

**FEDERAL RESERVE BANK OF DALLAS**

**DALLAS, TEXAS 75222**

Circular No. 73-157  
July 3, 1973

**INTERPRETATION OF REGULATION D RELATING TO RESERVES AGAINST  
COMMERCIAL PAPER OF MEMBER BANKS AND THEIR AFFILIATES**

To All Member Banks in the  
Eleventh Federal Reserve District:

There is attached an interpretation of Regulation D effective June 15, 1973. This interpretation answers questions that have recently arisen concerning reserves against commercial paper of member banks and their affiliates according to Regulation D and concerning the Board's recently adopted marginal reserve requirements.

Yours very truly,

P. E. Coldwell

President

Attachment

**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**

**COMMERCIAL PAPER**

1. Effective June 15, 1973, § 204.117 is added to read as follows:

**SECTION 204.117 RESERVES AGAINST  
COMMERCIAL PAPER.**

(a) A number of questions have recently arisen concerning reserves against commercial paper of member banks and their affiliates, under § 204.1(f) of the Board's Regulation D, and concerning the Board's recently adopted marginal reserve requirements.

(b) The question has been presented whether the commercial paper issued by an "operations subsidiary" of a member bank is subject to the provisions of the last sentence of § 204.1(f) — which is applicable to "affiliates" of member banks — or whether it is subject to the same regulatory provisions to which a member bank is subject. In 1968, the Board published an interpretation on "operations subsidiaries", which defines such subsidiaries as "separately-incorporated departments of the bank, performing, at locations at which the bank is authorized to engage in business, functions that the bank is empowered to perform directly." 1968 BULLETIN 681; 12 CFR 250.141. The Board indicated that the incidental powers clause of the National Bank Act permits the establishment of such a subsidiary, since "a wholly-owned subsidiary corporation engaged in activities that the bank itself may perform is simply a convenient alternative organizational arrangement" to department organization. Also in 1968, the Comptroller revised his ruling on "operating subsidiaries" to state that "[e]xcept as otherwise permitted by statute or regulation, all provisions of Federal banking laws applicable to the operations of the parent bank shall be equally applicable to the operations of its operating subsidiaries." COMPTROLLER'S MANUAL ¶ 7.7376. Accordingly, it is the Board's view that the provisions

of Regulation D applicable to a member bank are equally applicable to any of its "operations subsidiaries." The liability of any other "affiliate" of a member bank (as such term is defined in section 2 of the Banking Act of 1933) on commercial paper obligations is subject to the provisions of the last sentence of § 204.1(f).

(c) The question has also been presented whether the original maturity on the commercial paper of a member bank's affiliate is determinative of the status of the proceeds supplied to the bank as a demand deposit or time deposit. For example, suppose the affiliate issues promissory notes with an original maturity of 35 days, and after a delay of 15 days channels the funds to the bank through the purchase of loans from the bank. In this situation, the bank has use of the funds for only 20 days, and, accordingly, demand deposit reserve requirements should apply. (Proceeds channeled to the bank in the form of a deposit would be subject either to demand deposit or time deposit reserve requirements, depending on the form the deposit takes. See 12 CFR 204.115(c).) Thus, in determining demand deposit or time deposit status, the operative consideration is the period remaining to maturity at the time the proceeds are supplied to the bank, rather than the original maturity on the promissory notes issued by the affiliate.

(d) A question has also been raised concerning the proper method of calculation of the base for purposes of the marginal reserve requirement under § 204.5(a)(1)(ii) and (2)(ii) of Regulation D, in the event two banks merge. If two member banks merge, or if a member bank merges with a nonmember bank that is voluntarily cooperating with the Board's marginal reserve program, then the base for the resulting member bank is the total of the two bases of the two formerly independent banks. If a member bank merges with a nonmember bank that is not cooperating with the marginal reserves program, the resulting member bank will be asked to provide a reasonable estimate of the base the nonmember bank would have had if it had been cooperating with the marginal reserves program, and the base for the resulting bank is the total of the base of the merging member bank and the estimated base of the nonmember. If a nonmember bank that is not cooperating with the marginal reserves program converts to member bank status, a reasonable estimate of the base should be provided in that event as well.