

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 79-120

July 27, 1979

**PROPOSALS TO IMPLEMENT THE PROVISIONS OF THE
INTERNATIONAL BANKING ACT OF 1978 INCLUDING
PROPOSED AMENDMENTS TO REGULATIONS D AND Q**

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

On July 23, 1979, the Board of Governors of the Federal Reserve System announced proposals to implement the provisions of the International Banking Act of 1978 imposing reserve requirements and interest rate ceilings on U.S. branches and agencies of foreign banks whose parent banks have worldwide assets of \$1 billion or more.

At the same time, the Board made further proposals under the provisions of the International Banking Act that grant such branches and agencies of foreign banks access to Federal Reserve services and permit them to borrow from the Federal Reserve Banks.

The Board has asked for comment on its proposals by September 21, 1979. Comments should be submitted in writing to the Secretary, Board of Governors of the Federal Reserve System, Washington, D.C. 20551, and should refer to Docket No. R-0238. Included in the Board's proposals is a request for advice on the amount of lead time needed before final regulations growing out of the Board's proposals become effective.

The press release concerning this announcement, along with the text of the announcement, is printed on the following pages.

Sincerely yours,

Robert H. Boykin

First Vice President



FEDERAL RESERVE

press release

For immediate release

July 23, 1979

The Federal Reserve Board today announced proposals to implement the provisions of the International Banking Act of 1978 imposing reserve requirements and interest rate ceilings on U.S. branches and agencies of foreign banks whose parent banks have world-wide assets of \$1 billion or more.

At the same time, the Board made further proposals under the provisions of the IBA that grant such branches and agencies of foreign banks access to Federal Reserve services and permit them to borrow from the Federal Reserve Banks.

The Board asked for comment on its proposals by September 21, 1979. Included in the Board's proposals was a request for advice on the amount of lead time needed before final regulations growing out of the Board's proposals become effective.

These proposals were announced after consultation with State bank supervisory authorities. On March 16, the Board submitted a report to Congress on these consultations.

The proposals affecting reserve requirements would amend the Board's regulation D (Reserves of Member Banks). Those imposing interest rate ceilings would amend Regulation Q (Interest on Deposits).

In general, but with numerous special provisions, the Board proposed:

1. To apply all the provisions of Regulation Q to the branches and agencies of foreign banks operating in the United States.
2. To apply all the provisions of Regulation D to such branches and agencies of foreign banks.
3. To permit any such branch or agency maintaining a required reserve balance with a Reserve Bank to be eligible to borrow from that Bank.
4. To make Federal Reserve services (including check collection, currency and coin supply, securities safekeeping and wire transfer services) available to branches and agencies as soon as final regulations growing out of these proposals become effective, providing that the branch or agency maintained a reserve account with its local Reserve Bank.

In making its proposals the Board said:

The Board's proposals to implement the provisions of the IBA are intended to facilitate the conduct of monetary policy and promote vigorous and fair competition between branches and agencies and member banks by treating branches and agencies like member banks to the fullest extent possible.

The Board made a number of specific requests for comment including the following:

1. Whether there are significant differences between branches and agencies and member banks in the way in which deposits and credit balances are maintained and utilized (See Page 5, Preamble to the Regulation):

2. In connection with a proposal to treat credit balances of agencies of foreign banks as deposits subject to the same reserve requirements and interest rate limitations as member banks (Pages 5-6, Preamble):

--A number of practices concerning the transfer of credit balances;

--Whether credit balances should be viewed as time deposits, demand deposits or as being in a special category;

--The effect of prohibiting the payment of interest on credit balances or portions of them with maturities of less than 30 days.

3. In connection with a proposal to subject Eurodollar borrowings of the agencies and branches to the same reserve ratios that apply to similar borrowings of member banks (Pages 7-8 , Preamble):

--The appropriateness of exempting from reserve requirements on Eurodollar borrowings (otherwise the same as requirements on similar borrowings by member banks) 8 percent of the total assets of the branches or agencies, less cash and amounts due from unrelated banks and related institutions; and

--How funds raised in the United States by sales of commercial paper by the branch or agency's parent bank should be treated.

