

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 69-137
June 2, 1969

PROPOSED AMENDMENT TO REGULATION D
"RESERVES OF MEMBER BANKS"

To All Member Banks
in the Eleventh Federal Reserve District:

There are attached a Press Release of the Board of Governors of the Federal Reserve System dated May 29, 1969, and proposed amendments to §204.1(h) and §204.2(b) of Regulation D as these will be published in the Federal Register.

You will note the Board of Governors has invited interested persons to submit in writing relevant data, views, or arguments. Such material should be sent to the Secretary, Board of Governors of the Federal Reserve System, Washington, D. C. 20551, to be received not later than July 15, 1969.

Yours very truly,

P. E. Coldwell

President

Attachment



FEDERAL RESERVE

press release

For immediate release.

May 29, 1969.

The Board of Governors of the Federal Reserve System today proposed an amendment to its rules governing member bank reserves (Regulation D) designed to ensure that checks resulting from transfers involving foreign branches are not used to effect a reduction in required reserves.

Specifically, the proposed amendment would prevent a member bank from deducting from demand deposits, for purpose of computing reserve requirements, any "cash items in process of collection" or "balances due from other banks" involving any account with or in a foreign branch of the member bank.

"The effect of the proposal relates principally to the practice of bidding for Euro-dollar deposits by foreign branches of member banks," the Board said in explanation of the proposal. "For example, when a foreign depositor in a domestic office of a U. S. bank instructs that bank to transfer funds to another U. S. bank for his account in the latter's foreign branch, the transfer is sometimes effected by a cashier's check. Upon its receipt by the second bank, that check has been treated as a 'cash item in process of collection' that is credited to the depositor's account in the foreign branch. Such accounts are not subject to reserve requirements under Regulation D.

"A major reason for permitting deduction of cash items in process of collection in computing deposits subject to reserves is to avoid duplication of reserves against the same funds. In a purely domestic transaction of the kind described, a member bank issuing a cashier's check maintains reserves against the funds involved while the check is in process of collection. The receiving bank is normally permitted, during the collection process, to deduct the item from its deposits subject to reserve requirements in order to avoid duplication of reserves in such instances. In the case of Euro-dollar transactions, however, the receiving bank credits the funds to an account that is not subject to reserve requirements, and therefore there appears to be no reason to permit items credited to a foreign branch account to be deducted from the parent bank's deposits in the calculation of reserve requirements under Regulation D."

The amendment would eliminate one element of attractiveness of Euro-dollar deposits to those member banks that have made frequent use of the deduction of such items in connection with their Euro-dollar transactions.

The Board asks that any comments on the proposal be sent to the Board's offices no later than July 15, 1969. A copy of the proposed amendments in the form submitted for publication in the Federal Register is attached.

Attachment.

FEDERAL RESERVE SYSTEM

[12 CFR Part 204]

[Reg. D]

RESERVES OF MEMBER BANKS

Certain Cash Items in Process of Collection

The Board of Governors is considering amending the last sentence of § 204.1(h) to read: "Items handled as noncash collections and items the amounts of which are credited to any account with or in a foreign branch of the member bank may not be treated as 'cash items in process of collection' within the meaning of this part."

In conjunction with such amendment, the last sentence of § 204.2(b) would be amended to read: "'Balances due from other banks' do not include balances due from Federal Reserve Banks, balances (payable in dollars or otherwise) due from foreign banks or branches thereof wherever located or from foreign branches of other domestic banks, ^{6/} or balances representing checks received or forwarded for collection and not yet paid by the drawee the amounts of which are credited to any account with or in a foreign branch of the member bank." (Footnote 6 would remain unchanged.)

The purpose of these proposed amendments is to disallow as a deduction from deposits in computing a member bank's reserve requirements any "cash item in process of collection" or "balance due from other bank" that is credited to any account with or in a foreign branch of such bank.

The effect of the proposal relates principally to the practice of bidding for Euro-dollar deposits by foreign branches of member banks. For example, when a foreign depositor in a domestic office of a U. S. bank instructs that bank to transfer funds to another U. S. bank for his account in the latter's foreign branch, the transfer is sometimes effected by a cashier's check. Upon its receipt by the second bank, that check has been treated as a "cash item in process of collection" that is credited to the depositor's account in the foreign branch. Such accounts are not subject to reserve requirements under Regulation D.

A major reason for permitting deduction of cash items in process of collection in computing deposits subject to reserves is to avoid duplication of reserves against the same funds. In a purely domestic situation of the kind described, a member bank issuing a cashier's check maintains reserves against the funds involved while the check is in process of collection. The receiving bank is normally permitted, during the collection process, to deduct the item from its deposits subject to reserve requirements in order to avoid duplication of reserves in such instances. In the case of Euro-dollar transactions, however, the receiving bank credits the funds to an account that is not subject to reserve requirements, and therefore there appears to be no reason to permit items credited to a foreign branch account to be deducted from the parent bank's deposits in the calculation of reserve requirements under Regulation D.

This notice is published pursuant to section 553(b) of title 5, United States Code, and § 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 July 15, 1969.

Dated at Washington, D. C., the 29th day of May, 1969.

By order of the Board of Governors.

(Signed) Robert P. Forrestal

Robert P. Forrestal,
Assistant Secretary.