AMENDMENTS TO REGULATIONS D AND Q

TO ALL MEMBER BANKS
AND OTHERS CONCERNED IN THE
ELEVENTH FEDERAL RESERVE DISTRICT:

On May 1, 1978, the Board of Governors of the Federal Reserve System adopted amendments to Regulation D (Reserve Requirements) and Regulation Q (Interest on Deposits) intended to facilitate the participation of member banks in a newly announced Treasury program for the handling of its funds in commercial banks and other depositories. The new Treasury Tax and Loan (TT&L) Investment Program will permit the Treasury to invest its funds in commercial banks (tax and loan accounts) in interest bearing notes of the depositary. Previously, these funds have been held as demand deposits and earned no interest. These amendments to Regulations D and Q provide that such notes will not be regarded as deposits subject to reserve requirements (Regulation D) or subject to interest rate limitations (Regulation Q). It should be noted that funds deposited in TT&L accounts retain their status as demand deposits until they are invested in the note obligations of the depositary bank or remitted to the Treasury.

The press release concerning these amendments, along with the text of the Board’s announcement, are printed on the following pages. Member banks and others should file the enclosed amendments, effective July 6, 1978, with your copies of Regulations D and Q in your Regulations Binder.

Any questions may be directed to the Bank Supervision and Regulations Department, Consumer Affairs Section, at Ext. 6171 or 6181. Additional copies of the amendments will be furnished upon request to the Secretary’s Office of this Bank, Ext. 6267.

Sincerely yours,
Robert H. Boykin
First Vice President

Enclosures

Banks and others are encouraged to use the following incoming WATS numbers in contacting this Bank: 1-800-492-4403 (intrastate) and 1-800-527-4970 (interstate). For calls placed locally, please use 651 plus the extension referred to above.
For immediate release

The Board of Governors of the Federal Reserve System today amended two of its regulations to facilitate the participation of member banks in a newly announced Treasury program for the handling of its funds in commercial banks and other depositories.

The new Treasury Tax and Loan Investment Program is designed to permit the Treasury to earn interest on its funds in commercial banks. Previously, these funds (which can be withdrawn at any time by the Treasury) have been treated as demand deposits, which may earn no interest.

The Treasury Tax and Loan Investment Program will enable Treasury to invest its non-interest-bearing funds in interest bearing notes of commercial banks.

The Board has amended its rules to provide that such notes will not be regarded as deposits subject to Regulation D (reserve requirements) or to Regulation Q (interest on time and savings deposits).

The Board's action will be effective with the effective date of the Treasury's Tax and Loan Investment Program, July 6, 1978.

The text of the Board's announcement is attached.

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Title 12—Banks and Banking
CHAPTER II—FEDERAL RESERVE SYSTEM
SUBCHAPTER A—BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
[Regs. D and Q; Docket No. R-0157]
PART 204—RESERVES OF MEMBER BANKS
PART 217—INTEREST ON DEPOSITS
Investment of U.S. Treasury Funds

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Final rule.

SUMMARY: The Board of Governors of the Federal Reserve System has amended Regulation D and Regulation Q to exempt from deposit treatment a member bank's liability on its promissory note that evidences an investment of funds by the United States Treasury. Consequently, these liabilities of member banks will not be subject to the reserve requirements and interest rate limitations imposed on member bank deposits.

EFFECTIVE DATE: July 6, 1978.

FOR FURTHER INFORMATION CONTACT:

SUPPLEMENTARY INFORMATION:
Regulations D and Q provide, in part, that a member bank's liability on its promissory note will not be considered a "deposit" of the member bank if the note is issued to a domestic banking office of another bank, an agency of the United States, or the Government Development Bank of Puerto Rico. Under the amendments adopted today, a note issued by a member bank to evidence an investment of funds by the United States Treasury will also be exempt from deposit treatment.

This action is taken in recognition of Pub. L. 95-147, which authorizes the Secretary of the Treasury to invest operating cash in obligations of depositaries maintaining Treasury tax and loan accounts. The Board of Governors believes that Congress intended that these member bank obligations be exempt from reserve requirements and interest rate limitations. Accordingly, the amendments approved today will promote Congress' purpose in enacting this legislation to provide Treasury with a direct means of obtaining interest on its cash balances. The Treasury has issued rules regarding implementation of this legislation and it is intended that the Board's rules and the Treasury's rules take effect simultaneously on July 6, 1978.

