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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D C 20551

May 10, 1973

CONFIDENTIAL (FR)

To: Federal Reserve Bank Presidents

From: Arthur L. Broida

Attached for your confidential information is a staff memorandum dated May 10, 1973, entitled "Reserve Requirements on CD's, Eurodollars, and related proposals," which outlines possible actions the Board might take in the interest of further and more equitable restraint of bank credit. A number of these are technical changes. However, they all move in the general direction of using higher reserve requirements rather than interest rate ceilings for purposes of restraint.

The FOMC meeting on Tuesday, May 15, might well be lengthy, but the Board Members would appreciate hearing, in the go-around, the views of each President as to the desirability of adopting this type of general approach, particularly in the most important application of large-denomination CD's. The Board currently plans to act on this approach on Wednesday, May 16, and we ask that you hold this document in strictest confidence at this time.

Arthur L. Broida
Deputy Secretary
Federal Open Market Committee

Attachment

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CONFIDENTIAL (FR)

DATE: May 10, 1973

TO: Board of Governors

FROM: Divisions of Research and Statistics and International Finance

SUBJECT: Reserve Requirements on CD's, Eurodollars, and related proposals

The staff proposals to be described below have been discussed at one or more of the Board meetings on contingency planning. They are presented now for possible action because continued inflationary expansion in the economy suggests the need for further overt measures of restraint in credit policy.

The basic proposal is to impose marginal reserve requirements on the increase in outstanding domestic money market-type liabilities of banks. The proposal would apply not only to large time certificates of deposits and commercial paper issued by the bank, but also to funds directly or indirectly channeled by bank affiliates and subsidiaries to the bank, and to ineligible acceptances (now termed finance bills by the market). Along with the reserve requirement proposal on domestic money market liabilities of banks, this memorandum also proposes action to adjust reserve requirements on Eurodollar borrowings. At the same time, the Board might wish to consider suspending current interest rate ceilings on large CD's across the board.

These interrelated proposals have the objectives of: increasing the cost of those funds likely to be used by large banks to finance business loans in coming months; closing certain existing loopholes by which banks can now avoid reserve requirements; developing more equitable regulatory treatment for similar instruments used by banks to obtain funds;

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and reversing the increasing distortion of the maturity structure of outstanding negotiable CD's.

I. THE GENERAL PROPOSALS FOR DOMESTIC INSTRUMENTS

The recent rapid increase in bank credit--particularly business loans--has been a significant factor fueling expansion in the economy. The record growth in business loans earlier this year was in part associated with a shift in corporate borrowing from the commercial paper market to the banking system and the financing of foreign currency positions. While the latest data suggest that such demands for bank funds have moderated--and we may be on the verge of some reverse movement from bank loans back to the commercial paper market--underlying business loan demands nevertheless remain quite strong. Staff projections showing strong continuing increases for inventory and capital investment in the period ahead suggest that business loan demands on banks will continue large. And banks remain relatively aggressive issuers of large negotiable time certificates of deposit, although the rate of increase of these deposits has slowed from the record rate of the first quarter.

In order to reduce banks' willingness to tap money markets to finance loan demands, the staff is proposing a three percentage point reserve requirement, over and above the existing five per cent reserve requirement, on the increase above the amounts outstanding in some base period of outstanding large CD's and other domestic money-market type liabilities.

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The advantage of a marginal reserve requirement is that it focuses restraint on the specific instruments by which a major portion of excess aggregate demands are now being, and in the future are likely to be, financed--i.e., bank credit expansion taking place particularly at large banks using money market instruments. Such a marginal reserve requirement provides a high degree of automatic flexibility. Should demands prove to be less strong than we expect, the marginal reserve requirement will be less onerous in its impact than would a more general reserve requirement action, such as an increase in the average reserve requirement. The marginal reserve requirement will increase bank costs only to the extent that rising credit demands on banks lead to increased efforts by these institutions to tap money markets.

