that details information on check and ACH activity that has been posted to a master account.

Correspondent

A depository institution that maintains an account at a Federal Reserve Bank and that has authorized the Federal Reserve to make debits and credits to the account on behalf of one or more other (respondent) depository institutions.

Daylight Overdraft

Based on specific posting rules, the amount by which a master account of a depository institution is overdrawn at any time during a Fedwire day. Depository institutions are subject to fees for daylight overdrafts.

Daylight Overdraft Reporting and Pricing System (DORPS)

The computer application used by the Federal Reserve to measure and assess fees for daylight overdrafts.

Detail Statement of Service Charges

The report that notifies a depository institution of charges incurred for Federal Reserve financial services during a given month.

Earnings Credits

Earnings on actual clearing balances maintained up to the upper clearing balance band. These earnings credits can be used only for offsetting certain Federal Reserve service charges.

Fedline

A PC-based Federal Reserve proprietary software that depository institutions use to access various services, including the electronic delivery of account information, and details on specific types of transaction activity.

Fedwire

The Federal Reserve funds and book-entry government securities transfer system.

Integrated Accounting System (IAS)

The accounting system used by the Federal Reserve to record transactions and report key financial and operating data to Reserve Bank management, the Board of Governors, the U.S. Treasury, and depository institutions.

Master Account

The record of financial transactions that reflects the financial rights and obligations of an account holder and the Reserve Bank with respect to each other, and where opening and closing balances are determined.

Overnight Overdraft

A negative position in a master account at the Reserve Bank's close of business. An overdraft occurs when total debits to a depository institution's master account are greater than the sum of the beginning balance and the total credits posted to the master account during the day. Overnight overdrafts are subject to a penalty fee.

Required Balances

Amounts to be maintained by a depository institution on a daily average basis to meet a required reserve and/or clearing requirement.

Reserve Requirement

An amount determined by applying the ratios specified in Regulation D to a depository institution's reserve liabilities during the relevant period. The depository institution must hold this reserve in the form of vault cash and/or maintained balances with a Federal Reserve Bank or a pass through correspondent.

Respondent

A depository institution that maintains required reserves through a correspondent or that clears Federal Reserve Bank service transactions through a correspondent.

Settlement of Service Charges

The process by which a Federal Reserve Bank collects service charges for its priced services. Net service charges not offset by earnings credits accumulated from a clearing balance will appear as a debit on a depository institution's Statement of Account on the 15th of the month following the month in which the charges were incurred.

Subaccount

A subaccount is an information record of a subset of the transactions that affect the master account. Subaccounts will not reflect balances, but will contain totals of debit and credit activity.

Summary Statement of Service Charges

A summary statement provided to a depository institution no later than seven business days after the end of the month. The statement contains a summary of charges for a given month, a respondent and/or subaccount summary (if applicable), and an earnings credits recap (if applicable).

Appendix

Commonly Asked Questions

The following set of questions and answers is intended to assist you in preparing for the January 1998 implementation of the Federal Reserve's new interstate branching account structure. Please contact your local Reserve Bank office for additional information.

1. *When will the new account/subaccount structure be available? Will a training program be offered?*

Answer: Effective January 1, 1998, the Federal Reserve will implement its new account structure. A series of educational materials and training seminars will be offered to depository institutions starting in early 1997.

2. *Will the new account/subaccount structure be available to all depository institutions (not just those with interstate branches)?*

Answer: The new account structure is applicable to all depository institutions eligible to maintain an account with the Federal Reserve¹ with the exception of those institutions currently required to have multiple accounts pursuant to regulation (e.g., U.S. branches and agencies of foreign banks, Edge and agreement corporations, and correspondents with out-of-District respondents).

3. *How does the new account structure relate to bank charters?*

Answer: Under the new account structure, each separately chartered depository institution will be provided with a single (master) account at a designated Reserve Bank, with the exception of those institutions required to maintain multiple accounts pursuant to regulation. Any additional accounts not required pursuant to regulation will be phased out or "restructured" as subaccounts. Multiple account arrangements that are not required to support merger-related transition periods or that are not required pursuant to regulation, must be phased out by no later than December 31, 1998.

4. *Can a depository institution maintain separate clearing accounts in addition to its single master account?*

Answer: No. Under the new account structure, there will no longer be a distinction between "clearing accounts" and "reserve accounts." Reserve balances and clearing balances (to the extent required) will be commingled in one master account held with one Reserve Bank. As such, all "commingled" balances maintained in this one account would be used by an institution to satisfy its reserve requirement as well as any clearing balance requirement.

