

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 74-147
May 30, 1974

AMENDMENT TO REGULATION M (Reserves Against Eurodollar Borrowings)

To All Member Banks and Others Concerned
in the Eleventh Federal Reserve District:

The Board of Governors of the Federal Reserve System has amended Section 213.7(b) of Regulation M effective May 24, 1974, to avoid duplication of Eurodollar reserve requirements under Regulations D and M where the foreign branch of a member bank ("Bank 'A'") extends credit to the domestic office of another member bank ("Bank 'B'"). In this situation, Section 213.7(b) of Regulation M would require Bank "A" to maintain reserves against its foreign branch loan to Bank "B", which would be a U.S. resident within the meaning of Regulation M, and Section 204.5(c) of Regulation D would also require Bank "B", to maintain reserves against its borrowing from the foreign branch of Bank "A".

This amendment will avoid duplication of reserves on the same transaction by removing from the computation of reserve requirements under Section 213.7(b) of Regulation M credit extended by a foreign branch of a member bank to another member bank that will be maintaining reserves on such credit under Section 204.5(c) of Regulation D. Accordingly, in the above situation, Bank "A" would not be required to maintain reserves under Regulation M on its foreign branch loan to Bank "B".

The requirements of Section 553(b) of Title 5, United States Code, with respect to notice, public participation, and deferral of the effective date were not followed in connection with this amendment because the Board found that such procedures were unnecessary and would serve no useful purpose since the rule relieves a restriction without affecting any private interest; furthermore, such procedures would result in delay that would be contrary to the public interest.

Yours very truly,

P. E. Coldwell,

President

Enclosure

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

FOREIGN ACTIVITIES OF NATIONAL BANKS

AMENDMENT TO REGULATION M†

Effective May 24, 1974, § 213.7(b) 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 June 21, 1973, 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 8 per cent of 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 (other than assets representing credit extended to persons not residents of the United States), during the four-week computation period ending on the Wednesday fifteen days before the beginning of the maintenance period: *Provided*, That any bank that, under the terms of § 213.7(a) of Regulation M as in effect prior to June 21, 1973⁷, was deducting for the computation period ending on May 9, 1973, and earlier period's corresponding daily average total of such "net balances due" or "assets held" (hereinafter called "reserve-free base") in calculating its reserve requirements hereunder 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.

(b) **Credit extended to United States residents.**

During each week of the four-week period beginning June 21, 1973, 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 8 per cent of the daily average credit outstanding from such branches to United States residents⁸ (other than assets acquired and net balances due from its domestic offices) during the four-week computation period ending on the Wednesday fifteen days before the beginning of the maintenance period:

Provided, That this paragraph does not apply to credit extended (1) *in the aggregate amount of \$100,000 or less to any United States resident*, (2) *by a foreign branch which at no time during the computation period had credit outstanding to United States residents exceeding \$1 million*, (3) to enable the borrower to comply with the requirements of the Office of Foreign Direct Investments, Department of Commerce⁹, or (4) under binding commitments entered into before May 17, 1973 or (5) to another member bank that will be maintaining reserves on such credit under § 204.5(c) of Regulation D.

⁷ 36 Federal Register 1040; 6826.

⁸ (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).

⁹ The branch may in good faith rely on the borrower's certification that the funds will be so used.

† For this Regulation to be complete as amended effective May 24, 1974, retain:

- 1) Printed Regulation pamphlet as amended effective January 7, 1971.
- 2) This slip sheet.