

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 6357]
June 27, 1969]

PROPOSED AMENDMENTS TO REGULATIONS D AND Q

Certain Federal Funds Transactions as Deposits

To the Member Banks of 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 today invited comments within 30 days on a proposal to bring a member bank's liability on certain so-called "Federal funds" transactions with customers other than banks within the coverage of Regulations D (Reserves of Member Banks) and Q (Payment of Interest on Deposits).

Printed below is the text of the proposed amendments. Comments on the proposed amendments should be submitted by July 28 and should be sent to our Bank Examinations Department. Additional copies of this circular will be furnished upon request.

ALFRED HAYES,
President.

[Regs. D, Q]

RESERVES OF MEMBER BANKS; PAYMENT OF
INTEREST ON DEPOSITS

Certain Federal Funds Transactions as Deposits

The Board of Governors is considering amending section 204.1(f) and section 217.1(f) in order to bring a member bank's liability on certain so-called "Federal funds" transactions with customers other than banks within the coverage of Regulations D and Q. At the present time, all such transactions in non-documentary nondeposit form are exempt from the regulations.

Recently, some banks have been making the Federal funds market available to their corporate depositors as a means of providing them with interest on short-term funds. In the Board's judgment, there is no justification for a bank's liability on such transactions to be exempt from rules governing reserve requirements and the legal prohibition against payment of interest on demand deposits.

In the Board's view there are only two types of Federal funds transactions entered into by banks that may justifiably be exempt from Regulations D and Q. One is where the liability is to another bank acting as principal (and not on behalf of any customer). The other is where the liability relates to certain transactions in connection with payment for securities. In

the first case, the transactions facilitate implementation of monetary policy; in the second, the transactions are an integral part of the established market practice of settling purchases and sales of securities.

Limiting the scope of Federal funds transactions that are exempt from Regulations D and Q would be accomplished by amending the general rule set forth in section 204.1(f) and section 217.1(f), by modifying the interbank exemption thereto, and by the addition of a new exemption to cover Federal funds transactions on securities transaction, as follows:

(f) **Deposits as including certain promissory notes and other obligations.**—For the purposes of this Part, the term "deposits" shall be deemed to include the proceeds of 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:

(1) Is issued to, and held for its own account by, a bank;

* * *

(4) Arises from a loan, for one business day, of proceeds of a transfer of deposit credit in a Federal Reserve Bank (or other immediately available funds), commonly referred to as "Federal funds," in connection with payment on that day for securities.