The three percentage point marginal reserve requirement would result in a modest increase in the bank costs incurred in selling large time deposit obligations, and would leave the Board scope to raise the amount at a later date should economic conditions warrant. The cost effect is not likely to be so large that it would significantly stimulate efforts by banks to shift lending activities to their affiliates. The Board has no present authority directly to affect the lending and borrowing of bank affiliates (except to the extent borrowed funds are channeled directly or indirectly back to the bank), and a small marginal reserve requirement thus has the advantage of permitting the Board to gauge the reaction of banks and their affiliates to its actions without greatly increasing the inducement of banks to increase their affiliate activity. In this context, though, the need to monitor affiliate activity becomes even more pressing.

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A bank does have considerable flexibility in managing its own liability structure. Thus, even a modest marginal reserve requirement only on large time certificates of deposits would produce an incentive for banks to raise funds through lower cost substitutes that can be issued as bank obligations. The need to constrain efforts of banks to seek such loopholes suggests that marginal reserve requirements be extended to all money-market type instruments used by banks to obtain funds for the banking business.

Therefore, it is proposed that the Board extend the same three per cent marginal reserve requirement to the increase in those funds obtained through commercial paper issued by the bank or through issuance of obligations by affiliates and subsidiaries and channeled to the bank; there instruments are already subject to the same reserve requirements as time deposits. 1/ To extend marginal reserve requirements to all domestic money market-type instruments used to raise funds for bank lending also suggests that ineligible acceptances, or finance bills, be made subject to both average and marginal reserve requirements; under current regulations, such instruments are not subject to any reserve requirement. Since Eurodollar borrowings by banks are also a close substitute for large CD issuance, logic suggests that they should be treated in as nearly a parallel fashion as possible to domestic money market instruments. A

1/ The marginal reserve requirement would apply only to those obligations with a maturity of 30 days to 7 years; less than 30 day obligations are subject to the higher demand deposit requirement.

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subsequent section of this memorandum discusses special problems in the Eurodollar area.

All of the instruments proposed for inclusion in the marginal reserve requirement action are free of regulatory interest rate ceilings with the exception of large certificates of deposits with maturities of 90 days or more. As part of the package of proposed policy actions, the Board might wish to consider extending the suspension of Regulation Q ceilings to such deposits. The maturity banks have been able to offer on large negotiable CD's has progressively shortened as market rates have risen above the Regulation Q ceiling on 90 day and longer CD's, and there would seem to be little reason not to permit banks to seek a more balanced maturity structure for their outstanding certificates of deposit, which are the principal money market instrument by which funds are raised from the public.

In 1972, new CD's issued with an original maturity of 90 days or more averaged a little less than 30 per cent of total CD's sold. As market rates rose earlier this year, banks found it increasingly difficult to sell CD's in the area subject to effective Regulation Q ceilings, and by March (the latest month for which data are available) the proportion of CD's sold with a maturity of 90 days or more had dropped to 14 per cent for all banks and to 8 per cent for New York City banks--the lowest ratios since the late summer of 1970.

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II. SPECIFICS OF THE PROPOSALS

In this section, the specifics of the proposals as they pertain to domestic instruments are presented for the the Board's consideration.

Coverage

The marginal reserve requirement of 3 percentage points would apply to the aggregate amount by which the sum of the following instruments exceed the aggregate outstanding amount of such instruments in the base period:

(1) single maturity time certificates of deposits in denomination of $100,000 or more; 1/

(2) promissory notes, acknowledgments of advance, due bills and similar instruments issued by the bank in denomination of $100,000 more;

(3) funds channeled directly or indirectly to the bank through issuance of obligations by bank affiliates or subsidiaries;

(4) funds channeled to the bank by its sale of ineligible acceptances.

The first three of these instruments are now subject to a 5 per cent reserve requirement. The fourth is not now subject to any reserve requirement.

