

FEDERAL RESERVE BANK OF DALLAS
DALLAS, TEXAS 75222

Circular No. 68-207
October 2, 1968

To All Member Banks
in the Eleventh Federal Reserve District:

There is enclosed a copy of a statement for the press by the Board of Governors of the Federal Reserve System dated September 25, 1968, together with a copy of a notice proposing an amendment to Regulation D, "Reserves of Member Banks," and Regulation Q, "Payment of Interest on Deposits."

The proposal would limit the types of promissory notes which are exempt from the rules governing member bank reserves (Regulation D) and the payment of interest on deposits (Regulation Q).

To aid in the consideration of this matter by the Board, interested persons are invited to submit relevant data, views, or arguments in writing to the Secretary, Board of Governors of the Federal Reserve System, Washington, D. C. 20551, to be received not later than October 28, 1968.

Yours very truly,

P. E. Coldwell

President

Enclosures (2)

FEDERAL RESERVE SYSTEM

[12 CFR Parts 204, 217]

[Regs. D, Q]

RESERVES OF MEMBER BANKS; PAYMENT OF INTEREST ON DEPOSITS

Promissory Notes as Deposits

The Board of Governors is considering amending section 204.1(f) and section 217.1(f) to read as follows:

§ 204.1 Definitions.

§ 217.1 Definitions.

* * *

(f) Deposits as including certain promissory notes. For the purposes of this part, the term "deposits" shall be deemed to include the proceeds of any promissory note, acknowledgment of advance, due bill, or similar obligation (written or oral) that is issued by a member bank principally as a means of obtaining funds to be used in its banking business, except any such instrument (1) that is issued to and held by another bank, a foreign government, a monetary or financial authority of a foreign government when acting as such, or an international financial institution of which the United States is a member, (2) that evidences an indebtedness arising from a transfer of obligations that are direct obligations of the United States or any agency thereof or are fully guaranteed as to principal and interest by the United States or any agency thereof (other than a pro rata interest in a pool of such obligations) that the bank is obligated to repurchase, or (3) that has an original maturity of more than two years and states expressly that it is subordinated to the claims of depositors. This paragraph shall not, however, affect the status, for the purposes of this part, of any instrument issued before June 27, 1966, or any instrument that evidences an indebtedness arising from a transfer of assets under repurchase agreement issued before September 25, 1968.

* * * * *

The principal purpose of the proposal is to limit the scope of the repurchase agreement exemption from deposits for the purposes of rules governing member bank reserves (Regulation D) and payment of interest on deposits (Regulation Q). At present the exemption applies to any indebtedness (written or oral) arising from a transfer of any assets under repurchase agreement. Broadly speaking, under the proposed §§ 204.1(f) and 217.1(f) the exemption would apply only to repurchase agreements, evidenced in writing, with respect to obligations of the United States or its agencies as to which the bank transfers its entire interest. Limiting the scope of such exemption has become necessary in view of recent and contemplated use by certain banks of repurchase agreements to avoid reserve requirements and the rules governing payment of interest on deposits.

The proposal is also designed to expand the scope of the inter-bank exemption from deposits to include liabilities on promissory notes issued by a member bank to nonbank foreign monetary or financial authorities. Under section 217.3(a) the time deposits of such organizations are exempt from interest rate limitations. Making the inter-bank exemption completely parallel with the exemption from time deposit interest rate limitations insofar as institutions are concerned seems reasonable in view of their international nature, the possible benefits from the standpoint of the balance of payments, and the unlikelihood that the limited expansion of the inter-bank exemption that is involved could be used as a device by banks to avoid the purposes of Regulations D and Q.

This notice is published pursuant to section 553(b) of Title 5, United States Code, and section 262.2(a) of the rules of procedure of the Board of Governors.

To aid in the consideration of this matter by the Board, interested persons are invited to submit relevant data, views, or arguments. Any such material should be submitted in writing to the Secretary, Board of Governors of the Federal Reserve System, Washington, D. C., 20551, to be received not later than October 28, 1968.

Dated at Washington, D. C., this 25th day of September, 1968.

By order of the Board of Governors.

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Deputy Secretary.

(SEAL)



FEDERAL RESERVE

press release

For immediate release.

September 25, 1968.

The Board of Governors of the Federal Reserve System today published for comment a proposal to limit the types of promissory notes which are exempt from rules governing member bank reserves (Regulation D) and the payment of interest on deposits (Regulation Q).

Major purpose of the proposed change would be to narrow the scope of an exemption for bank liabilities on repurchase agreements (those involving sales of instruments with an agreement for subsequent repurchase) from classification as deposits subject to those regulations.

At present, the exemption applies to any indebtedness of a bank, written or oral, arising from a transfer of any assets under a repurchase agreement. Under the proposed change the exemption would apply generally only to written repurchase agreements on obligations of the U. S. Government or its agencies as to which the bank transfers its entire interest.

On all other repurchase agreements with a person other than a bank, the bank would be required under the proposal to maintain reserves as provided under Regulation D and would be limited under Regulation Q to the amount of interest it could pay on funds borrowed in this manner. Liabilities on any repurchase agreement with a bank would remain exempt from classification as a deposit.

The Board said limiting the exemption appears necessary because of recent and contemplated use by some banks of repurchase

agreements to avoid reserve requirements and the rules governing payment of interest on deposits.

The Board said comments from interested parties should be submitted in writing within 30 days.

A copy of the notice of proposed rule making submitted for publication in the Federal Register is attached.