4. Given the fact that foreign banks may have branches or agencies in more than one State (although domestic banks may not), how "families" of foreign bank branches or agencies (United States branches and agencies of a single foreign parent bank and of its foreign banking subsidiaries) should be handled with respect to:

--At which Reserve Bank or Banks they should keep required reserves,

--And related questions arising from the interstate nature of such foreign banking families (Pages 10-11 and 11-15, Preamble).

5. The appropriateness of the Board's proposal that the branches and agencies should be eligible to borrow at the discount window of the Reserve Banks based on the needs of "family" ~~members~~ that are located in the Reserve Bank District where the branches and agencies maintain a reserve account (Pages 11-12, Preamble).

6. The Board's proposal to phase in the reserve requirements for the branches and agencies over a two-year period, in the same way as nonmember banks that become members are permitted to assume their reserve requirements gradually.

Further details of the Board's proposals and its request for comment may be found in the attached text of the proposed regulatory amendments.

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BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

[12 CFR Parts 204 and 217]

(Docket No. R-0238)

Notice of Proposed Rulemaking

Reserve Requirements and Interest Rate Limitations on Deposits
for U.S. Branches and Agencies
of Foreign Banks

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Proposed rulemaking.

SUMMARY: The International Banking Act of 1978 imposes Federal reserve requirements and deposit rate limitations on Federal branches and agencies and authorizes the Board to impose such requirements on State-licensed United States branches and agencies of foreign banks whose foreign parents have worldwide assets of \$1 billion or more. The Act also grants such branches and agencies access to Federal Reserve discount, clearing, and settlement facilities to the same extent as member banks, subject to regulations promulgated by the Board. In order to implement the provisions of the International Banking Act, the Board proposes to amend Regulation D (Reserves of Member Banks) and Regulation Q (Interest on Deposits) to make branches and agencies subject to the reserve requirements and interest rate ceilings currently applicable to member banks.

DATE: Comments must be received by September 21, 1979.

ADDRESS: Theodore E. Allison, Secretary, Board of Governors of the Federal Reserve System, Washington, D.C. 20551. All material submitted should include the Docket Number R-0238.

FOR FURTHER INFORMATION, CONTACT: C. Keefe Hurley, Jr., Senior Attorney (202/452-3269) or Anthony F. Cole, Senior Attorney (202/452-3711), Legal Division, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

SUPPLEMENTARY INFORMATION: Section 7(a) of the International Banking Act of 1978 (IBA) (92 Stat. 607) requires the Board to impose reserve requirements and deposit interest rate limitations on Federally-licensed United States branches and agencies of foreign banks ("branches and agencies") whose foreign parents have worldwide assets of \$1 billion or more. The IBA also authorizes the Board, after consultation and in cooperation with the State bank supervisory authorities, to apply any reserve requirements and deposit interest rate limitations made applicable to Federal branches and agencies to any State-licensed branch

or agency whose foreign parent has worldwide assets of \$1 billion or more. In this regard, the Board staff undertook extensive consultations with each of the State bank supervisory authorities that have responsibility for State-licensed branches or agencies of foreign banks and on March 16, 1979, as required by the IBA, the Board submitted a report to Congress concerning the steps taken to consult with the State bank supervisory authorities. A copy of this report is available from the Board's Office of Public Affairs (202/452-3215).

Under the IBA, the purposes of reserve requirements and interest rate limitations on branches and agencies are to facilitate the implementation of monetary policy and to promote competitive equity among depository institutions. The Board's proposals to implement the provisions of the IBA will facilitate the conduct of monetary policy and will promote vigorous and fair competition between branches and agencies and member banks by treating branches and agencies like member banks to the fullest extent possible. Accordingly, the Board of Governors proposes to amend its regulations concerning reserves of member banks (Regulation D; 12 CFR Part 204) and interest on deposits (Regulation Q; 12 CFR Part 217) to subject deposits, including credit balances, of United States branches and agencies of foreign banks to the reserve requirements and interest rate ceilings currently applicable to member banks. Several provisions of Regulation D, however, would be modified to reflect operational and structural differences between member banks and branches and agencies.