1/ This includes negotiable as well as non-negotiable certificates. Most of those issued are negotiable. Attempting to confine the marginal requirement only to negotiable certificates would invite evasion from those banks able to convince their customers to accept a non-negotiable form.

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Of the instruments proposed for coverage, only the large certificates of deposit would have a specific size cut-off. Banks would be able to avoid the reserve requirement to the extent they were able to issue single-denomination time certificates of less than $100,000 in size. They are prevented from utilizing this obvious loophole, though, because the smaller denomination certificates are subject to the small Q ceiling rates, which in today's market are an effective deterrent to issuance of CD's to buyers interested in money market investments. When market interest rates fall to a favorable relationship to the small Q ceiling, the proposed marginal reserve requirement could then easily be evaded by issuing obligations in smaller denominations. Market rates are not likely to drop sufficiently to make that possible until the present inflationary phase is over and clear signs of economic weakness emerge. At that point, the Board in any event, would probably be willing to eliminate the marginal requirement.

Ineligible acceptances. The outstanding amount of ineligible acceptances has increased from around $380 million in mid-January to about $1.1 billion most recently, and 15 banks are reported to be selling them. If left free of reserve requirements, while a higher marginal reserve requirement was placed on money market instruments now subject to reserve requirements, banks would surely take further advantage of the loophole and this instrument would become even more actively used. (A discussion of ineligible acceptances is contained in a memorandum to the Board from the Division of Research and Statistics, "Analysis of Working Capital Acceptances (Finance Bills ", dated January 26, 1973.)

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Because ineligible acceptances have never been subject to reserve requirements, it is proposed that the necessary amendments to Regulation D extending reserve requirements to these instruments [1/] be published in the Federal Register for comment within 15 days. The typical comment period for Board regulations is 30 days, but since only 15 large banks are reported to be selling ineligible acceptances, and they can be expected to respond rapidly to the Board's proposals, the staff feels that the comment period can be shortened to 15 days from the date of publication in the Federal Register without creating hardships for any bank. After the comment period is closed, and if the Board then takes final action on the proposal, there would ordinarily be a 30 day deferred effective date. Should the Board wish to shorten the length of the deferral period, or eliminate it altogether, a finding of the Board must be published to indicate the reasons why such shortening or elimination was necessary.

While there are lags in effectuating the reserve requirement proposal for ineligible acceptances, it is proposed that banks be asked to submit to the Board the outstanding dollar amount of ineligible acceptances on the date the proposal is announced, and that this amount be included in the base at the time final action on the ineligible acceptances proposal becomes effective. This procedure could forestall a sharp increase in outstanding ineligible acceptances during the comment and deferral period; any increased amount of acceptances carrying total money market borrowing above the base would become subject to an 8 per

1/ The reserve requirement would be 5 per cent for those with a maturity of 30 days or more and the applicable demand deposit reserve ratio for those with maturities of less than 30 days.

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cent reserve requirement at the time the acceptance proposal went into effect. In any event, it is possible that use of ineligible acceptances would fade if large Q ceilings were suspended, because this acceptance market was developed in large part as a safety valve against such ceilings.

It should be pointed out, though, that none of the proposals here curb use by banks of letters of credit that they attach to commercial paper market obligations marketed by corporate borrowers. This practice might possibly be encouraged if use of direct money market borrowing by banks is made more expensive. One would doubt, though, that the current proposals are so onerous as to provide a significant further stimulus to the practice. Nevertheless, the activity appears to be of doubtful legality, and could be curbed administratively. The letters cannot be made subject to reserve requirements since they represent no more than a bank guarantee and the bank does not raise funds through them.

