

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

**Circular No. 79-95
June 1, 1979**

PROPOSED AMENDMENT TO REGULATION Q

Deposits as Including Certain Promissory Notes and Other Obligations

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

The Board of Governors of the Federal Reserve System has issued for comment a proposal to amend Regulation Q, Interest on Deposits, to subject member bank repurchase agreements of less than \$100,000 to the interest rate ceilings of Regulation Q.

Enclosed is a copy of the proposed amendment. Interested persons are invited to submit comments to the Secretary, Board of Governors of the Federal Reserve System, Washington, D.C. 20551, to be received no later than July 2, 1979. Comments should be in writing and refer to Docket No. R-0229.

Any questions on the proposed amendment should be directed to our Consumer Affairs Section of the Bank Supervision and Regulations Department, Ext. 6171.

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.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

[12 CFR Part 217]

(Docket No. R-0229)

INTEREST ON DEPOSITS

Deposits as Including Certain Promissory Notes
and Other Obligations

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Proposed rulemaking.

SUMMARY: The Board has proposed amending its regulations to subject member bank repurchase agreements of less than \$100,000 to the interest rate ceilings of Regulation Q. Such repurchase agreements arise from a transfer of direct obligations of, or obligations that are fully guaranteed as to principal and interest by the United States or any agency thereof that the bank is obligated to repurchase.

DATE: Comments must be received by July 2, 1979.

FOR FURTHER INFORMATION CONTACT: Gilbert T. Schwartz, Assistant General Counsel (202/452-3623), or Paul S. Pilecki, Attorney (202/452-3281) Legal Division, Board of Governors of the Federal Reserve System, Washington, D. C. 20551.

SUPPLEMENTARY INFORMATION: Section 217.1(f)(2) of Regulation Q and section 204.1(f)(2) of Regulation D presently exempt from the definition of deposits any obligations that "evidence an indebtedness arising from a transfer of direct obligations of, or obligations that are fully guaranteed as to principal and interest by the United States or any agency thereof that the bank is obligated to repurchase." Consequently, these obligations are not subject to the Regulation Q interest rate ceilings or to reserve requirements. This general exemption was established in 1969 in order to facilitate a strong Government and agency

securities market, to provide banks a means of temporarily financing their portfolio positions and to provide a service to customers who desire to invest temporarily idle funds in Government and agency securities in amounts and maturities less than those readily available in the market. The repurchase agreement exemption was not intended to provide member banks with a device for avoiding interest rate ceilings.

The Board is aware of recent actions by banks to offer small denomination repurchase agreements ("RPs") of Government and agency securities at rates in excess of that which would be available for time deposits of comparable terms. The Board views the sale of small denomination repurchase agreements of Government and agency securities not subject to interest rate limitations as potentially harmful to the orderly administration of currently prescribed deposit rate ceilings and to the competitive balance existing between thrifts and commercial banks. In this regard, the issuance of small denomination RPs appears to be primarily a substitute for small denomination time deposits.

Consequently, the Board has proposed to narrow the current exemption from deposit treatment under Regulation Q by including within the definition of deposits member bank obligations arising from a transfer of direct obligations of, or obligations that are fully guaranteed as to principal or interest by the United States or any agency thereof that the bank is obligated to repurchase. Public comment is requested on the extent to which the application of interest rate ceilings to repurchase agreements issued in amounts of less than \$100,000 would affect the practice of providing bank customers a vehicle for investing temporarily idle funds. This proposal would not affect the current exemption for interbank transactions involving repurchase agreements of less than \$100,000.

All comments on this proposal should be submitted in writing to the Secretary, Board of Governors of the Federal Reserve System, Washington, D. C. 20551, to be received by July 2, 1979. All material submitted should include the Docket Number R-0229. 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.

Pursuant to its authority under § 19(a), (i) and (j) of the Federal Reserve Act (12 U.S.C. §§ 461, 371a and 371b) the Board proposes to amend Regulation Q (12 CFR 217) as follows:

§ 217.1 DEFINITIONS

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(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:

* * * * *

(2) Is issued in denominations of \$100,000 or more on or after July 1, 1979, and evidences an indebtedness arising from a transfer of direct obligations of, or obligations that are fully guaranteed as to principal and interest by the United States or any agency thereof that the bank is obligated to repurchase;

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By order of the Board of Governors of the Federal Reserve
System, May 30, 1979.

(Signed) Theodore E. Allison

Theodore E. Allison
Secretary of the Board

[SEAL]