FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 69-208
August 15, 1969

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 amendments to Regulations M and D that establish a 10 per cent marginal reserve requirement on certain foreign borrowings, primarily Euro-dollars, by member banks and on the sale of assets to their foreign branches.

Copies of the amendments will be sent to you as soon as printing has been completed.

Yours very truly,

P. E. Coldwell

President

Enclosure (1)

FEDERAL RESERVE

press release

For immediate release. August 13, 1969.

The Board of Governors of the Federal Reserve System today established a 10 per cent marginal reserve requirement on certain foreign borrowings, primarily Euro-dollars, by member banks and on the sale of assets to their foreign branches. The new requirement must be met by affected banks beginning the week of October 16, based on the initial four-week computation period beginning September 4.

Purpose of the action is to moderate the flow of foreign funds between U.S. banks and their foreign branches and also between U.S. and foreign banks by removing a special advantage to member banks that have used Euro-dollars not subject to reserve requirements to adjust to domestic credit restraint. The Board noted that liabilities of U.S. banks to their foreign branches have more than doubled since the beginning of this year, reaching a record $14.6 billion during the week ending July 30.

The amendments approved by the Board to its Regulation M (which governs the foreign activities of member banks) and Regulation D (which governs reserves of member banks) are basically the same as those proposed on June 26. Several modifications, primarily to reduce potential inequities and to clarify the original proposal, were made by the Board after reviewing the more than 50 letters of comment received.

Amendments to Regulation M will:

1. Establish a 10 per cent reserve requirement on net borrowings of member banks from their foreign branches to the extent these borrowings exceed the daily average amounts outstanding in the four weeks ending

May 28, 1969. This marginal requirement will also apply to assets acquired by foreign branches from U.S. head offices of banks except for assets representing credits extended by head offices to nonresidents after June 26. To reduce potential inequities the Board established a minimum base, the same as proposed in June, equal to 3 per cent of deposits subject to reserve requirements for any bank with a foreign branch regardless 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 either the amount outstanding on June 25 or June 26, 1969, or the daily average amounts outstanding in the four weeks ending May 28, 1969. Choice of the base would be at the option of the member bank. This amendment includes three exemptions as follows: It does not apply to any foreign branch with $5 million or less in credit outstanding to U.S. residents; credit extended to enable a borrower to comply with requirements of the Office of Foreign Direct Investments, Department of Commerce; and credit extended under lending commitments entered into before June 27, 1969.

An amendment to Regulation D establishes a 10 per cent reserve requirement on borrowings by member banks from foreign banks with one exception: only a 3 per cent reserve is required against such deposits that do not exceed 4 per cent of a member bank's daily average deposits subject to reserve requirements. This latter provision is designed to reduce inequities for banks without foreign branches which would have no reserve-free base under the Regulation M amendments.

The reserve-free base under the amendment establishing a reserve requirement on borrowings of U.S. banks from their foreign branches will be reduced when and to the extent that the liabilities of any bank to its foreign branches drop below the original base during any period used to compute the reserve requirement.

The action is not intended to interfere with the normal operations of U.S. banks or U.S. corporations in financing business abroad.

Governors Mitchell and Daane dissented from this action.

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