Base

The staff proposes that the dollar base used for the calculation of marginal reserve requirements on domestic money market instruments should be the outstanding aggregate amount, on a daily average basis, for some selected statement week, of the liabilities noted above--or $10 million, whichever is larger. We estimate that with a $10 million cut-off, the additional 3 per cent marginal reserve requirement would affect about 350 member banks--of which over 200 would have total deposits in excess of $250 million and only a handful would have total deposits of less than $50 million (see appended table 1). [1/]

1/ This table reflects only large time deposits (in denominations of $100,000 or more) held by individuals, partnerships, and corporations in October 1972, the latest date for available universe data. The staff feels, however, that there would be only a few banks subject to the proposal that are not captured in the table.

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These 350 banks would pay a 3 per cent marginal reserve requirement on the aggregate amount by which the sum of the money market instruments discussed above exceeded the base amount. If the total outstanding amount of such instruments were to decline below its base, a bank's marginal reserve requirement would cease unless and until the total of such instruments once again exceeded its original base. The base amount could only be changed by Board action.

Between the effective date of the proposal for marginal reserve requirements and the effective date for reserve requirements on ineligible acceptances, the base would reflect only large time deposits and funds obtained by the bank from obligations issued by affiliates and subsidiaries; increases in the total of these two sources of funds above that outstanding in the base period would be subject to an 8 per cent reserve requirement (5 per cent average plus 3 per cent marginal reserve requirement). If and when ineligible acceptances become subject to reserve requirements, the base would increase by the amount of such obligations outstanding during the base period, and the marginal reserve requirements would apply to the excess over the new base of the total of three sources of funds: large time deposits, funds obtained by the bank from obligations issued by affiliates and subsidiaries, and ineligible acceptances.

Timing

If the Board approved these proposals by May 16, we would recommend the announcement of its actions at the close of business that day, with the base determined by the daily average amount of outstanding

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money market instruments noted above for the statement week ended May 16. However, in order to permit time for preparations of forms and instructions, time to fully explain the new regulations to member banks, and time to work out the complicated processing procedures, we would suggest that the proposal be effective for the statement week beginning June 7. The additional reserves would then have to be held in the week beginning June 21.

As noted earlier, if the proposal for ineligible acceptances is implemented, reserve requirements could not be effective on this instrument before mid-June at the earliest, and mid-July if the 30 day deferral period is used, but the proposals could be implemented, as discussed above, for the other instruments.

Regulation Q

The restrictive effect of additional marginal reserve on large time certificates would present the Board with an opportunity to remove ceiling rates on all single maturity certificates of deposit in denominations of $100,000 or more without this seeming to be an easing action. These certificates are now exempt from Regulation Q for 30 to 89 day maturities. As noted earlier, market rates are so high currently that banks are effectively blocked from issuing longer-term certificates, with deleterious effects on the maturity structure of such deposits. Suspension of ceilings would permit a more balanced maturity structure, while the concurrent imposition of marginal reserve requirements would make it clear that the Board's monetary policy remained on a restrictive course.

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III. EURODOLLAR REGULATIONS

If the Board adopts a marginal reserve requirement for large time deposits and other money market liabilities, it may wish to amend its Eurodollar Regulations. Two possible types of amendments might be considered.

(1) The Board might reduce the reserve requirement ratio on Eurodollar borrowings above the reserve-free base levels from 20 per cent to 8 per cent. At the same time, the reserve-free bases would gradually be phased out over a period of ten months. (This is the recommendation of the Division of International Finance in its memo of April 16, 1973.)

(2) Alternatively, the Board might retain existing Eurodollar bases, but subject them gradually to a reserve requirement of 5 per cent. Borrowings in excess of the base amounts would be subject to a requirement of 8 per cent instead of 20 per cent. This alternative would establish the appearance of symmetry between the treatment of Eurodollar bases and bases established on domestic money market liabilities under the proposals in section II of this memorandum.

If the Board adopts either amendment, it is recommended that the Board leave open the possibility of raising the average and/or marginal rate of requirement on Eurodollar borrowing should massive capital inflows appear likely (see memo from Division of International Finance, January 31, 1973, pages 12-13). For the same reason, it would not be desirable to combine bases for Eurodollar borrowings (once the 5 per cent requirement was in place) with bases for other types of liabilities.