Regulation Q

Regulation Q (12 CFR Part 217) prescribes rules governing the payment and advertisement of interest on deposits, including limitations on the rates of interest which may be paid by member banks on time and savings deposits. Regulation Q also includes provisions that prohibit the payment of interest on deposits that are payable on demand or that have a maturity of less than 30 days, specify the terms and conditions under which member banks may pay savings and time deposits before maturity, and prescribe rules governing the advertisement of interest paid on deposits. The Board proposes to apply all the provisions of Regulation Q to branches and agencies.

Regulation D

Regulation D (12 CFR Part 204) presents the Board's regulatory structure for implementation of reserve requirements on, and maintenance of reserves by, member banks. The regulation specifies the liabilities that are regarded as deposits subject to reserves. The procedures for computing and maintaining required reserves including penalties for deficiencies also are presented.

Under Regulation D, a member bank is required to maintain reserve balances in an amount sufficient to satisfy its reserve requirements as specified in the Regulation. Reserve balances consist of U.S. currency and coin as defined in §204.1 of the Regulation and the balances maintained with the Federal Reserve. Required reserves are computed on the basis of the member bank's daily net deposit balances during a seven day period ending each Wednesday (the "computation period"). Required reserve balances must be maintained at a Federal Reserve Bank during a corresponding weekly period (the "maintenance period") which begins the second Thursday following the end of the computation period. However, in determining whether a sufficient reserve balance has been maintained, the average daily U.S. currency and coin held during the computation period is added to the average daily balance maintained by the member bank in its reserve account with the Federal Reserve during the maintenance week. Current Federal reserve requirements are listed in the table that follows.

Federal Reserve Requirements

| Type of deposit and deposit interval in millions of dollars | Requirements (per cent) in effect July 18, 1979 |
|--|--|
| <u>Net demand</u> | |
| 0-2 | 7 |
| Over 2-10 | 9 1/2 |
| Over 10-100 | 11 3/4 |
| Over 100-400 | 12 3/4 |
| Over 400 | 16 1/4 |
| <u>Savings</u> | 3 |
| <u>Time*</u> -By initial maturity | |
| 30 - 179 days | |
| - 0-5 | 3 |
| - over 5 | 6 |
| 180 days to 4 years | 2 1/2 |
| 4 years or more | 1 |
| <u>Eurodollar borrowings</u> | 0 |

* A supplementary reserve requirement of 2 per cent applies to time deposits of \$100,000 or more.

The Board proposes to apply all the provisions of Regulation D to branches and agencies. The Board recognizes, however, that branches and agencies differ from member banks in some respects. Consequently, comment is requested on whether there are any significant differences between branches and agencies and member banks in the way in which deposits and credit balances are maintained and utilized. Public comment also is requested by September 21, 1979, on the following proposed actions:

Credit balances

The Board proposes to apply Regulation Q interest rate provisions and Regulation D reserve requirements to deposits of branches and agencies and credit balances of agencies in a manner similar to their application to member banks. Under most State laws, agencies cannot accept deposits. However, agencies can maintain credit balances for their customers in connection with the exercise of their other lawful banking powers. Credit balances issued by agencies are like deposits in that they are liabilities of the foreign agency to its customers. If an account such as a credit balance were maintained at a member bank, it would give rise to a reservable deposit. In view of the parallels between credit balances and reservable deposit liabilities, the Board believes that credit balances of agencies should be regarded as deposits subject to interest rate ceilings and reserve requirements.

Under the proposal, for the purpose of reserve requirements and interest rate limitations, credit balances would be defined as "deposits" so that the maturity of such balances would determine the reserve ratios and interest rate ceilings applicable to such balances just as it now does for deposits at member banks. Credit balances with a minimum maturity of 30 days or more would be subject to time deposit reserve ratios, while those with a shorter maturity would be treated as demand deposits. Under this approach, the prohibition of payment of interest on demand deposits would be applied to that portion of a credit balance available on demand. Credit balances with a maturity of 30 days or more would be subject to applicable time deposit interest rate ceilings under Regulation Q.

To aid the Board in its consideration of the treatment of credit balances as deposits, public comment is requested on customary practices with regard to credit balances. Specific comment is requested on:

- (1) the extent to which checks or drafts are, or may be, drawn by customers on credit balances (a) for payment of liabilities owed by customers to third parties and (b) for transfers to customers' commercial bank accounts;

- (2) the extent to which credit balances are currently treated as available on demand or as subject to a notice or maturity requirement; and
- (3) the extent to which agencies are permitted to pay interest on credit balances under State law and whether, in fact, interest is paid on such balances and at what rates.

