

FEDERAL RESERVE BANK  
OF NEW YORK

[ Circular No. 6373 ]  
[ July 24, 1969 ]

AMENDMENTS TO REGULATIONS D AND Q

*To the Member Banks of the Second Federal Reserve District:*

Following are the texts of two statements issued today by the Board of Governors of the Federal Reserve System:

The Board of Governors of the Federal Reserve System today amended its rules governing member bank reserves (Regulation D) to limit certain transactions involving member banks and foreign branches that have resulted in what the Board considers an unwarranted reduction in required reserves. The action, the outgrowth of further consideration of a proposal published May 29, will become effective July 31, 1969.

The amended rules will require member banks to include in deposits used to compute reserve requirements all so-called "London checks" and "bills payable checks" used in settling transactions involving foreign branches. Such checks have been used to effect repayments of Euro-dollar borrowings and to settle transactions among foreign branches of different member banks. A number of banks have issued such checks without including them in gross demand deposits, as is required for officers' (e.g., cashiers') checks. At the same time, banks receiving such checks are allowed to deduct the amount from demand deposits used to compute reserve requirements. Use of these "check" devices has resulted in reduced reserves for the one day the check is in the collection process, and afforded some member banks special advantage in using Euro-dollars for adjustment to domestic credit restraint.

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The Board of Governors of the Federal Reserve System adopted today an earlier published proposal to limit the types of promissory notes which are exempt from rules governing member bank reserves (Regulation D) and the payment of interest on deposits (Regulation Q).

The action amends those regulations to narrow the scope of a member bank's liabilities under repurchase agreements (those involving sales of instruments with an agreement for subsequent repurchase) which are exempt from Regulations D and Q.

Presently, the exemption from those regulations permits a member bank to exclude from deposits any indebtedness arising from a transfer of any assets under a repurchase agreement.

Under the amendment adopted today the following changes will be made in what constitutes a deposit:

(1) Beginning August 28, 1969, every bank liability on a repurchase agreement entered into on or after July 25, 1969, with a person other than a bank, involving any assets other than direct obligations of the United States or its agencies (and obligations fully guaranteed by them) will be a deposit liability subject to Regulations D and Q; and

(2) Beginning August 28, 1969, every bank liability on a repurchase agreement entered into on or after July 25, 1969, with a person, other than a bank, with respect to a part interest in *any* obligation or obligations (including U. S. Government obligations) will be a deposit liability subject to Regulations D and Q.

Liabilities on any repurchase agreement with a bank will remain exempt from classification as a deposit.

(OVER)

The Board said limiting the exemption appears necessary because of recent and contemplated use by some banks of repurchase agreements to avoid reserve requirements and the rules governing payment of interest on deposits.

Governor Mitchell dissented on the grounds that repurchase agreements entered into by banks to achieve liquidity in a period of monetary restraint were no more inappropriate to monetary objectives than a sale of bank assets. In either case, in his opinion, restraint is not dissipated but merely shifted in part from the bank and bank customers to market participants. Moreover, in his view, to add this action to the other amendment to Regulation D announced today would run the risk of unduly severe pressures on some sectors of the banking system.

Enclosed are copies of the amendments; additional copies will be furnished upon request.

ALFRED HAYES,  
*President.*

RESERVES OF MEMBER BANKS

AMENDMENTS TO REGULATION D

1. Effective July 25, 1969, section 204.1(f) is amended to read as follows:

SECTION 204.1—DEFINITIONS

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(f) **Deposits as including certain promissory notes and other obligations.**—For the purposes of this Part, the term “deposits” 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 direct obligations of, or obligations that are fully guaranteed as to principal and interest by, the United States or any agency thereof (~~other than a part interest in such obligations~~) that the bank is obligated to repurchase, or (3) that has an original maturity of more than 2 years and states expressly that it is subordinated to the claims of depositors. This paragraph shall not, however, affect (i) any instrument issued before June 27, 1966, or (ii) any instrument that evidences an indebtedness arising from a transfer of assets under repurchase agreement issued before July 25, 1969, or (iii) until August 28, 1969, any instrument that evidences an indebtedness arising from a transfer of assets under repurchase agreement issued, renewed, or extended on or after July 25, 1969.

2. Effective July 31, 1969, Section 204.1(g) is amended to read as follows:

(g) **Gross demand deposits.**—The term “gross demand deposits” means the sum of all demand deposits, including demand deposits to the credit of other banks, the United States, States, counties, school districts, and other governmental subdivisions and municipalities, and all outstanding certified and officers’ checks (including checks issued by the bank in payment of dividends and checks or drafts drawn by or on behalf of a foreign branch of a member bank on an account maintained by such a branch with a domestic office of the parent bank), and letters of credit and travelers’ checks sold for cash.

PAYMENT OF INTEREST ON DEPOSITS

AMENDMENT TO REGULATION Q

Effective July 25, 1969, Section 217.1 (*f*) is amended to read as follows:

SECTION 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” 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 direct obligations of, or obligations that are fully guaranteed as to principal and interest by, the United States or any agency thereof (other than a part interest in such obligations) that the bank is obligated to repurchase, or (3) that has an original maturity of more than 2 years and states expressly that it is subordinated to the claims of depositors. This paragraph shall not, however, affect (i) any instrument issued before June 27, 1966, or (ii) any instrument that evidences an indebtedness arising from a transfer of assets under repurchase agreement issued before July 25, 1969, or (iii) until August 28, 1969, any instrument that evidences an indebtedness arising from a transfer of assets under repurchase agreement issued, renewed, or extended on or after July 25, 1969.