

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 5828]
June 27, 1966

Reserve Requirements Increased on Certain Time Deposits

Regulations D and Q Amended to Include Short-Term Promissory Notes
in Definition of "Deposit"

To All Member Banks, and Others Concerned,
in the Second Federal Reserve District:

Following is the text of a statement issued today by the Board of Governors of the Federal Reserve System:

The Board of Governors of the Federal Reserve System announced today two actions designed to moderate further growth of bank credit and deposits: an increase in reserve requirements against certificates and other forms of time deposits, and an extension of regulations regarding reserve requirements and interest on deposits to shorter-term promissory notes of banks.

Reserve requirements were increased from 4 per cent to 5 per cent against the amount of time deposits (other than savings deposits) in excess of \$5 million at each member bank. The increase will become effective with the reserve computation periods beginning July 14, 1966, for reserve city banks, and July 21, 1966, for all other member banks.

It is estimated that this action will increase required reserves by more than \$400 million—approximately \$350 million at reserve city banks and \$70 million at other member banks. All told, about 950 larger member banks throughout the country—primarily those issuing savings certificates and other certificates of deposit (CD's) in large volume—are expected to be affected by this increase in requirements. The action should exercise a tempering influence on bank issuance of time certificates of deposit. The measure will also serve to apply a moderate additional measure of restraint upon the expansion of banks' loanable funds and thus reinforce the operations of other instruments of monetary policy in containing inflationary pressures.

At the same time, the Board acted to bring shorter-term bank promissory notes and similar instruments under the regulations governing reserve requirements and payment of interest on deposits. This action would not apply to Federal funds transactions, interbank borrowings, transfers of assets with agreements to repurchase, or bank notes for capital purposes that have a maturity of more than two years and are subordinated to claims of depositors. The action will become effective September 1, 1966 and will apply to all promissory notes covered by the action that are issued on or after June 27, 1966, and are outstanding on or after the effective date. Promissory notes and other instruments of the type covered by the action have come into use only in the last few years and the volume outstanding at present is small. The purpose of the Board's action is to prevent future use of these instruments as a means of circumventing statutory and regulatory requirements applicable to bank deposits.

Enclosed are copies of the Supplement to Regulation D, giving effect to the increase in reserve requirements, and of amendments to Regulations D and Q, defining "deposits" as including certain promissory notes and similar instruments. Additional copies of this circular and the enclosures will be furnished on request.

ALFRED HAYES,
President.

SUPPLEMENT TO REGULATION D

Section 204.5—Supplement

ISSUED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Effective as to member banks in reserve cities at the opening of business on July 14, 1966, and as to all other member banks at the opening of business on July 21, 1966.

(a) **Reserve percentages.**—Pursuant to the provisions of section 19 of the Federal Reserve Act and § 204.2(a) and subject to paragraph (b) of this section, the Board of Governors of the Federal Reserve System hereby prescribes the following reserve balances which each member bank of the Federal Reserve System is required to maintain on deposit with the Federal Reserve bank of its district:

(1) If not in a reserve city—

- (i) 4 per cent of its savings deposits, plus
- (ii) 4 per cent of its other time deposits up to \$5 million and 5 per cent of such deposits in excess of \$5 million, plus
- (iii) 12 per cent of its net demand deposits.

(2) If in a reserve city (except as to any bank located in such a city which is permitted by the Board of Governors of the Federal Reserve System, pursuant to § 204.2(a) (2), to maintain the reserves specified in subparagraph (1) of this paragraph)—

- (i) 4 per cent of its savings deposits, plus
- (ii) 4 per cent of its other time deposits up to \$5 million and 5 per cent of such deposits in excess of \$5 million, plus
- (iii) 16½ per cent of its net demand deposits.

(b) **Counting of currency and coin.**—The amount of a member bank's currency and coin shall be counted as reserves in determining compliance with the reserve requirements of paragraph (a) of this section.

RESERVES OF MEMBER BANKS

AMENDMENT TO REGULATION D

ISSUED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Effective September 1, 1966, section 204.1 is amended as follows:

(a) Paragraphs (f), (g), (h), and (i) of Section 204.1 are redesignated as paragraphs (g), (h), (i), and (j), respectively.

(b) A new paragraph (f) is inserted as follows:

SECTION 204.1—DEFINITIONS

(f) **Deposits as including certain promissory notes.**—For the purposes of this part, the term “deposits” shall be deemed to include any promissory note, acknowledgment of advance, due bill, or similar instrument that is issued by a member bank principally as a means of obtaining funds to be used in its banking business, except any such instrument (1) that is issued to another bank, (2) that evidences an indebtedness arising from a transfer of assets that the bank is obligated to repurchase, or (3) that has an original maturity of more than two years and states expressly that it is subordinated to the claims of depositors. This paragraph shall not, however, affect the status, for purposes of this part, of any instrument issued before June 27, 1966.

PAYMENT OF INTEREST ON DEPOSITS

AMENDMENT TO REGULATION Q

ISSUED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Effective September 1, 1966, section 217.1 is amended by adding the following paragraph:

SECTION 217.1 — DEFINITIONS

(f) **Deposits as including certain promissory notes.**—For the purposes of this part, the term “deposits” shall be deemed to include any promissory note, acknowledgment of advance, due bill, or similar instrument that is issued by a member bank principally as a means of obtaining funds to be used in its banking business, except any such instrument (1) that is issued to another bank, (2) that evidences an indebtedness arising from a transfer of assets that the bank is obligated to repurchase, or (3) that has an original maturity of more than two years and states expressly that it is subordinated to the claims of depositors. This paragraph shall not, however, affect the status, for purposes of this part, of any instrument issued before June 27, 1966.