

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 70-202
August 21, 1970

CHANGES IN REGULATION D AFFECTING MEMBER BANK TIME DEPOSITS AND BANK-RELATED COMMERCIAL PAPER

To All Member Banks in the
Eleventh Federal Reserve District:

Reference is made to Circular No. 70-198 dated August 18, 1970 regarding the captioned subject. The last paragraph of that circular letter stated that additional information would be forwarded to you. In this connection, the following material is enclosed:

1. A Supplement to Regulation D as amended effective October 1, 1970.
2. An Amendment to Regulation D effective September 17, 1970.
3. An interpretation of the Amendment to Regulation D, effective September 17, 1970. .
4. A postal card for acknowledging receipt of the above material.

The Supplement to Regulation D, as amended effective October 1, 1970, is issued pursuant to the authority granted to the Board of Governors by section 19 of the Federal Reserve Act to set reserve ratios (12 U.S.C. 461). The change is to decrease by 1 percentage point the ratio of reserves that must be maintained by a member bank against its time deposits in excess of \$5 million. The change becomes effective in the reserve computation period beginning October 1 as to deposits outstanding in the week beginning September 17.

There was no notice and public participation with respect to this amendment as such procedure would result in delay that would be contrary to the public interest and serve no useful purpose.

The authority of the Reserve Banks to waive penalties for deficient reserves resulting from issuance of obligations by bank subsidiaries is withdrawn effective with the reserve computation period beginning October 1 as to deposits outstanding in the week beginning September 17.

The main purpose of the amendment is to maintain the effectiveness of the reserve requirements of Regulation D by applying those requirements to funds received by a member bank as the result of issuance of obligations

(over)

(commonly described as commercial paper) by an affiliate. The operation of the amendment is further explained in the accompanying interpretation (12 CFR section 204.115).

Notice of proposed rule making with respect to applying Regulation D to borrowings by bank affiliates was published in the Federal Register of January 29, 1970 (35 F.R. 1173). Expansion of the categories of affiliates subject to the regulations and shifting from the proposed 10 percent reserve requirement on obligations with a maturity of less than 30 days to the usual demand deposit reserve requirement raise no new issues. The increase in the obligations covered as a result of expanding the maturity element from two to seven years is also insignificant as a practical matter, since few, if any, obligations covered have a maturity of two years or more. In these circumstances, and in view of the deferral of the effective date until September 17, 1970, the Board finds that further notice and public procedure with respect to the amendments are unnecessary and would be contrary to the public interest.

The reserve requirements that will apply to bank affiliate commercial paper as a result of the Board's action announced Monday, August 17, 1970, will be the usual reserve percentages applicable to member bank demand deposits if the obligation has a maturity of less than 30 days.

The Amendment should be filed with your copy of Regulation D. In addition, when the new Supplement becomes effective, it should be substituted for the Supplement now filed with your copy of Regulation D.

Please acknowledge receipt of this material on the enclosed postal card.

Yours very truly,

P. E. Coldwell

President

Enclosures (4)

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

SUPPLEMENT TO REGULATION D

As amended effective October 1, 1970

SECTION 204.5 — SUPPLEMENT

(a) **Reserve percentages.** Pursuant to the provisions of section 19 of the Federal Reserve Act and § 204.2(a) and subject to paragraph (c) of this section, the Board of Governors of the Federal Reserve System hereby prescribes the following reserve balances which each member bank of the Federal Reserve System is required to maintain on deposit with the Federal Reserve Bank of its district:

(1) **If not in a reserve city —**

(i) 3 percent of (a) its savings deposits and (b) its time deposits, open account, that constitute deposits of individuals, such as Christmas club accounts and vacation club accounts, that are made under written contracts providing that no withdrawal shall be made until a certain number of periodic deposits have been made during a period of not less than 3 months; plus

(ii) 3 percent of its other time deposits up to \$5 million, plus 5 percent of such deposits in excess of \$5 million; plus

(iii) 12½ percent of its net demand deposits up to \$5 million, plus 13 percent of such deposits in excess of \$5 million.

(2) If in a reserve city (except as to any bank located in such a city which is permitted by the Board of Governors of the Federal Reserve System, pursuant to § 204.2(a)(2), to maintain the reserves specified in subparagraph (1) of this paragraph) —

(i) 3 percent of (a) its savings deposits and (b) its time deposits, open account, that constitute deposits of individuals, such as Christmas club accounts and vacation club accounts, that are made under written contracts providing that no withdrawal shall be made until a certain number of periodic deposits have been made during a period of not less than 3 months; plus

(ii) 3 percent of its other time deposits up to \$5 million, plus 5 percent of such deposits in excess of \$5 million; plus

(iii) 17 percent of its net demand deposits up to \$5 million, plus 17½ percent of such deposits in excess of \$5 million.

