

FEDERAL RESERVE BANK OF DALLAS  
DALLAS, TEXAS 75222

Circular No. 70-292  
December 4, 1970

AMENDMENTS TO REGULATIONS D AND M  
(Eurodollar Borrowings)

To All Member Banks  
in the Eleventh Federal Reserve District:

On November 30, 1970, the Board of Governors of the Federal Reserve System announced amendments to §204.5 (Supplement) of Regulation D, "Reserves of Member Banks", and to §213.7 of Regulation M, "Foreign Activities of National Banks". The amendments concern bank borrowings of Eurodollars, and will be effective January 7, 1971.

On November 30, the Board of Governors issued a press statement dealing in part with these amendments, and the relevant portions of this press statement are reproduced on the reverse of this circular.

Copies of the amendments for insertion in the ring binders containing the regulations of the Board of Governors and the bulletins of this Bank are attached. The Regulation D amendment is a restatement of paragraph (c) of §204.5 of the Supplement, and the Regulation M amendment is a complete restatement of §213.7 of the regulation. It should be noted that the current versions of these provisions will continue in effect until the effective date of these amendments, January 7, 1971.

A current version of Regulation D should include the pamphlet dated February 12, 1970; amendments dated June 30, September 17, and November 9, 1970; and the current Supplement dated October 1, 1970. (On January 7, 1971, the Supplement sheet forwarded with this circular should replace the October 1 version.)

A current version of Regulation M consists of the pamphlet dated March 15, 1967; and an amendment containing §213.7, dated September 4, 1969. (The attached amendment to §213.7 should replace the current version of that section on January 7, 1971.)

Yours very truly,

P. E. Coldwell  
President

Enclosures (2)



# FEDERAL RESERVE

press release

(Excerpt from press release)

Three inter-related decisions were made by the Board regarding bank borrowings of Eurodollars.

First, the Board raised from 10 to 20 per cent the reserves required from member banks against Eurodollar borrowings that exceed amounts that the banks are allowed as a reserve-free base. The higher requirement is intended to give banks an added inducement to preserve their reserve-free bases presently at substantial levels against a time of future need, instead of allowing their bases to be lowered automatically by repaying their Eurodollar borrowings. The higher requirement becomes effective in the current four-week reserve computation period ending December 23.

In a second step, to assure that the higher marginal reserve requirement does not penalize banks that currently have Eurodollar liabilities above their reserve-free bases, the Board also amended its regulations so as to make the marginal reserve requirement applicable to borrowings above either (1) the minimum base equal to a percentage of deposits, or (2) the average level in the reserve computation period ended November 25, whichever is higher.

Third, the Board amended its regulations to discourage repayment of Eurodollar liabilities, not only by banks that use an historically determined reserve-free base originally related to their May 1969 borrowings, but also by those banks that operate under a minimum base equal to 3 per cent of their overall deposits subject to reserve requirements. The amendment will apply the automatic downward adjustment to reserve-free bases of the latter kind as well as of the former. This amendment becomes effective with the reserve computation period ending January 20, 1971.

Although the steps announced today were deliberately made of modest scale, the Board has under review other measures that might be adopted for the purpose of tempering the repayment of Eurodollars while avoiding penalty to banks that operate so as to retain their reserve-free bases.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

**FOREIGN ACTIVITIES OF NATIONAL BANKS**

AMENDMENT TO REGULATION M

Effective January 7, 1971, § 213.7 is amended to read as follows:

**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 20 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,<sup>7</sup>

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 total<sup>8</sup> for the computation period ending November 25, 1970, or the lowest corresponding daily average total for any computation period beginning after that date, whichever amount is the lesser, 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 current computation period, or, if the bank has had a foreign branch in operation for more than 90 days, the lowest corresponding daily average total for any computation period beginning on or after December 24, 1970, whichever amount is the lesser:

*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.

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<sup>7</sup> 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).

<sup>8</sup> Excluding assets representing credit extended to persons not residents of the United States.

(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 20 per cent of the amount by which daily average credit outstanding from such branches to United States residents<sup>9</sup> (other than assets acquired and net balances due from its domestic offices), during the four-week computation period ending on Wednesday fifteen days before the beginning of the maintenance period, exceeds the corresponding daily average total during the four-week period ending on November 25, 1970: *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 residents exceeding \$5 million, (2) to enable the borrower to comply with requirements of the Office of Foreign Direct Investments, Department of Commerce,<sup>10</sup> or (3) under binding commitments entered into before December 1, 1970.

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<sup>9</sup> (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).

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