

Contractual Clearing Balances

Fact Sheet

Clearing Balance Requirement

- A clearing balance requirement is an amount that an institution may contract to maintain with a Reserve Bank in addition to a reserve balance requirement, if any.
- The minimum clearing balance requirement is \$25,000.
- A clearing balance requirement is implemented on the first day of a reserve maintenance period. An institution may modify its clearing balance requirement as often as each maintenance period by completing the Clearing Balance Request form.
- End-of-day balances held to satisfy a clearing balance requirement are averaged over a seven- or fourteen-day maintenance period depending upon the frequency with which an institution reports its FR 2900.
- The clearing balances held by an institution generate earnings credits, which may be used to offset the cost of eligible Federal Reserve services. Earning credits are applied to an institution's monthly billing service charges.

Clearing Balance Band

- An institution has some flexibility in meeting their clearing balance requirement.
- An institution only needs to hold an average end-of-day clearing balance for a maintenance period that falls within a range around its established clearing balance requirement.
- The range is called the clearing balance band. The top of the band is equal to the clearing balance requirement plus the clearing balance allowance. The bottom of the band is equal to the clearing balance requirement less the clearing balance allowance.
- The clearing balance allowance is equal to the greater of \$25,000 or 2 percent of the institution's clearing balance requirement.

- For example, an institution with a clearing balance requirement of \$25,000 has a clearing

balance band ranging from zero to \$50,000. If an institution's maintained clearing balance is within this range, the institution will earn earnings credits on the maintained balance and will not be considered deficient. If an institution's maintained clearing balance is less than the bottom of the clearing balance band, the institution is considered deficient in its clearing balance requirement. Likewise, if an institution's maintained clearing balance is greater than the top of the clearing balance band, the institution is in excess of its clearing balance requirement and it will not earn earnings credits on these excess balances.

Earnings Credits

- The formula for calculating earnings credits may be found in Chapter VIII of the Reserve Maintenance Manual.
- Earnings credits may only be used to offset charges for Federal Reserve services and are applied to service charges two weeks after they are earned.
- An earnings credit calculator is available on the Federal Reserve Financial Services website http://www.frbservices.org/serviceofferings/account/balance_calculator.html
Please note that the text on this site will be updated to reflect the use of the Clearing Balance Request Form.

Please visit the Reporting and Reserves website to learn more about clearing balances at <http://www.reportingandreserves.org>