Public comment also is requested on the following:

- (1) whether credit balances should be viewed as demand deposits, time deposits, or a special category of deposit for purposes of Regulations D and Q; and
- (2) the effect of prohibiting the payment of interest on credit balances (or those portions of credit balances) with maturities of less than 30 days.

Officers' checks

Section 204.1(g) of Regulation D (12 CFR 204.1(g)) defines officers' checks as a component of gross demand deposits; thus, officers' or certified checks issued by member banks are reservable at the demand deposit ratio. Branches and agencies of foreign banks issue significant amounts of officers' checks. Since there does not appear to be any difference in the nature or function of an officer's check issued by a domestic bank and one issued by a branch or agency of a foreign bank, the Board proposes to treat such checks identically for these institutions. Thus, officers' checks issued by branches and agencies, including those drawn as agent for the foreign parent or any other affiliate or entity, would be treated as demand deposits for reserve requirements purposes. Such classification is appropriate since branches and agencies would enjoy a competitive advantage over member banks if officers' checks were not reservable on the same terms.

Branches and agencies would be required to conform their accounting practices with respect to officers' checks to those required of member banks under Regulation D. Such action would necessitate the modification by branches and agencies of certain operating and accounting practices involving officers' checks that are inconsistent with member bank treatment of such checks. The first practice requiring modification involves officers' checks drawn as agent for the foreign parent, affiliate, or other entity. Such checks often are not reflected as a liability of the branch or agency. Instead, a nondeposit liability account reflecting the branch's obligation is written down to offset the reduction on the branch's books in balances due from domestic correspondent banks that occurs when the checks are presented for payment. Under such accounting practice, such transactions would generate no liabilities subject to reserve requirements even though there is no practical distinction between such a transaction and a transfer of demand deposits using officers' checks, which does generate reservable liabilities.

Prior to 1969, a number of member banks engaged in a similar practice. The Board, however, amended Regulation D to require member banks to include in gross demand deposits checks "drawn by or on behalf of a foreign branch of a member bank" (12 CFR 204.1(g)). Application of Regulation D to branches and agencies of foreign banks would require them to include in gross demand deposits checks drawn by or on behalf of the foreign parent or affiliate.

A second practice of branches and agencies that is not comparable to that of member banks involves the accounting by some branches and agencies for officers' checks by writing down a customer account and a due from correspondent bank account simultaneously when the officer's check is issued. When a member bank, however, issues an officer's check, the customer's liability account is written down and offset by an increase in officers' checks outstanding. Therefore, the officer's check is included in reservable liabilities until the check clears. Application of Regulation D to branches and agencies would require them to adopt the same procedure for accounting for such officers' checks.

Eurodollar borrowings

Since 1969, deposits in the form of borrowings by domestic offices of member banks from foreign banks, foreign governments, international organizations, and the bank's own foreign branches have been subject to reserve requirements under § 204.5(c) of Regulation D (12 CFR 204.5(c)). The applicable reserve ratio has been as high as 20 per cent, but has been set at zero since August 24, 1978. Should the applicable reserve ratio increase in the future, United States branches and agencies of foreign banks could have a cost of funds advantage relative to member banks. To provide comparable treatment with member banks, the Board proposes to subject Eurodollar borrowings of branches and agencies from both related and unaffiliated foreign banking institutions to the same reserve ratio that applies to similar borrowings by member banks under Regulation D.

Much of the funding for branches and agencies is provided by advances from their foreign parents. Since branches and agencies are part of their foreign parents' corporate entities, they have no separate capital account in the domestic banking sense. However, a portion of advances or borrowings from the parent organization serve purposes similar to that of the equity capital of domestic banks; such capital of domestic banks is not subject to reserve requirements. Consequently, the Board proposes to exempt from reserve requirements that portion of advances from the foreign bank parent (including other foreign offices) that equals 8 per cent of certain assets of a branch or agency. The assets proposed would be total branch and agency assets less cash, due from unrelated banks, and due from related institutions. This capital-equivalency allowance should contribute both to competitive equity and

to the safety and soundness of foreign banking offices in the United States. The Board requests public comment on the appropriateness of this proposal and on other asset concepts that might be used.