5. *If we are no longer allowed to maintain clearing accounts, how will earnings credits be generated to pay for the use of Federal Reserve financial services?*

Answer: Depository institutions will still be permitted, and in some cases required, to maintain clearing balances in their master account together with reserve balances. If the depository institution is not bound by required reserves, it may still establish a master account for the purpose of maintaining clearing balances with a Federal Reserve Bank. The calculation and application of earnings credits will not change under the new account structure. Earnings credits will be calculated based on the level of clearing balances maintained in the master account and may continue to be used to pay for Federal Reserve financial services.

¹ *The Depository Institutions Deregulation and Monetary Control Act of 1980 (MCA) is the principal statute governing access to Federal Reserve services and, by extension, the types of institutions eligible to hold a Federal Reserve account. Other relevant statutes/regulations are the Federal Reserve Act, Regulation D and the International Banking Act of 1978.*

6. *Is there a maximum number of subaccounts a depository institution may own? Are there restrictions per Federal Reserve Office territory or per Federal Reserve District?*

Answer: There is no plan to restrict the number of subaccounts that a depository institution may own. However, this issue may be revisited as experience is gained under the new account structure. Beyond a certain number of subaccounts, depository institutions may find that the difficulty in reconciling subaccount information outweighs the benefits of the additional transaction information. Industry feedback has indicated that ten or fewer subaccounts should be sufficient.

7. *Will the current three-tier limitation on correspondent/respondent relationships continue to apply under the new account structure?*

Answer: Yes. The current limitation of supporting up to three tiers of correspondent/respondent relationships still applies under the new account structure.

8. *Can a subaccount serve to segregate information on respondent activity?*

Answer: Yes. Information on respondent activity may be segregated by “attaching” respondent relationships to subaccounts, as long as the respondent does not, in turn, act as correspondent for other respondents (which would result in a four tier relationship).

9. *How does the new account structure apply to foreign banking entities?*

Answer: U.S. branches and agencies of foreign banks and Edge and agreement corporations must continue to maintain one account per state in which they have a presence. This requirement is being reevaluated in light of the changing interstate branching environment.

10. *Is the ABA’s proposed ABA Routing Transit Number Policy consistent with the new account structure?*

Answer: Yes. The ABA’s Routing Transit Number Policy is consistent with the new account structure, particularly with respect to the allowable number of additional presentment points and the use of multiple numbers for a single presentment point.

11. *Will Thomson Financial allow nonsurviving RTNs to remain active for use as subaccounts, or will Thompson continue its policy of requiring nonsurviving RTNs to be eliminated?*

Answer: The ABA’s Routing Transit Number Policy provides the latitude for allowing the RTNs of nonsurviving entities to be used indefinitely to identify subaccounts.

12. *Will the statements of subaccount activity be delivered to any organizational unit identified by the depository institution as being responsible for that subaccount?*

Answer: The entity representing the subaccount can receive a summary or detail of items processed through its master account. In addition, a subaccount can receive information on any of their respective respondents as applicable (limited to three tiers—the correspondent, or ultimate settlement point, plus two additional tiers). These statements are formatted the same as the account holder statement, except that subaccount statements only include debit and credit totals, since account balances are not relevant. Subaccount statements also can be delivered electronically to any terminal identified by the institution.

13. *We are currently limited to three destinations for electronic statement delivery. Will this limit continue to exist?*

Answer: This limit will be reevaluated based on evolving information requirements in an interstate branching environment.

14. *We would like to sort our financial transaction accounting information according to geographic region. If multiple accounts are not available under the new account structure, how will we segregate transaction information?*

Answer: Subaccounts may be used to segregate financial transactions according to geographic region, business type, or other criteria.

15. *Following mergers, institutions may find it necessary retain the nonsurviving entity's account for an interim period while "back-office" systems are consolidated. This temporary account arrangement is needed primarily to receive and route incoming wire transfers to the proper Demand Deposit Account (DDA) system. Will these arrangements still be made available under the new account structure?*

Answer: Yes. Transitional multiple account arrangements will be offered for a period of up to one year to support organizational and operational restructuring in the aftermath of bank mergers, whether in-state or interstate. To support transition periods, the surviving entity will be allowed to operate the nonsurviving entity's account as an independent account for a period of up to one year, subject to a zero or other allocated cap for risk management daylight overdraft purposes. A 12-month transition period will be triggered by each merger/acquisition. Transition periods will begin on the effective date of the merger/acquisition. Alternatively, the surviving institution may set the nonsurvivor up as a subaccount, or possibly as a respondent.