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Phasing Our Reserve-Free bases

The phasing out of bases under the first alternative could be accomplished by reducing reserve-free bases by 10 per cent (from the levels in the computation period that runs from April 12 to May 9) successively in each computation period beginning with the period that starts on July 5, 1973. According to this schedule, bases would be eliminated as of the period that ends on March 13, 1974, unless eliminated sooner under the automatic downward adjustment feature. This schedule would provide the Chase Manhattan Bank with about 80 per cent of their request (see memo of Division of International Finance, January 31, 1973, page 9). A table for calculating alternative schedules for phasing out bases is shown in Table 2, attached. Once bases were phased out, all Eurodollar borrowings would bear the same 8 per cent reserve requirement.

Removal of the reserve-free bases would simplify the Board's regulations in an orderly fashion--eliminating from the regulations a feature that applies only to a handful of banks. The gradual reduction of bases during the phase out period could avoid a possible bank relations problem as well as possible capital outflows that could stem from immediate elimination of bases.

Phasing in Reserve Requirement on Eurodollar Bases (Alternative 2)

If the Board does not wish to phase out Eurodollar bases at a time that it is creating bases for large time deposits, it might instead apply a 5 per cent reserve requirement to the amount of Eurodollar borrowings equal to the bank's current Eurodollar reserve-free base, and a requirement of 8 per cent to amounts of borrowings in excess of this

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base. Under this alternative, the 5 per cent requirement might be phased in at one percentage point a month over a 5 month period (see Table 2). Eurodollar bases might then be eliminated at the time when the domestic marginal reserve requirement was no longer required, and the domestic bases eliminated.

Under this second alternative, historical bases would carry a reserve requirement of 5 per cent in both domestic and international regulations. This apparent symmetry would only exist, however, for the few banks that still have Eurodollar bases.

Moreover, the two types of bases have quite different origins. The Eurodollar reserve-free bases, while initially established according to historical amounts of borrowings, have been preserved by banks at some cost, whereas the domestic historical bases that would be created by the marginal reserve requirement on large time deposits and similar instruments would represent only currently-outstanding amounts of bank liabilities.

In view of these considerations, and the desirability of being able to set the reserve requirement under Regulation M primarily on the basis of international considerations, the appearance at the present time of symmetrical treatment of Eurodollar borrowings with treatment of large CD's and other similar sources of funds may not be a significant advantage, if indeed it is an advantage at all.

Avoidance of Early Capital Outflow

Under either alternative, Eurodollar borrowings up to the amounts of base-levels will ultimately be made less attractive than under their present reserve-free status. So long as some Eurodollar rates remain below

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comparable U.S. rates (at present overnight Eurodollars are cheaper than Federal funds), substantial repayments of existing borrowings are unlikely--and some increase in borrowings is possible. But if Eurodollar rates should rise above U.S. rates (as occurred in February/March), Eurodollar borrowings of about $1 billion might be repaid unless banks had special incentives to retain them.

Automatic downward adjustment. The Board's existing regulations provide an incentive by specifying that a bank's base is eliminated if unused--the automatic downward adjustment feature. It is recommended that such a feature be retained under either alternative as insurance against a sizable outflow, although it should be recognized that the "lock-in" effect will become less over time, as the base is phased out or the 5 per cent reserve requirement phased in.

Four-week computation period. If the automatic downward adjustment feature is retained, it is probably also desirable to retain a four-week computation period for Eurodollar borrowings. Substitution of the one-week period to establish symmetry with domestic reserve calculations would involve the risk that banks would find it unprofitable to retain bases because of temporary upward pressures in the Eurodollar market (e.g., around mid-year window-dressing time). This risk would have to be weighed against possible ease in administration that might result from shifting reserve-accounting for Eurodollar borrowings from a four-week period to a weekly basis.

