FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 69-160
July 1, 1969

PROPOSED AMENDMENTS TO REGULATIONS M AND D

To All Member Banks
in the Eleventh Federal Reserve District:

Attached is a copy of a press release of the Board of Governors of the Federal Reserve System regarding proposed amendments to Regulations M and D which would impose reserve requirements on certain Eurodollar transactions. Copies of the proposed amendments are also attached.

Comments on the proposal should be received by the Board by July 28, 1969.

Yours very truly,

P. E. Coldwell

President

Enclosures (2)

FEDERAL RESERVE
press release

For immediate release June 26, 1969

The Board of Governors of the Federal Reserve System today proposed to amend its regulations in order to moderate the flow of Euro-dollars between U.S. banks and their foreign branches and also between U.S. and foreign banks. Comments on the proposed amendments should be submitted to the Board within 30 days.

Proposed amendments to Regulation M, which governs the foreign activities of member banks, would:

1. Establish a 10 per cent reserve requirement on borrowings of U. S. banks from their foreign branches to the extent that these borrowings exceed the daily average amounts outstanding in the four weeks ending May 28, 1969. This marginal reserve requirement would also apply to assets acquired by the foreign branch from U.S. offices of the bank.

To reduce potential inequities that may be involved in use of a base period under this proposal, the Board suggested a minimum base equal to 3 per cent of total deposits subject to reserve requirements for any bank with a foreign branch regardless of the magnitude of its previous use of Euro-dollars.

2. Establish a 10 per cent reserve requirement on branch loans to U.S. residents to the extent such loans exceed those in a base period defined as either (a) the amount outstanding on June 25, 1969, or (b) the daily average of amounts outstanding in the four weeks

ending May 28, 1969. The choice of base would be left to the member bank. An exemption for branches with small amounts of loans to U.S. residents (less than $5 million on any day of a relevant computation period) is included in the proposal.

In a companion measure, the Board proposed to define as deposits subject to Regulation D, which governs reserves of member banks, any borrowing by a member bank from a foreign bank. The Board proposed a 10 per cent reserve requirement against deposits of this class.

The reserve requirements proposed in these amendments would remove a special advantage to U.S. banks of using Euro-dollars for adjustment to domestic credit restraint. The Board noted that these reserve-free liabilities of U.S. banks to their foreign branches have risen by more than $7 billion since the beginning of 1969, and by about $3 billion during the first three weeks of June. Increases of these magnitudes in liabilities to foreign branches by a few large banks have had a distorting influence on credit flows in the United States and abroad.

The Board proposed that banks' reserve-free bases be subject to automatic reduction unless such reduction is waived by Board action at the time. Under the automatic reduction feature, a new base would be established when, in any period used to calculate a reserve requirement, these claims of foreign branches subject to reserve requirements fall below the original base.

Copies of the proposed amendments are attached.

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FEDERAL RESERVE SYSTEM

[12 CFR Parts 204, 213]

[Regs. D, M]

RESERVES OF MEMBER BANKS; FOREIGN ACTIVITIES OF NATIONAL BANKS[1/]

Reserves Against Certain Foreign Transactions

The Board of Governors is considering amending Part 204 and Part 213 to impose reserve requirements against certain transactions usually involving so-called "Euro-dollars" - deposits of United States dollars with banks located outside the United States, including overseas branches of United States banks.

The proposed amendments are designed to remove a special advantage to member banks of using Euro-dollars for adjustment to domestic credit restraint. The increasing magnitude of this practice has had a distorting influence on credit flows in the United States and abroad.

Specifically, the proposed amendments would:

(1) Establish a 10 per cent reserve requirement against (a) borrowings by domestic offices of member banks from their foreign branches and (b) assets of foreign branches acquired from domestic offices of its parent member bank, to the extent that such borrowings and assets exceed the daily average amounts outstanding in the four weeks ending May 28, 1969.

(2) Establish a 10 per cent reserve requirement against credit extended by a foreign branch of a member bank to United States residents, to the extent such credits exceed those in a base period defined as either (a) the amount outstanding on June 25, 1969, or (b) the daily average amount outstanding in the four weeks ending May 28, 1969.

1/ Despite the title of Part 213, the conditions, limitations, and restrictions therein are applicable to foreign activities of State-chartered member banks as well as national banks (12 U.S.C. 321, 601).

(3) Establish a 10 per cent reserve requirement on borrowings by member banks from banks abroad that are not denominated as deposits.

Each of the reserve requirements would be maintained by member bank head offices in a manner similar to that applicable to their deposit liabilities generally.

The first two of the proposed requirements would be accomplished by adding a new section to Part 213, as follows:

§ 213.7 Marginal reserve requirements.

(a) Member bank transactions with foreign branches. During each week of the four-week period beginning [the seventh Thursday after the effective date of this paragraph] and each week of each successive four-week ("maintenance") period, a member bank having one or more foreign branches shall, in addition to the requirements of Part 204 of this chapter (Regulation D), keep on deposit with the Reserve Bank of its district a daily average balance equal to 10 per cent of the amount by which the daily average net total of (1) outstanding assets held by its foreign branches which were purchased from its domestic offices and (2) balances due from its domestic offices to its foreign branches, for the four-week ("computation") period ending on the Wednesday fifteen days before the beginning of each maintenance period, exceeds the greater of either (i) the corresponding daily average total for either the four-week period ending May 28, 1969 or any computation period beginning on or after [the effective date of this paragraph], whichever is least, or (ii) three per cent of the member bank's average total deposits subject to reserve requirements during the computation period.

(b) Credit extended by foreign branches to United States residents. During each week of the four-week period beginning [the seventh Thursday after the effective date of this paragraph] and each week of each successive four-week maintenance period, a member bank having one or more foreign branches shall, in addition to the requirements of Part 204 of this chapter (Regulation D) and of the preceding paragraph, keep on deposit with the Reserve Bank of its district a daily average balance equal to 10 per cent of the amount by which daily average credit outstanding from its foreign branches to United States residents (other than assets purchased and balances due from its domestic offices) for the four-week computation period ending on the Wednesday fifteen days before the beginning of each maintenance period exceeds either the corresponding daily average total during the four-week period ending May 28, 1969 or the total outstanding on June 25, 1969: Provided, That this paragraph does not apply with respect to any foreign branch which did not have credit outstanding to United States residents exceeding $5 million on any day during the relevant computation period.

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The third of the proposed requirements would be accomplished:

(1) by amending the exemption enumerated (1) in § 204.1(f) (relating to certain promissory notes as deposits) by changing "that is issued to another bank" to read "that is issued to a domestic office of another bank";

(2) by amending § 204.5(a) by changing "subject to paragraph (b)" to read "subject to paragraphs (b) and (c)"; and

(3) by adding to § 204.5 the following new paragraph:

"(c) Reserve percentage against certain deposits of foreign banks. Deposits represented by promissory notes, acknowledgments of advance, due bills, or similar obligations of the kind described in § 204.1(f) that are issued to, or undertaken with respect to, a foreign office of another bank shall not be subject to the requirements of paragraph (a) of this section, but a member bank shall maintain on deposit with the Reserve Bank of its district a balance equal to 10 per cent of such deposits."

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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 July 28, 1969.

Dated at Washington, D. C., this 26th day of June 1969.

By order of the Board of Governors.

(signed) Robert P. Forrestal
Robert P. Forrestal,
Assistant Secretary.

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