All funding obtained by a member bank by borrowing from a foreign banking institution, whether related or not, is subject to the Eurodollar reserve requirement (§ 204.5(c) and (d) of Regulation D; 12 CFR 204.5(c), (d)). Net borrowings from the parent by the branch or agency, except to the extent of the 8 per cent allowance described above, would be reservable at the Eurodollar rate even where the funds borrowed represent the proceeds of commercial paper issued in the United States by the parent. Funds raised in the United States by a branch or agency directly, however, would be subject to domestic reserve requirements unless in a form specifically exempted by Regulation D, such as interbank borrowings and repurchase agreements on United States government or agency securities.

As an alternative, when a parent is issuing commercial paper at the same time it is lending funds to its U.S. branches or agencies, it could be presumed that the proceeds of the sale are being used to supply funds to the branches or agencies. Under this approach, the commercial paper issued by the parent would be treated as a deposit subject to domestic reserve requirements to the extent of advances to the branches or agencies by the parent, less the 8 per cent capital-equivalency allowance.

To aid the Board in its consideration of the treatment of commercial paper, public comment is requested on these alternatives.

Asset Sales

A domestic bank can fund its operations from deposits or borrowings in the money markets or from affiliates; alternatively, in order to obtain funds, it can transfer a portion of its assets to a foreign branch or affiliate. In each case, the domestic bank obtains additional funds to lend in its domestic business. Funds obtained by a member bank from the sale of domestic assets, such as loans, to a foreign banking affiliate are subject to Eurodollar reserve requirements (§ 204.5(d) of Regulation D; 12 CFR 204.5(d)). Sales of assets to nonbank affiliates are subject to domestic reserve requirements (§§204.1 and 204.5 of Regulation D; 12 CFR Part 204.1, 204.5). The Board proposes to subject the proceeds of the sale of any domestic asset by branches and agencies to their foreign parent or affiliated banking institutions to the Eurodollar reserve requirements. However, domestic assets that for Federal supervisory purposes are required to be sold will not be subject to Eurodollar reserve requirements.

Reserve maintenance and accounting

Under section 5(b) of the IBA, a foreign bank that operates or has applied for branches and agencies in more than one State on July 27, 1978, is permitted to retain those offices. In contrast, member banks generally are not permitted to operate branches interstate. Interstate operations by "families" of branches and agencies raise three reserve requirement issues: (1) the definition of "family" for purposes of reserve requirement calculations; (2) the extent to which the net deposits of a foreign bank family should be consolidated or aggregated for purposes of calculating the family's reserve requirement; and (3) the number of reserve accounts that a family should be permitted to maintain.

Definition of "family." In order to provide parallel treatment between branches and agencies and member banks under the system of graduated reserve requirements, the Board intends to impose reserve requirements on families of branches and agencies. For purposes of reserve requirements only, the Board proposes to define "family" to include only United States branches and agencies of a single foreign parent bank and of its foreign banking subsidiaries. (The same definition may not be used for other purposes.) Under this definition, the United States branches and agencies of a single foreign bank would constitute a separate family. For example, if a foreign company owned two banks each having branches and agencies in the United States, the branches and agencies would form two separate families, one related to each of the foreign banks. This treatment parallels the current treatment of banks owned by domestic multi-bank holding companies. Subsidiary banks chartered in the United States would always be excluded from the family. However, a foreign bank's foreign subsidiaries operating branches or agencies in the United States would be considered part of the same family as the branches and agencies of the owning foreign bank. If a foreign bank established an Edge Corporation, as permitted for the first time by the IBA, the Edge Corporation would not be consolidated with the agencies and branches of the foreign parent bank. This treatment parallels the treatment of Edge Corporations owned by domestic banks. At present, Edge Corporations owned by domestic banks are not consolidated with each other or with their parent for reserve calculation purposes.