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Foreign Branch Loans to U.S. Residents

Foreign branch loans to U.S. residents are covered by separate historical reserve-free bases that are not subject to automatic downward adjustment. Loans in excess of amounts of historical bases are presently subject to the 20 per cent reserve requirement, and under either of the above alternatives would be subject to a requirement of 8 per cent. In its proposal published for comment last September, the Board proposed to eliminate those bases, and this would be the recommended action if the Board were to adopt Alternative I.

However, if the Board were to adopt Alternative II, it might wish to retain the historical bases for branch loans without automatic downward adjustment (which aggregate about $1/4 billion) until such time as all Eurodollar bases could be eliminated.

Agencies and Branches of Foreign Banks.

Agencies and branches of foreign banks are, at times, major borrowers of Eurodollars for use in the United States, and the Board will need to ensure that its policy actions are not undermined by stepped-up U.S. operations by them.

If the Board makes a request for voluntary cooperation to non-member banks generally (Section IV), it might well be feasible to adapt the techniques used to provide some restraint on foreign agencies and branches. Failing this, it is recommended that the agencies and branches be approached and requested to conform with guidelines that would prevent excessive growth in their U.S. business (either loans to U.S. commercial banks or loans to U.S. nonbank customers). Details of these guidelines

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could be worked out with the Federal Reserve Bank of New York. (In 1969, agencies and branches were requested to exercise restraint in expanding their loans to U.S. banks, and in general they cooperated with this request.)

IV. NONMEMBER BANKS

The Board may also wish to consider obtaining voluntary compliance with the marginal reserve requirements by nonmember banks. A proposed letter to nonmember banks is attached. This letter notes that:

> The reserve requirement action was taken by the Board in an effort to restrain bank credit growth as part of the nation's anti-inflationary program. The effectiveness of this proposal in the essential task of combatting inflation would be enhanced, and equity would be served, if it applied generally throughout the banking community.

This letter could be signed by the Chairman and sent to each nonmember bank having outstanding money market-type borrowing in excess of $10 million. We estimate that this would cover less than 100 banks--virtually all with deposits over $100 million (see appended Table 3). [1/]

The letter, as drafted, suggests that the "required" reserve balance be deposited with a member bank who would then be asked to maintain 100 per cent of these balances on deposit with the Federal Reserve Bank in his District.

1/ This table reflects only a sample of nonmember banks, and covers only large time deposits (in denominations over $100,000) issued to individuals, partnerships, corporations in January 1973. The estimate of 100 nonmember banks that could be covered is based on staff analysis of sample data.

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V. COST ESTIMATE

The staff estimates that System-wide costs of implementing the proposals would be around $360 thousand. About $333 thousand of these costs would be one-time costs and $28 thousand would be annual recurring costs. These estimates are detailed in Table 4, appended.

The cost estimates, it should be noted, are rough, and could be as much as $100,000 higher than projected, depending on Reserve Bank decisions on programming.

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TABLE 1

Frequency Distribution of Member Banks Issuing
TIME DEPOSITS in denominations of $100,000 or more to Individuals, Partnerships, and Corporations
By Size of Bank
As of October 31, 1972

Aggregates Amount of TIME DEPOSITS in Denominations of $100,000 or more issued to IPC (Dollars)	Total Number of Member Banks	With Total Deposits (Demand, Time, and Savings) of					
		Under 25 mil.	25.1 to 50 mil.	50.1 to 100 mil.	100.1 to 250 mil.	250.1 to 500 mil.	Over 500 mil.
None	2,495	2,317	154	20	4	0	0
0.1 to 5.0 million	2,771	1,527	746	380	107	10	1
5.1 to 10 million	184	4	16	64	79	18	3
10.1 to 25 million	151	0	1	19	63	48	20
25.1 to 50 million	68	0	0	2	20	23	23
50.1 to 100 million	55	0	0	0	3	13	39
Over 100 million	57	0	0	0	0	1	56
TOTAL ISSUING SUCH DEPOSITS	3,286	1,531	763	465	272	113	142
Total number of Banks with aggregate time deposits in denominations of $100,000 or more issued to IPC of:							
Over $100 million	57	0	0	0	0	1	56
Over $ 50 million	112	0	0	0	3	14	95
Over $ 25 million	180	0	0	2	23	37	118
Over $ 10 million	331	0	1	21	86	85	138
Over $ 5 million	515	4	17	85	165	103	141
Memo: Total of TIME DEPOSITS in denominations of $100,000 or more issued to IPC (millions of dollars) by all banks	40,919	827	1,028	1,421	2,711	2,659	32,272

