

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

**Circular No. 79-77
April 20, 1979**

**PROPOSED AMENDMENT TO REGULATION D TO RESTRUCTURE
RESERVE REQUIREMENTS AS APPLIED TO CERTAIN BORROWINGS
AND REPURCHASE AGREEMENTS**

**TO ALL MEMBER BANKS IN THE
ELEVENTH FEDERAL RESERVE DISTRICT:**

On April 13, 1979, the Board of Governors of the Federal Reserve System proposed for comment an amendment to Regulation D to restructure its reserve requirements as applied to certain borrowings by member banks. Generally, the major categories affected include Federal Funds, repurchase agreements, and Treasury tax and loan account note balances.

The text of the Board's proposal is attached. It is stressed that all comments and information on this proposal should be submitted in writing to the Secretary, Board of Governors of the Federal Reserve System, Washington, D.C. 20551. Comments should be received by May 18, 1979, and should refer to Docket No. R-0218.

If you have any questions regarding this proposal, please contact Allan Y. Neale of our Accounting Department, Ext. 6334, or any officer at our El Paso, Houston, or San Antonio Branch.

Sincerely yours,

Robert H. Boykin

First Vice President

Enclosure

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.

FEDERAL RESERVE SYSTEM

[REGULATION D; DOCKET NO. R-0218]

[12 CFR Part 204]

RESERVES OF MEMBER BANKS

**Reserve Requirements on Federal Funds and
Repurchase Agreement Time Deposits**

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Proposed Rule.

SUMMARY: The Board proposes to restructure its reserve requirements as applied to certain borrowings by member banks. Under the proposed restructuring, member banks would be required to maintain a 3 per cent reserve against borrowings from domestic offices of nonmember banks and other depository institutions whose liabilities are not subject to reserve requirements and from the United States government (and its agencies), as well as a 3 per cent reserve against certain repurchase agreements on U.S. government and agency securities. Currently, such liabilities are exempt from the Board's reserve requirements.

DATE: Comments must be received by May 18, 1979.

ADDRESS: Comments should be addressed to Theodore E. Allison, Secretary of the Board, Board of Governors of the Federal Reserve System, Washington, D.C. 20551. Comments should contain Docket No. R-0218.

FOR FURTHER INFORMATION CONTACT: Allen L. Raiken, Associate General Counsel, Legal Division (202/452-3625), or Gilbert T. Schwartz, Assistant General Counsel, Legal Division (202/452-3623), Board of Governors of the Federal Reserve System.

SUPPLEMENTARY INFORMATION: The Board of Governors proposes to amend its Regulation D, Reserves of Member Banks (12 CFR 204) to restructure reserve requirements as applied to certain borrowings and repurchase agreements entered into by member banks.

Currently, borrowings by member banks from domestic offices of other banks are not defined as deposits and are not subject to reserve requirements. Also, borrowings by member banks from the United States government (principally in the form of Treasury tax and loan account note balances) and its agencies have not been regarded as deposits subject to reserve requirements. Under the Board's proposal, member bank borrowings from the domestic offices of other banks whose liabilities are not subject to reserve requirements and from the U.S. government and its agencies would be treated as a new category of time deposit subject to a 3 per cent reserve requirement.

The term "bank" has been regarded as including commercial banks, savings banks, savings and loan associations, cooperative banks, the Export-Import Bank, and Minbanc Capital Corporation. (See 12 CFR 217.137) For purposes of reserve requirements (and interest rate restrictions) it is also proposed that the term "bank" be expanded to include credit unions. Member bank borrowings from domestic offices of other member banks or other organizations that are or may be required by the Board to maintain reserves and from Federal Reserve Banks would continue to be exempt from reserve requirements. The institutions that currently are subject to reserve requirements include Edge Corporations (12 U.S.C. 615), Agreement Corporations (12 U.S.C. 601-604a), and operations subsidiaries of member banks (12 CFR 204.117). In addition, pursuant to § 7 of

the International Banking Act of 1978 (Pub. L. 95-369), the Board may subject U.S. branches and agencies of foreign banks to reserve requirements. The exemption is believed appropriate to facilitate the reserve adjustment process of member banks and to avoid the possibility of imposing double reserve requirements on liabilities that already may be subject to reserve requirements.

The Board's proposal would also affect member bank borrowings in the form of repurchase agreements based on U.S. government and agency securities. Currently, such repurchase agreements entered into by a member bank with any entity are not deposits and are not subject to reserve requirements. Under the Board's proposal, such obligations would be regarded as deposits and would be subject to a 3 per cent reserve requirement. However, repurchase agreements entered into by a member bank with domestic banking offices of other member banks or organizations subject to reserve requirements and with the Federal Reserve System would continue to be exempt from reserve requirements.

In order to continue to facilitate the activities of member bank dealers in the U.S. government and agency securities markets, and to provide competitive equality between bank and nonbank dealers, the Board's proposal would regard repurchase agreements entered into with institutions not subject to reserve requirements as time deposits only when the amount of such repurchase agreements exceeds the amount of U.S. government and agency securities held by the member bank in its own trading account. A member bank's trading account represents the U.S. and agency securities that it holds for its dealer transactions-- i.e., securities are purchased with the intention that they will be resold rather than held as an investment. Public comment is requested on appropriate limitations on, or other descriptions of, member bank trading accounts.

It is also proposed that the 3 per cent reserve requirement apply to any obligation that arises from a borrowing by a member bank for one business day from a dealer in securities whose liabilities are not subject to the reserve requirements of the Federal Reserve Act of proceeds of a transfer of deposit credit in a Federal Reserve Bank (or other immediately available funds), received by such dealer on the date of the loan in connection with clearance of securities transactions.

The proposed actions are designed to establish more effective control over growth of bank credit. Approximately 20 per cent of the growth in commercial bank credit during the past six months has been financed by exempt borrowings in the form of Federal funds and repurchase agreements on U.S. government and agency securities. It is anticipated that the proposed reserve requirements would moderate the growth of commercial bank credit financed through the issuance of these types of bank liabilities.

All comments and information on this proposal should be submitted in writing to Theodore E. Allison, Secretary of the Board of Governors of the Federal Reserve System, Washington, D.C. 20551, to be received by May 18, 1979. All material submitted should include the Docket Number R-0218. Such material will be made available for inspection and copying upon request except as provided in section 261.6(a) of the Board's Rules Regarding Availability of Information (12 CFR 261.6(a)).