It should be noted that these amendments do not affect the status of Treasury tax and loan accounts as demand deposit accounts. Funds placed in these accounts at member banks will retain their status as demand deposits until such time as they are remitted to the Treasury or until they are invested by Treasury in obligations of the depositaries pursuant to the rules adopted by Treasury. Until such time, member banks will be required to maintain reserves against the Treasury tax and loan demand deposits.

Because these amendments implement legislation enacted by Congress and augment rules published by Treasury, the Board believes that significant public benefits will immediately result from their adoption. The immediate adoption of the final rules will remove uncertainty concerning the deposit status of promissory notes issued to Treasury by member banks, and thus will permit banks to begin preparing immediately for participation.
in the Treasury program. Consequently, the Board has determined that notice and public participation with respect to these amendments is unnecessary and would be contrary to the public interest.

Pursuant to section 19(a) of the Federal Reserve Act (12 U.S.C. 461), effective July 6, 1978, § 204.1(f) of Regulation D (12 CFR 204) and § 217.1(f) of Regulation Q (12 CFR 217) are 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, banker’s acceptance, or similar obligation (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:

(1) Is issued to (or undertaken with respect to) and held for the account of

(i) a domestic banking office of another bank, or (ii) the United States or an agency thereof, or the Government Development Bank for Puerto Rico;

* * * * *

§ 217.1 Definitions.

* * * * *

(f) Deposits as including certain promissory notes and other obligations. For the purposes of this Part, the term "deposits" also includes any member bank’s liability on any promissory note, acknowledgment of advance, due bill, or similar obligation (written or oral) that is issued or undertaken by a member bank principally as a means of obtaining funds to be used in its banking business, except any such obligation that:

(1) Is issued to (or undertaken with respect to) and held for the account of

(i) a bank or an institution the time deposits of which are exempt from § 217.7 pursuant to § 217.3(g), or (ii) the United States or an agency thereof, or the Government Development Bank for Puerto Rico;

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THEODORE E. ALLISON,
Secretary of the Board.

[FR Doc. 78-12415 Filed 5-5-78; 8:45 am]
Effective July 6, 1978, §204.1(f) is amended to read as follows:

SECTION 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, acknowledgement of advance, due bill, banker's acceptance, or similar obligation (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:

(1) Is issued to (or undertaken with respect to) and held for the account of (i) a domestic banking office6 of another bank or (ii) the United States or an agency thereof, or the Government Development Bank for Puerto Rico;

* * * * *

† For this Regulation to be complete as amended July 6, 1978, retain:
1) Printed Regulation pamphlet dated November 9, 1972;
2) Amendment effective November 26, 1973, Section 204.1(g);
3) Amendment effective October 14, 1974, Section 204.1(f);
4) Amendment effective November 10, 1975, Section 204.1(e)(1);
5) Amendment effective July 26, 1976, Section 204.1(f);
6) Supplement effective December 17, 1976; and
7) This slip sheet.

6Any banking office (i) in any State of the United States or the District of Columbia of a bank organized under domestic or foreign law or (ii) of a member bank whose head office is located outside the States of the United States or the District of Columbia provided, reserves are required to be maintained by such member bank under this Part against the deposit liabilities of such office.
Effective July 6, 1978, Section 217.1(f) is amended to read as follows:

SECTION 217.1—DEFINITIONS

(f) Deposits as including certain promissory notes and other obligations. For the purposes of this Part, the term "deposits" also includes any member bank's liability on any promissory note, acknowledgement of advance, due bill, or similar obligation (written or oral) that is issued or undertaken by a member bank principally as a means of obtaining funds to be used in its banking business, except any such obligation that:

1) Is issued to (or undertaken with respect to) and held for the account of (i) a bank or an institution the time deposits of which are exempt from §217.7 pursuant to §217.3(g), or (ii) the United States or an agency thereof, or the Government Development Bank for Puerto Rico;

† For this Regulation to be complete as amended effective July 6, 1978, retain:
1) Printed Regulation pamphlet as amended December 4, 1975;
2) Amendments effective March 1, 1976, to Sections 217.1(c)(3), 217.5(c)(3), and 217.6(i);
3) Amendment effective July 26, 1976, to Section 217.1(f)(3)(i);
4) Amendments effective November 23, 1977, to Sections 217.4(f) and 217.5(b);
5) Amendments effective December 1, 1977, to Section 217.4(d) and 4(d)(i);
6) Supplement effective June 1, 1978; and
7) This slip sheet.

7-6-78