Aggregation. In order to assure competitive equity with member banks under the system of graduated reserve requirements, the Board proposes to require that deposits at all branches and agencies in the same family be aggregated nationally for purposes of calculating reserve requirements. Under this approach, one of the offices of a branch and agency family would be designated the "Administrative Office" for its sister organizations. This office would be responsible for nationally consolidating the family's Report of Deposits, would maintain with its Reserve Bank the marginal reserves for the family resulting from graduated reserve requirements, and would bear the responsibility for penalties that may be imposed for reserve deficiencies in that reserve account.

The Congressional policy expressed in the IBA of establishing competitive equality between domestic and foreign banks in like circumstances supports the concept of aggregation or consolidation for reserve calculation purposes of deposits of all units of a foreign bank family operating in the United States. Since required reserve ratios increase with deposit size, the marginal reserve requirement on the aggregated deposits of a family of branches and agencies generally will exceed the marginal reserve requirement of any single office. Hence, the cost of funds usually will be higher to a bank that must meet a reserve requirement on its aggregated net deposits at all branches than on the net deposits at each branch separately. Domestic money-center banks, with which branches and agencies primarily compete, must aggregate all of their domestic branch deposits for reserve calculation purposes. Thus, the cost of funds will be more nearly equal between domestic banks and branches and agencies if the latter aggregate their deposits for reserve calculation purposes.

Under national aggregation, branches and agencies would be permitted to deduct balances due from domestic banks, as well as from other nonaffiliated branches and agencies, and cash items in the process of collection in calculating net demand deposits subject to reserve requirements. For this purpose, demand deposits of member banks due from United States branches of foreign banks would be treated identically to demand deposits due from domestic banks. Similarly, credit balances held by member banks or other branches and agencies at United States agencies of foreign banks would be eligible for the due from deduction to the extent that those balances are treated as demand deposits for reserve purposes (as discussed previously, credit balances with a minimum maturity of less than 30 days would be treated as demand deposits). Intra-family balances would not be included in calculating reserve requirements since such balances net to zero for the family as a whole. This procedure parallels the current handling of inter-branch borrowing and lending by branches of domestic banks.

Number of reserve accounts. The Board proposes to permit families of branches and agencies to maintain one reserve account (and to make use of Reserve Bank services) with each Reserve Bank or branch in whose zone the family operates. Each Reserve Bank would administer the reserve accounts of the branches and agencies operating in its district under the same rules that apply to member banks. Thus, at the local level, the Federal Reserve would require a separate Report of Deposits that consolidates the deposits of the branches and agencies for each State in which branches and agencies of the family operate. At the option of the foreign bank family, the reserves required against deposits of any branch or agency could be held in the account of the Administrative Office of the foreign bank family. However, no Reserve Bank services would be available locally to a branch or agency not having an account at its local Reserve Bank office. Penalties for deficiencies in the reserve accounts used by each branch or agency would be assessed by

each Reserve Bank, although the Administrative Office would be responsible for penalties for deficiencies in the reserve account it is required to maintain.

Access to Federal Reserve services

Under the IBA, Congress intended foreign banks maintaining Federal reserves to have access to Federal Reserve Bank services on a comparable basis and to the same extent as those services are available to member banks. Accordingly, the Board proposes to make Federal Reserve services, including check collection, currency and coin, securities safekeeping and wire transfer services, available to branches and agencies as soon as the proposed regulations become effective. In order to obtain such services locally, a branch or agency would be required to have an account with its local Reserve Bank office. During the phase-in period described below, branches and agencies may be required to maintain a level of clearing balances consistent with the level of services being provided.

Access to discount window

The Board proposes to permit any branch or agency maintaining a reserve balance with a local Reserve Bank to be eligible for advances or discounts from that Reserve Bank. The appropriateness of borrowing by any branch or agency would be based on the needs of the family members located in the district where the reserve account is maintained and would be subject to guidelines to be adopted by the Board. The Board intends to monitor activities of foreign bank families on a consolidated basis to identify certain systematic borrowing patterns that could be regarded as excessive use of the discount window.

Implementation of reserve requirements

The Board recognizes that substantial revisions in the accounting procedures of branches and agencies may be necessitated by the proposals. Accordingly, comment specifically is requested on the amount of lead time that would be required to make these necessary changes in an orderly manner. Under the Board's proposals, branches and agencies would be required to report data necessary for the administration of reserve requirements. In this connection, it is anticipated that such reporting would include data for the categories listed in the following table and that data for these categories would be maintained on a daily basis and filed with the local Federal Reserve Bank once each week. The proposed data and filing requirements would be similar to those required for member banks.