Note: Includes Negotiable CD's, Non-negotiable CD's, and open account time deposits.

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Schedule for Phasing Out Reserve Free Bases

(Alternative 1)

Percentage reduction in base per computation period	Reduction starting in computation period beginning on (1973)	Base phased out by computation period ending on (1974)	Per cent of Chase Manhattan Bank's request
10	May 10	Jan. 16	60
10	July 5	Mar. 13	80
10	Sept. 27	June 5	100
7	May 10	June 5	80
5	May 10	Nov. 20	100

Schedule for Phasing in Reserve Requirement on Reserve Free Bases of Eurodollar Borrowings

(Alternative 2)

Requirement phased in at one percentage point per computation period until maximum requirement of 5 per cent applies.

Alternatives for beginning requirement (1 per cent) phased in on	Maximum requirement (5 per cent) effective beginning	Per cent of Chase Manhattan Bank's request
June 7, 1973	September 27, 1973	66
July 5, 1973	October 25, 1973	73
August 2, 1973	November 21, 1973	80

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TABLE 3

Frequency Distribution of Non-Member Banks in Sample Issuing TIME DEPOSITS in denominations of $100,000 or more to Individuals, Partnerships, and Corporations By Size of Bank As of January 31, 1973

Aggregates Amount of TIME DEPOSITS in Denominations of $100,000 or more issued to IPC (Dollars)	Total Number of Non-Member Banks	With Total Deposits (Demand, Time and Savings) of					
		Under 25 mil.	25.1 to 50 mil.	50.1 to 100 mil.	100.1 to 250 mil.	250.1 to 500 mil.	Over 500 mil.
None	418	381	27	9	1	0	0
0.1 to 5.0 million	497	245	128	87	32	5	0
5.1 to 10 million	56	0	9	20	25	2	0
10.1 to 25 million	39	0	1	4	26	6	2
25.1 to 50 million	16	0	0	0	9	2	5
50.1 to 100 million	8	0	0	0	0	1	7
Over 100 million	7	0	0	0	1	2	4
TOTAL ISSUING SUCH DEPOSITS	623	245	138	111	93	18	18
TOTAL number of banks with aggregate time deposits in denominations of $100,000 or more issued to IPC of:							
over $100 million	7	0	0	0	1	2	4
over $ 50 million	15	0	0	0	1	3	11
over $ 25 million	31	0	0	0	10	5	16
over $ 10 million	70	0	1	4	36	11	18
over $ 5 million	126	0	10	24	61	13	18
Memo: Total of TIME DEPOSITS in denominations of $100,000 or more issued to IPC (millions of dollars)	3,564	139	226	363	1,088	532	1,215

Note: Includes Negotiable CD's, Non-negotiable CD's, and open account time deposits.
There are a total of 1,041 non-member insured banks in the Survey of Time and Savings Deposits sample.

