

FEDERAL RESERVE BANK OF DALLAS
DALLAS, TEXAS 75222

Circular No. 69-211
August 18, 1969

AMENDMENTS TO REGULATIONS M AND D

**To All Member Banks
in the Eleventh Federal Reserve District:**

The Board of Governors of the Federal Reserve System adopted, effective September 4, 1969, amendments to Regulations M and D that establish a 10 percent marginal reserve requirement on certain foreign borrowings, primarily Euro-dollars, by member banks and on the sale of assets to their foreign branches.

Two copies of the amendments are enclosed. It is requested that member banks place one copy with Regulation M and one copy with Regulation D in the ring binder containing the Regulations of the Board of Governors and the Bulletins of this Bank.

Forms which will be used for reporting purposes are being prepared and will be furnished to member banks as soon as available.

The Board's press release regarding the amendments was sent to you with our Circular No 69-208 on August 15, 1969.

Yours very truly,

P. E. Coldwell
President

Enclosures (2)

TITLE 12 — BANKS AND BANKING
CHAPTER II — FEDERAL RESERVE SYSTEM
SUBCHAPTER A — BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM

[Regulations D, M]

PART 204 — RESERVES OF MEMBER BANKS
PART 213 — FOREIGN ACTIVITIES OF NATIONAL BANKS

Reserves Against Certain Foreign Deposits

1. Effective September 4, 1969, the following amendments are hereby adopted:

a. Section 204.1(b) is amended to read as follows:

(b) **Time deposits.** The term “time deposits” means “time certificates of deposit,” “time deposits, open account,” and “savings deposits,” as defined below; except that for the purposes of § 204.5(c), “time deposits” shall have the meaning set forth therein.

b. Section 204.1(f) is amended to read as follows:

(f) **Deposits as including certain promissory notes and other instruments.** For the purposes of this part, the term “deposits” shall be deemed to include any promissory note, acknowledgment of advance, due bill, or similar instrument 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 a domestic banking office of another bank,^{6a} (2) that evidences an indebtedness arising from a transfer of direct obligations of, or obligations that are fully guaranteed as to principal and interest by, the United States or any agency thereof (other than a part interest in such obligations) that the bank is obligated to repurchase, or (3) that has an original maturity of more than 2 years and states expressly that it is subordinated to the claims of depositors. This paragraph shall not, however, affect (i) any instrument issued before June 27, 1966, or (ii) any instrument that evidences an indebtedness arising from a transfer of assets under repurchase agreement issued before July 25, 1969, or (iii) until August 28, 1969, any instrument that evidences an indebtedness arising from a transfer of assets under repurchase agreement issued, renewed, or extended on or after July 25, 1969, or (iv) any instrument issued to a foreign office of another bank before June 27, 1969.

c. Section 204.5(a) is amended by changing “paragraph (b) of this section,” to read “paragraphs (b) and (c) of this section,”.

d. The following paragraph is added to Section 204.5:

(c) **Reserve percentages against certain deposits by foreign banking offices.** Deposits represented by promissory notes, acknowledgments of advance, due bills, or similar obligations described in § 204.1(f) to foreign offices of other banks⁸ shall not be subject to paragraph (a) of this section or to § 204.3(a)(1) and (2); but during each week of the four-week period beginning October 16, 1969, and during each week of each successive four-week

^{6a} I.e., any banking office in any State of the United States or the District of Columbia of a bank organized under domestic or foreign law.

⁸ I.e., offices of other banks not covered by § 204.1(f)(1).

("maintenance") period, a member bank shall maintain with the Reserve Bank of its district a daily average balance equal to 10 per cent of the daily average amount of such deposits during the four-week ("computation") period ending on the Wednesday fifteen days before the beginning of the maintenance period; except that only 3 per cent need be so maintained against such deposits which are time deposits⁹ aggregating not more than 4 per cent of such member bank's daily average deposits subject to paragraph (a) of this section during the computation period. An excess or deficiency in reserves in any week of a maintenance period under this paragraph shall be subject to § 204.3(a)(3), as if computed under § 204.3(a)(2), and deficiencies under this paragraph shall be subject to § 204.3(b).¹⁰

e. The following new section is added to Part 213:

Section 213.7 Reserves against foreign branch deposits.

(a) **Transactions with parent bank.** During each week of the four-week period beginning October 16, 1969, and during each week of each successive four-week ("maintenance") period, a member bank having one or more foreign branches shall maintain with the Reserve Bank of its district, as a reserve against its foreign branch deposits, a daily average balance equal to 10 per cent of the amount by which the daily average total of

- (1) net balances due from its domestic offices to such branches, and
- (2) assets (including participations) held by such branches which were acquired from its domestic offices,⁷

during the four-week ("computation") period ending on the Wednesday fifteen days before the beginning of the maintenance period, exceeds the greater of

- (i) the corresponding daily average total⁸ for either the four-week period ending May 28, 1969, or (except as the Board may otherwise specify) any computation period beginning on or after September 4, 1969, whichever is least, or

- (ii) 3 per cent of the member bank's daily average deposits subject to § 204.5(a) of this chapter (Regulation D) during the computation period:

Provided, That the applicable base computed under (i) or (ii) shall be reduced by the daily average amount of any deposits of the member bank subject to §204.5(c) of this chapter (Regulation D) during the computation period.

(b) **Credit extended to United States residents.** During each week of the four-week period beginning October 16, 1969, and during each week of each successive four-week maintenance period, a member bank having one or more foreign branches shall maintain with the Reserve Bank of its district, as a reserve against its foreign branch deposits, a daily average balance equal to 10 per cent of the amount by which daily average credit out-

⁹ For the purposes of this paragraph, "time deposits" means any deposit having a maturity of one day or more.