Present Board policy permits nonmember banks that become member banks to assume their reserve requirements gradually by authorizing the Reserve Banks to waive penalties for deficiencies in "transitional reserve requirements" on a graduated basis over a two-year period. The Board proposes to phase-in the reserve requirements provided for in these proposals over the two-year period now allowed to nonmember banks joining the System.

Reporting Categories for Reserve Requirement Purposes*

1. Demand deposits due to banks.
2. Demand deposits due to the U.S. Government.
3. Other Demand deposits (including officers' checks).
4. Demand deposits due from banks.
5. Cash items in process of collection.
6. Savings deposits.
7. Time deposits with original maturities of 30 to 179 days.
8. Time deposits with original maturities of 180 days but less than 4 years.
9. Time deposits with original maturities of 4 years or more.
10. U.S. currency and coin held in vaults.
11. Time deposits of \$100,000 or more.
12. Borrowings from non-related foreign banks, foreign national governments, and international institutions.
13. Gross claims on the foreign parent bank and related affiliates located outside the States of the United States and the District of Columbia.
14. Gross liabilities to the foreign parent bank and related affiliates located outside the States of the United States and the District of Columbia.
15. Assets sold by the branch or agency to the foreign parent bank and other banking affiliates located outside the States of the United States and the District of Columbia.
16. Assets sold by the branch or agency to other nonbanking affiliates.
17. Funds received from the sale of ineligible bankers acceptances that have remaining maturities of less than 30 days.

*"Deposits" includes credit balances of similar maturity at agencies.

18. Funds received from the sale of ineligible bankers acceptances that have remaining maturities of 30 days or more but less than 180 days.
19. Funds received from the sale of ineligible bankers acceptances that have remaining maturities of 180 days or more but less than 4 years.
20. Funds received from the sale of ineligible bankers acceptances that have remaining maturities of 4 years or more.
21. Total assets other than cash and due from unrelated banks and due from related institutions, as defined for the Report of Condition.

In order to achieve national treatment in the implementation of reserve requirements and discount borrowing privileges for U.S. branches and agencies of foreign banks, the Board proposes generally to treat individual members of a foreign bank family comparably to domestic member banks. However, the Board recognizes that the foreign bank family is part of a single managerial entity. Where competitive balance may be affected by coordinated interstate operations of the foreign bank family, the Board's proposals take into account the fact that individual branches and agencies are members of a family. Thus, for example, the Board proposes to aggregate deposits nationally for reserve computation purposes although family members in each Federal Reserve zone would be entitled to an account at the local Federal Reserve office. A further example is the Board's proposal that the appropriateness of discount window borrowing be based upon local needs of family members, with overall monitoring of borrowing by the family being coordinated at the national level.

The Board would like to receive comments from the public on this general approach to dealing with the new institutional structure posed by interstate operations of branches and agencies. Should the Federal Reserve maintain a relationship through a single office with the family as if it were a single bank, not taking account of the fact that the family may have offices located throughout the country? Alternatively, should the Board treat each office of the family as an independent bank? Should some general approach other than that proposed by the Board be followed to take into account the interstate banking operations of foreign banks?

All comments and information on the above proposals should be submitted in writing to the Secretary, Board of Governors of the Federal Reserve System, Washington, D.C. 20551, to be received by September 21, 1979. All material submitted should include the Docket Number R-0238. 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 Part 261.6(a)).

Pursuant to authority under the International Banking Act of 1978 (12 U.S.C. 3101 et seq.) and section 19 of the Federal Reserve Act (12 U.S.C. 371a, 371b, 461 et seq.), the Board proposes to amend Regulation D (12 CFR Part 204) and Regulation Q (12 CFR Part 217) as follows:

§ 204.0 SCOPE OF PART

(a) This regulation is issued under authority of provisions of § 19 of the Federal Reserve Act (12 U.S.C. 461 et seq.) and of the International Banking Act of 1978 (12 U.S.C. 3101 et seq.).

