

FEDERAL RESERVE BANK OF DALLAS
DALLAS, TEXAS 75222

Circular No. 74-179
July 2, 1974

RESERVES OF MEMBER BANKS

To All Member Banks in the
Eleventh Federal Reserve District:

There is attached a proposal by the Board of Governors for an amendment to Regulation D, "Reserves of Member Banks." The proposal was originally made on December 26, 1973 to amend Regulations D and Q to classify as deposits funds secured by member banks through the issuance of uncollateralized "due bills." The Board now has republished the proposal for comment, with the revised proposal pertaining only to Regulation D.

Yours very truly,

P. E. Coldwell

President

Attachment

FEDERAL RESERVE SYSTEM

[12 CFR Part 204]

RESERVES OF MEMBER BANKS

Due Bills as Deposits

By notice published in the Federal Register of December 26, 1973 (38 Federal Register 35236), the Board of Governors proposed to amend Regulations D and Q to classify as "deposits" (and thereby extend reserve requirements and interest rate limitations to) funds received by member banks through issuance of due bills that are uncollateralized. Pursuant to its authority under § 19 of the Federal Reserve Act to define the terms used in that section and prescribe regulations to effectuate the purposes and prevent evasions thereof, and for the reasons stated in its notice of December 26, 1973, the Board proposes an amendment to Regulation D which differs from the amendment proposed in December. The present proposal is in substantially the same form as previously published, but is limited to Regulation D, since upon further consideration of the effects of the collateralization requirement as originally proposed, it was believed that application of Regulation Q interest rate limitations to uncollateralized due bills under this proposal would not add significantly to the effectiveness of the collateralization requirement.

Since 1966 due bills that are issued by a member bank principally as a means of obtaining funds to be used in its banking business have

been defined as deposits subject to reserve requirements and interest rate limitations under both Regulations D and Q. The proposal would not alter the regulatory stance adopted in 1966 but would add a provision under Regulation D to define as deposits funds received from the issuance of due bills in connection with sales of securities where the securities sold are not delivered to or for an account of the purchaser within three business days from the time of purchase and where, for any period thereafter, such due bills are not fully collateralized by securities similar to those that the due bill represents. In the proposal, due bills which remain uncollateralized for more than three business days are treated as demand deposits under Regulation D.

Deposit treatment is proposed to such due bill transactions whether funds are received from another bank or other customers and regardless of the method by which such transactions are evidenced or recorded--whether by issuance of an instrument, oral undertaking or understanding, record notation or other manner. The Board has proposed a three-day period of exemption from the collateralization requirement in part in recognition of the apparent role of due bills as a clearing vehicle and in general as a means of facilitating sales of government securities.

The proposed regulation requires due bills to be collateralized by securities "similar to" the securities which are subject to the member Bank's liability if the due bill is to be exempt from Regulation D. It would appear that under this proposal due bills in Treasury issues could be secured by appropriate amounts of any other marketable Treasury

issues regardless of maturities and that due bills in Federal agency securities could be secured by either Treasury or agency issues, again regardless of maturities and still remain exempt. It also appears that the collateralization requirement may be satisfied by the pooling of appropriate collateral as well as by piece-by-piece collateralization using specific Treasury and Federal agencies securities.

To aid in the consideration of the matter by the Board, interested persons are invited to submit relevant data, views, and arguments. Any such material should be submitted in writing to the Secretary of the Board of Governors of the Federal Reserve System, Washington, D.C. 20551, to be received not later than July 31, 1974. Such material will be made available for inspection and copying upon request, except as provided in § 261.6(a) of the Board's rules regarding availability of information.

To implement its proposal, the Board proposes to amend section 204.1(f) of Regulation D (12 CFR Part 204) by adding a new sentence at the end thereof to read as follows:

204.1--Definitions

* * *

(f) Deposits as including certain promissory notes and other obligations.

* * *

In addition to the foregoing, the term "deposit" includes any liability or undertaking on the part of a member bank to sell or deliver securities to, or purchase securities for the account of any customer (including other banks), involving the receipt of funds by the

member bank or a debit to an account of such customer before the securities are delivered, unless such securities are delivered to or for the account of the purchaser within three business days from the date of purchase or, thereafter, such liability or undertaking is fully secured by collateral consisting of one or more securities "similar to" and with an aggregate market value at least equal to that of the securities which are the subject of the member Bank's liability or undertaking.

By order of the Board of Governors, June 25, 1974.

(Signed) Chester B. Feldberg

Chester B. Feldberg
Secretary of the Board

[SEAL]