

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 78-123

August 30, 1978

ELIMINATION OF RESERVE REQUIREMENTS
ON EURODOLLAR BORROWINGS

TO ALL MEMBER BANKS IN THE
ELEVENTH FEDERAL RESERVE DISTRICT:

There is quoted below the text of a press release issued on August 28, 1978 by the Board of Governors of the Federal Reserve System announcing the elimination of reserve requirements on Eurodollar borrowings. The amendment is effective on borrowings during the four-week computation period that began August 24, 1978, and will affect reserves required to be maintained beginning October 5, 1978.

In a further move to improve the international position of the dollar, the Federal Reserve Board today announced a change in reserve requirements to make it more attractive for member banks to borrow funds in the Eurodollar market.

The change was the second move announced by the Board within the past 10 days to improve conditions in the foreign exchange markets.

On August 18, the Board announced an increase in the discount rate from 7 1/4 to 7 3/4 percent in view of disorderly conditions that prevailed earlier this month in foreign exchange markets as well as the continuing serious domestic inflationary problem.

Today's action involves a reduction from 4 percent to zero in the reserve requirement on foreign borrowings of member banks, primarily Eurodollars, from their foreign branches and other foreign banks. The 1 percent reserve ratio on foreign branch loans to U.S. borrowers was also reduced to zero.

Also affected by today's decision are U.S. offices of foreign-owned banking institutions that have voluntarily maintained reserves on increases in net foreign borrowings since mid-1973.

The effect of the reserve reduction is intended to encourage member banks to substitute Eurodollar borrowings for domestic borrowings as a source of funds. Such increased Eurodollar borrowings should improve the demand in Euromarkets for dollar-denominated assets.

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.

In taking the action, the Board reemphasized the importance of U.S. banks complying with its previous requests not to solicit or encourage deposits by U.S. residents at their foreign branches unless such deposits serve a definite international purpose.

The reduction in reserve requirements will be effective with borrowings during the four-week computation period that began August 24.

Appropriate amendments to Regulations D and M, suitable for insertion in your Regulations Binder, will be forwarded to you in the near future.

If you have any questions regarding this change in reserve requirements, please contact Allan Y. Neale (Ext. 6334) at the Head Office, or the Manager of the Accounting Department at our El Paso Branch (915/544-4730), Houston Branch (713/659-4433), or our San Antonio Branch (512/224-2141).

Sincerely yours,

Robert H. Boykin

First Vice President