(b) This Part relates to the computation and maintenance of reserves that member banks are required to maintain against deposits. United States branches and agencies of foreign banks with worldwide assets of \$1 billion or more are required to comply with the provisions of this Part in the same manner as if the branches and agencies were member banks. Several provisions, however, have been modified to reflect operational and structural differences between member banks and branches and agencies.

(c) The provisions of this Part do not apply to any deposit that is payable only at an office located outside the States of the United States and the District of Columbia.

§ 204.1 DEFINITIONS

* * * * *

(b) *** "Time deposits" do not include time deposits of a United States branch or agency deposited to the credit of another United States branch or agency of the same "family," as provided in § 204.3(e).

* * * * *

(g) Gross demand deposits. * * * "Gross demand deposits" also includes officers' checks issued by a United States branch or agency of a foreign bank, including checks drawn as agent for its foreign parent bank, affiliates, or others. "Gross demand deposits" do not include demand deposits of a United States branch or agency deposited to the credit of another United States branch or agency of the same "family," as provided in § 204.3(e).

* * * * *

(k) Credit balances. For purposes of this Part, the term "deposits" also includes the credit balances of a United States agency of a foreign bank.

§ 204.2 COMPUTATION OF RESERVES

* * * * *

(b) Deductions allowed in computing reserves. In determining the reserve balances required under the terms of this Part, member banks may deduct from the amount of their gross demand deposits the amounts of balances subject to immediate withdrawal due from other banks, including amounts due from unrelated United States branches and agencies of foreign banks, and cash items in process of collection as defined in § 204.1(h).

Balances "due from other banks" do not include balances due from Federal Reserve Banks or balances (payable in dollars or otherwise) due from other banking offices located ^{10/}outside the States of the United States and the District of Columbia.

10/ * * *

§ 204.3 DEFICIENCIES IN RESERVES

* * * * *

(e) United States branches and agencies of foreign banks.

An Administrative Office shall be designated by the United States branches and agencies that constitute a "family." A "family" shall consist of all the United States branches and agencies of a single foreign parent bank, including United States branches and agencies of a foreign subsidiary of the foreign parent bank. The Administrative Office shall be responsible for preparing and filing a consolidated Report of Deposits for the family, for maintaining with the Federal Reserve Bank of its District any additional reserves that may be required as a result of aggregating the deposits of the United States branches and agencies of the family, and for penalties that may be assessed for deficiencies in that required reserve balance.

§ 204.5 RESERVE REQUIREMENTS

(a) Reserve percentages. * * * In determining the net demand deposits of United States branches and agencies of foreign banks against which reserve balances are required to be maintained, the net demand deposits of all United States branches and agencies constituting a family as provided in § 204.3(e) shall be aggregated.

* * * * *

(d) Foreign branch transactions with parent bank. * * *

During each reserve maintenance week, United States branches or agencies constituting a family as provided in § 204.3(e) shall maintain a reserve against their deposits equal to a daily average balance of 0 per cent of the daily average total of--

(i) net balances due to their foreign parent bank (including branches and agencies located outside the States of the United States and the District of Columbia), after deducting an amount equal to 8 per cent of the United States branches' and agencies' total assets (not including cash or other assets due from their foreign parent bank or related institutions or unrelated banks), and

(ii) assets (including participations) held by the foreign parent bank (including branches and agencies located outside the States of the United States and the District of Columbia) and other banking affiliates which were acquired from its related United States branches and agencies (other than assets representing credit extended to persons not resident of the United States or assets required to be sold by the federal supervisory authority of the branch or agency), during the computation week ending 15 days before the beginning of the maintenance period. Reserves that may be required against assets sold to nonbanking affiliates under § 204.1(f) of this section shall be maintained in accordance with § 204.5(a) of this section.

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§ 217.0 SCOPE OF PART

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(d) Under authority of the provisions of the International Banking Act of 1978 (12 U.S.C. 3101 et seq.), the provisions of this Part apply to federal and state branches and agencies of foreign banks with total worldwide consolidated assets of \$1 billion or more.

§ 217.1 DEFINITIONS

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(h) Credit balances. For purposes of this Part, the term "deposits" also includes any liability on credit balances of a United States agency of a foreign bank.

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By order of the Board of Governors, July 18, 1979.

(signed) Theodore E. Allison

Theodore E. Allison
Secretary of the Board

[SEAL]