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TABLE 4

ESTIMATED COSTS
of
IMPLEMENTING RESERVE REQUIREMENT PROPOSALS

	Reserve Banks	Board	Total
ONE TIME			
Trip to Washington of Accounting and deposit personnel to explain changes	$ 3,600	--	$ 3,600
To obtain Base Data	18,000	2,000	20,000
Art work for forms	--	1,000	1,000
Reproduction of forms	8,500	--	8,500
Programming	228,000	15,000	243,000
Total One-Time	$258,100	$18,000	$276,100
Continuing Costs (Annual Rate)			
Processing	$ 75,000	$10,000	$ 85,000
TOTAL COSTS	$333,100	$28,000	$361,100

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Draft of a Letter Which Might Request Non-Member Banks to Voluntarily Comply with Marginal Reserve Requirements

I am writing to enlist your assistance in ensuring that actions taken by the Federal Reserve today in the interest of a healthy economy and a sound banking system accomplish these objectives in an effective and equitable manner.

The Board of Governors of the Federal Reserve System has taken two actions that affect large time certificates of deposit issued by member banks. One action is to suspend maximum interest rate ceilings on such deposits with maturities of more than 89 days; the ceiling rate on deposits of 30-89 day maturity had been suspended since June 27, 1970. The Federal Deposit Insurance Corporation has taken a similar action with respect to insured banks that are not members of the Federal Reserve System. With market interest rates relatively high, the suspension of ceilings across the board will enable banks to compete in all maturity sectors of the short-term market and thereby permit them to establish a balanced maturity structure for outstanding large certificates of deposit.

The other action taken by the Federal Reserve Board has been to impose a marginal reserve requirement on the total of funds raised from the issuance of (1) single-maturity time deposits of $100,000 or more, (2) deposits represented by promissory notes, acknowledgements of advances, due bills, or similar obligations as provided in paragraph 204.1(f) of the Board's Regulation D, and (3) funds obtained by the bank from obligations issued by affiliate and subsidiaries of the bank. The Board has also published for a comment a proposal to establish reserve requirements, including marginal reserve requirements, on funds obtained from the sale of ineligible acceptances.

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The marginal reserve requirement action means that member banks must maintain additional reserves equal to 3 per cent of any growth in the total of deposits and liabilities specified above in excess of the average total amount of these obligations outstanding in the week ending May 16, 1973. Thus, for a member bank, the reserve requirement applicable to the excess of such deposits above the base data level would generally be 8 per cent--the continuing 5 per cent requirement on large denomination time deposits and other similar domestic money market instruments, plus the marginal 3 per cent requirement.

The reserve requirement action was taken by the Board in an effort to restrain bank credit growth as part of the nation's anti-inflationary program. The effectiveness of this proposal in the essential task of combatting inflation would be enhanced, and equity would be served, if it applied generally throughout the banking community. Accordingly, I am asking you voluntarily to adhere to the additional 3 per cent marginal requirement applicable to the amount of deposits and related instruments, as defined above, in excess of the average of those outstanding in the base week of May 16, 1973.[1/] A copy of the Federal Register notice implementing the marginal reserve requirement proposal is attached for your information and guidance.

For a nonmember bank, the additional marginal reserve should be maintained with a member of the Federal Reserve System. In the latter case,

1/ This phrasing assumes the letter is sent to each nonmember in excess of $25 million in deposits. If the letter were sent to State supervisors instead, the sentence could read as follows: "Thus, I am asking you to take action so that nonmember banks within your jurisdiction will adhere to the 3 per cent marginal requirement, etc."

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the member bank receiving the deposit will be asked to maintain 100 per cent of these balances with its Federal Reserve Bank.[2/]

It is our hope that this additional reserve requirement can be removed at the earliest possible time consistent with the national interest. Your compliance with this requirement will play a significant role in restraining inflation and in returning the economy to a more normal course.

I look forward to receiving your response.

2/ If the letter were written to State supervisors, a first sentence could be added to this paragraph as follows: "To increase the general effectiveness of the marginal reserve requirement, we believe it would be best implemented outside of the general framework of the reserve requirement regulations of your State. Accordingly, we request that you notify nonmember banks under your jurisdiction to maintain the additional marginal reserves in the form of either, etc."