

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 73-325
December 11, 1973

SUPPLEMENT TO REGULATION D

To All Member Banks in the
Eleventh Federal Reserve District:

There is quoted below the text of a press release issued Friday, December 7, 1973 by the Board of Governors of the Federal Reserve System announcing an amendment to Regulation D lowering the marginal reserve requirement on large denomination time deposits and related domestic instruments.

"The Board of Governors of the Federal Reserve System today announced a reduction from 11 per cent to 8 per cent in its marginal reserve requirement on large denomination certificates of deposit (CD's). This action -- which will reduce the costs to banks of accommodating the credit needs of their customers -- was taken in recognition of the moderation in bank credit growth achieved over recent months.

The announced reduction will take effect on deposits in the week beginning next Thursday, December 13, and will reduce required reserves two weeks later, when there is a seasonal need to provide reserves to the banking system. The net effect of the Board's action will be to reduce by about \$375 million the reserves required to support member bank deposits.

A marginal reserve requirement (the regular 5 per cent plus a supplemental 3 per cent) was first announced by the Board on May 16 as part of a series of actions designed to curb a rapid expansion in bank credit and help moderate inflationary pressures. An additional 3 per cent marginal reserve was announced by the Board on September 7, thus raising the total reserve requirement on affected deposits to 11 per cent.

In recent months, the rate of growth in bank credit has moderated, and the outstanding amount of large denomination CD's has dropped substantially. Business loan expansion at banks has been at a much slower pace than earlier this year, and extensions of other forms of bank credit have also slowed.

The marginal reserve requirement applies to increases (beyond the amount outstanding in the week ended May 16) in the total of (a) time deposits in denominations of \$100,000 and over and (b) bank-related commercial paper and finance bills with a maturity of 30 days or more. In no case does the supplemental reserve apply to banks whose obligations of these types total less than \$10 million.

The Board said the action also affects certain non-member state banks and U. S. agencies and branches of foreign banks which have been voluntarily holding marginal reserves on large CD's at the request of the Board. The special marginal reserve held by these institutions will now be reduced from 6 per cent to 3 per cent. The Board expressed its appreciation to the nonmember institutions for their continued cooperation."

The revised Supplement to Regulation D reflecting this change is attached. This new Supplement effective December 13, 1973 should be substituted for the Supplement (effective September 20, 1973) now filed with your copy of Regulation D.

Yours very truly,

P. E. Coldwell

President

Attachment

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

SUPPLEMENT TO REGULATION D

As amended effective December 13, 1973

SECTION 204.5 — RESERVE REQUIREMENTS

(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 per cent 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; and

(ii) 3 per cent of its other time deposits up to \$5 million, plus 5 per cent of such deposits in excess of \$5 million: *Provided, however,* That a member bank shall maintain a reserve balance equal to 8 per cent of the amount by which the daily average amount of time deposits of the types hereinafter specified exceeds either the daily average amount of such time deposits outstanding during the computation period ending May 16, 1973, or \$10 million, whichever is greater, and such 8 per cent reserve percentage shall apply with respect to time deposits of the following types:

(a) time deposits of \$100,000 or more; and

(b) time deposits represented by promissory notes, acknowledgments of advance, due bills, or similar obligations issued by a member bank's affiliate, as provided in § 204.1(f); and

(c) time deposits represented by bank acceptances, as provided in § 204.1(f);

Provided further, that in no event shall the reserves required on its aggregate amount of time and savings deposits exceed 10 per cent; and

(iii) (a) 8 per cent of its net demand deposits if its aggregate net demand deposits are \$2 million

or less, (b) \$160,000 plus 10½ per cent of its net demand deposits in excess of \$2 million if its aggregate net demand deposits are in excess of \$2 million but less than \$10 million, (c) \$1,000,000 plus 12½ per cent of its net demand deposits in excess of \$10 million if its aggregate net demand deposits are in excess of \$10 million but less than \$100 million, or (d) \$12,250,000 plus 13½ per cent of its net demand deposits in excess of \$100 million.

(2) **If in a reserve city** (except as to any bank located in such a city that 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 per cent 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; and

(ii) 3 per cent of its other time deposits up to \$5 million, plus 5 per cent of such deposits in excess of \$5 million: *Provided, however,* That a member bank shall maintain a reserve balance equal to 8 per cent of the amount by which the daily average amount of time deposits of the types hereinafter specified exceeds either the daily average amount of such time deposits outstanding during the computation period ending May 16, 1973, or \$10 million, whichever is greater, and such 8 per cent reserve percentage shall apply with respect to time deposits of the following types:

(a) time deposits of \$100,000 or more; and

(b) time deposits represented by promissory notes, acknowledgments of advance, due bills, or similar obligations issued by a member bank's affiliate, as provided in § 204.1(f); and

(c) time deposits represented by bank acceptances, as provided in § 204.1(f);

Provided further, that in no event shall the reserves required on its aggregate amount of time and savings deposits exceed 10 per cent; and

(iii) \$52,750,000 plus 18 per cent of its net demand deposits in excess of \$400 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 to 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 June 21, 1973, and during each successive four-week ("maintenance") period, a member bank shall maintain with the Reserve Bank of its district a daily average balance equal to 8 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. 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 subjected to § 204.3(b):⁹

Provided, That any bank that, under the terms of § 204.5(c) of Regulation D as in effect prior to June 21, 1973,¹⁰ was deducting for the computation period ending on May 9, 1973, an earlier period's corresponding daily average total of such deposits (hereinafter called "reserve-free base") in calculating its reserve requirements shall continue to be entitled to do so in accordance with the terms of such former section, but such reserve-free base shall not exceed progressively lower ceilings established hereunder by reducing the amount of its reserve-free base for the computation period ending on May 9, 1973, in ten increments, each equal to 10 per cent of its base in such computation period ending on May 9, 1973, applied consecutively in each succeeding computation period beginning with the period ending on August 1, 1973, until such reserve-free base is exhausted.

⁸Any banking office located outside the States of the United States and the District of Columbia of a bank organized under domestic or foreign law.

⁹The 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.

¹⁰35 Federal Register 18658.