¹⁰ The term "computation period" in § 204.3(a)(3) and (b) shall, for this purpose, be deemed to refer to each week of a maintenance period under this paragraph.

⁷ Excluding (1) assets so held on June 26, 1969 representing credit extended to persons not residents of the United States and (2) credit extended or renewed by a domestic office after June 26, 1969 to persons not residents of the United States to the extent such credit was not extended in order to replace credit outstanding on that date which was paid prior to its original maturity (see definition of United States resident in footnote 9).

⁸ Excluding assets representing credit extended to persons not residents of the United States.

standing from such branches to United States residents (other than assets acquired and net balances due from its domestic offices), during the four-week computation period ending on the Wednesday fifteen days before the beginning of the 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 or 26, 1969: **Provided**, That this paragraph does not apply to credit extended (1) by a foreign branch which at no time during the computation period had credit outstanding to United States residents⁹ exceeding \$5 million, (2) to enable the borrower to comply with requirements of the Office of Foreign Direct Investments, Department of Commerce,¹⁰ or (3) under binding commitments entered into before June 27, 1969.

2a. By notice of proposed rule making dated June 26, 1969 (Federal Register of July 3, 1969, 34 F.R. 11214), the Board of Governors proposed to amend §§ 204.1(f)(1) and 204.5 of this chapter (Regulation D) and to add a new § 213.7 to Part 213 of this chapter (Regulation M) in order to remove a special advantage to member banks of using foreign funds (primarily Euro-dollars) for adjustment to domestic credit restraint. The general purpose of such amendments as proposed was to establish a 10 per cent reserve requirement against deposits to the extent of —

(1) borrowings by domestic offices of member banks from their foreign branches and assets of foreign branches acquired from domestic offices of the parent member banks, to the extent such borrowings and assets exceed either the daily average amounts outstanding in the four weeks ending May 28, 1969, or 3 per cent of deposits subject to reserve requirements;

(2) credit extended by foreign branches of member banks to United States residents, to the extent such credits exceed those in a base period defined as either the amount outstanding on June 25, 1969, or the daily average amount outstanding in the four weeks ending May 28, 1969; and

(3) borrowings by member banks from banks abroad that are not denominated as deposits.

b. In view of the comments received, the Board has incorporated various changes in these amendments as adopted. The principal substantive changes are as follows:

(1) The amendment to § 204.1(f)(1) has been modified to make clear that this exemption applies only to a domestic **banking** office of another bank; and a footnote has been added to clarify that "domestic" in this context means any banking office in any State of the United States or the District of Columbia of a bank organized under domestic or foreign law. Also, an exemption is provided in § 204.1(f) for obligations issued to a foreign office of another bank before June 27, 1969.

(2) The reserve requirement in § 204.5(c) on borrowings from foreign banks has been conformed to the foreign branch reserve requirements

⁹ I.e., (a) any individual residing (at the time the credit is extended) in any State of the United States or the District of Columbia; (b) any corporation, partnership, association or other entity organized therein ("domestic corporation"); and (c) any branch or office located therein of any other entity wherever organized. Credit extended to a foreign branch, office, subsidiary, affiliate or other foreign establishment ("foreign affiliate") controlled by one or more such domestic corporations will not be deemed to be credit extended to a United States resident if the proceeds will be used in its foreign business or that of other foreign affiliates of the controlling domestic corporation(s).

¹⁰ The branch may in good faith rely on the borrower's certification that the funds will be so used.

in Regulation M with respect to the time periods for computing and maintaining such reserves. A provision has been added to § 204.5(c) to the effect that borrowings from foreign banks having maturities of one day or more will be subject to a reduced reserve requirement of 3 per cent (rather than 10 per cent), up to an amount of such "time" borrowings equal to 4 per cent of the member bank's deposits subject to reserve requirements. Time borrowings above this base (and all borrowings actually payable on demand) from foreign banks would be subject to the 10 per cent requirement. Also, provision has been made in § 204.5(c) for dealing with reserve deficiencies under that paragraph.

(3) A footnote has been added to § 213.7(a) which excludes from the 10 per cent reserve requirement on assets sold to foreign branches (i) any assets held by foreign branches on June 26, 1969 representing credit extended to nonresidents of the United States, and (ii) credit extended or renewed by domestic offices of a member bank after June 26, 1969 to nonresidents of the United States, except to the extent such credit was extended in order to replace credit outstanding on that date which was paid prior to its maturity. Since no reserve requirement applies to foreign credits acquired from domestic offices which were held on June 26, 1969 by foreign branches or to foreign credits extended or renewed after that date, foreign credits are also excluded in computing a member bank's base under § 213.7(a). It is also provided that any borrowings from foreign banks under § 204.5(c) shall operate to reduce the reserve-free base available on borrowings from foreign branches under § 213.7(a).

(4) Section 213.7(b) has been modified to exempt borrowings to meet the requirements of the Office of Foreign Direct Investments, Department of Commerce, and borrowings under commitments entered into before June 27, 1969, from the 10 per cent reserve requirement applicable to foreign branch credit to United States residents. Also, a footnote defines "United States resident" to include any individual residing in any State or the District of Columbia, any corporation or other entity organized therein, and any domestic office of a foreign company. It is also made clear that credit extended to foreign offices or affiliates of domestic companies will not be treated as credit to United States residents if the funds will be used in the foreign business of the borrower or another foreign affiliate of the domestic company.

3. The effective date of the amendment was deferred for less than the 30-day period referred to in section 553(d) of title 5, United States Code, because the Board found that the general credit situation and the public interest compelled it to make the action effective no later than September 4, 1969.

Approved August 12, 1969.

By order of the Board of Governors,
(Signed) Kenneth A. Kenyon
Kenneth A. Kenyon,
Deputy Secretary.

(SEAL)