

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 73-152
June 21, 1973

TO THE CHIEF EXECUTIVE OFFICER
OF THE MEMBER BANK ADDRESSED:

On May 16, 1973, the Board announced several changes in Regulations D, M, and Q and one proposed change in Regulation D. As the attached press release, dated June 18, 1973, points out, the Board amended its Regulation D adopting the proposed change to make funds obtained by a member bank through its use of finance bills (ineligible acceptances) subject to reserve requirements effective July 12, 1973.

The attached press release is self-explanatory. Circular No. 73-150 which is being mailed today includes a copy of this latest amendment. In order to implement the reporting of funds raised by member banks through the sale of finance bills, it will be necessary to revise form FR414a ("Member Bank Special Reservable Liabilities Report") to include information on the outstanding amount of such obligations. Copies of the revised form will be forwarded to you shortly. It will be necessary to file the revised FR414a in any reserve computation week (starting with the reserve computation period beginning June 28) in which such finance bills (ineligible acceptances) were outstanding at your bank, even if the total covered obligations are less than \$10 million.

For your information, the effect of this latest amendment on both the regular reserve requirement and the base for marginal reserve requirement is illustrated in detail in the summary of the May 16 actions of the Board of Governors of the Federal Reserve System (item C.(b) on page 2 of that summary) which was enclosed with Circular No. 73-124 on May 21, 1973.

If you have any questions on any facet of the Board's latest action, please call the accounting officer of this Bank or appropriate branch.

On behalf of the Federal Reserve System, please accept my appreciation for your continued cooperation.

Yours very truly,

P. E. Coldwell

President



FEDERAL RESERVE

press release

For immediate release

June 18, 1973

The Board of Governors of the Federal Reserve System announced today that reserve requirements will be applied to funds raised by member banks through the sale of finance bills. There is presently no reserve requirement on this type of instrument, which is sometimes called a working capital acceptance or an "ineligible" acceptance.

By its action today the Board amended its Regulation D governing the reserves of member banks to apply a basic 5 per cent reserve requirement on all outstanding finance bills. An additional 3 per cent reserve requirement will apply to the total of funds raised through finance bills, large (\$100,000 and over) certificates of deposit (or other single maturity time deposits of like size) and commercial paper issued by an affiliate of a bank, to the extent the total exceeds the level outstanding during the week ended May 16 or \$10 million, whichever is larger.

Under the amendment, member banks will be required to include finance bills in their reserve calculations for the week beginning June 28. Member banks will be required to hold the reserves in the week beginning July 12.

The amendment is the same as the proposal made by the Board on May 16, as part of a series of actions designed to curb rapid expansion of bank credit, help moderate inflationary pressures and also assure the availability of credit on a reasonable scale. The Board's actions at that time included: (1) imposition of the above mentioned 8 per cent reserve requirements on large certificates of deposits and on outstanding funds

obtained by banks through issuance by an affiliate of obligations subject to the existing reserve requirements, and (2) suspension of the ceilings then applicable to the rate of interest commercial banks may pay on large certificates of deposit.

At present, about \$1.6 billion in finance bills is outstanding.

The amendment adopted by the Board today will apply to funds obtained by a bank for use in its banking business through bank acceptances that are not eligible for discount by a Federal Reserve Bank. The traditional type of bank acceptances that apply to specific transactions in goods are exempt from reserve requirements and are eligible for discount by a Federal Reserve Bank.

A copy of the Board's order relating to this matter is attached.

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

Deposit Status of Acceptance Proceeds

On May 16, 1973, the Board of Governors announced that it was considering applying reserve requirements against funds raised by member banks through the use of acceptances of the type not eligible for discount by Federal Reserve Banks. (See 38 Federal Register 13750.) After consideration of all comments received, the Board has decided, for the reasons indicated in that earlier announcement, to adopt the proposal.

The effective date of the regulation is 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 the date adopted.

Effective July 12, 1973, Section 204.1(f) of the Board's Regulation D (12 CFR Part 204) is amended to read as follows:

§ 204.1 Definitions

* * *

(f) Deposits as including certain promissory notes and other obligations. For the purposes of this Part, the term "deposits" also includes a member bank's liability on any promissory note, acknowledgment

of advance, due bill, bank acceptance or similar obligation (whether written or oral) that is issued or undertaken by a member bank as a means of obtaining funds to be used in its banking business, except any such obligation that:

* * *

(4) * * *; or

(5) arises from the creation of a bank acceptance of the type described in section 13 of the Federal Reserve Act and eligible for discount by the Federal Reserve Banks.

* * *

By order of the Board of Governors, June 18, 1973.

(Signed) Chester B. Feldberg

Chester B. Feldberg
Assistant Secretary of the Board

[SEAL]