(b) **Currency and coin.** The amount of a member bank's currency and coin shall be counted as reserves in determining compliance with the reserve requirements of paragraph (a) of this section.

(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 banks,⁸ or institutions the time deposits of which are exempt from the rate limitations of Regulation Q pursuant to § 217.3(g) thereof, 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 ("maintenance") period, a member bank shall maintain with the Reserve Bank of its district a daily average balance equal to 10 percent 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 percent need be so maintained against such deposits which are time deposits⁹ aggregating not more than 4 percent 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

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

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.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

RESERVES OF MEMBER BANKS

AMENDMENT TO REGULATION D

Effective September 17, 1970, section 204.1(f) is amended by adding the following sentence:

For the purposes of this part, "deposits" of a member bank also include the liability of a member bank's affiliate, as defined in section 2 of the Banking Act of 1933 (12 U.S.C. 221a(b)), on any promissory note, acknowledgement of advance, due bill, or similar obligation (written or oral),

with a maturity of seven years or less, to the extent that the proceeds are used for the purpose of supplying funds to the bank for use in its banking business, or to maintain the availability of such funds, except any such obligation that, if it had been issued directly by the member bank, would not constitute a deposit in view of exceptions (1) and (2), above.

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

[Reg. D]

PART 204 — RESERVES OF MEMBER
BANKS

Interpretation

COMMERCIAL PAPER OF BANK
AFFILIATES

SECTION 204.115 BORROWINGS BY BANK
AFFILIATES AS DEPOSITS.

Effective September 17, 1970, the Board of Governors has amended § 204.1(f) to apply the rules governing member bank reserve requirements (Regulation D) to funds received by member banks as the result of issuance of obligations by affiliates of the bank, including obligations commonly described as commercial paper. The following examples illustrate the effect of the amendment:

(1) A corporation that controls a majority of the stock of a member bank establishes and acquires a majority of the stock of another corporation. That corporation proposes to acquire \$10 million by the public sale on September 1 of promissory notes in amounts of \$100,000 or more with a maturity of 90 days and to use \$5 million to acquire, on September 1, interests in loans made by the bank, \$3 million of which will mature in 90 days and \$2 million of which will mature in 180 days. Under the amendment to Regulation D, \$5 million of the notes will become subject, on September 17, to a 5 percent reserve requirement (assuming the member bank has other time deposits subject to § 204.5 (a) of \$5 million), which will continue as long as, and to the extent that, funds of the affiliate are used to maintain the availability of funds to the bank.

(2) If, on September 15, the affiliate described in the preceding paragraph sells to a third person \$1 million of the 90-day loans, the bank may thereupon reduce its deposits subject to time deposit reserve requirements by \$1 million. If, on November 1, \$1 million of the affiliate's funds are again used to purchase from the bank notes maturing in 45 days, the bank must add back \$1 million to its deposits subject to time deposit reserve requirements, even though the affiliate does not issue additional obligations. (If, between the sale of notes on September 15 and the additional purchase on November 1, the affiliate places the idle funds in a checking account with the bank, the usual demand deposit reserve requirement applies instead, for that period.) If, upon maturity on November 30 of the affiliate's \$5 million of obligations, the affiliate extends \$1 million thereof for 60 days and \$2 million for 90 days, the \$1 million is subject to reserves only for 16 days — until the maturity of the 45-day loans — unless additional funds are channeled to the bank or repayments on the loans maturing in that time are deferred. If, on January 1, a portion of the \$2 million 180-day loans is prepaid, the amount of such prepayments will reduce the amount of the affiliate's obligations that are subject to reserves, unless additional funds are channeled to the bank.

(3) A corporation that is majority-controlled by a company that also majority-controls a member bank proposes to acquire \$10 million by the sale of 90-day \$100,000 promissory notes and use the proceeds to acquire all of the automobile loans of the bank. The bank will thereupon cease to engage in that type of lending. The amendments apply to an affiliate's obligations issued to finance such a reorganization, even though the shift of operations from the bank is on a one-time basis. The funds obtained by the bank may be used by it to expand its remaining lending activities, and the Board considers that such funds should be subject to reserve requirements at least as long as the affiliate holds the assets acquired from the bank.