FEDERAL RESERVE BANK OF NEW YORK

[Circular No. 6429
October 29, 1969]

NOTICE OF PROPOSED RULE MAKING
Regulation Q — Interest on 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 announced today it is considering amending its rules governing the payment of interest on deposits (Regulation Q) to apply to funds received by member banks from the issuance of commercial paper or similar obligations by bank affiliates. Comments on the proposal should be received by the Board not later than December 1.
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> Included within the coverage of the proposal is commercial paper issued by a member bank's parent — either a one-bank holding company or a company registered under the Bank Holding Company Act — or by a collateral affiliate of a member bank in a holding company system.
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> Governors Mitchell and Maisel would have preferred to deal with the issuance of commercial paper by bank holding companies and their affiliates by looking to expanded legislative authority which would specifically include the power to make reserve requirements applicable in an appropriate fashion to funds raised by these means.

Printed below is the text of the proposed amendment. Comments on the proposed amendment should be submitted by December 1, and should be sent to our Bank Examinations Department. Additional copies of this circular will be furnished upon request.

Alfred Hayes, President.

FEDERAL RESERVE SYSTEM
(12 CFR PART 217)

[Reg. Q]

Certain Borrowings by Bank Affiliates as Deposits

The Board of Governors is considering amending section 217.1(f) of Regulation Q to add the following sentence: "For the purposes of this Part, 'deposits' of a member bank also include the liability of (i) an organization that controls a majority of the stock of the bank or (ii) a corporation that is majority-controlled by such an organization, on any promissory note, acknowledgment of advance, due bill, or similar obligation (written or oral), with a maturity of two years or less, that is issued or undertaken principally as a means of supplying funds to the bank for use in its banking business, or maintaining the availability of such funds."

The main purpose of this proposal is to apply the rules governing payment of interest on deposits (Regulation Q) to funds received by member banks as the result of issuance, by affiliates of the banks, of obligations commonly described as commercial paper.

Types of obligations within the coverage of this proposal are commercial paper issued for the specified purpose by a member bank's parent company — either one-bank or registered under the Bank Holding Company Act — or by a collateral affiliate of a member bank in such a holding company system.

In the Board's judgment, adoption of a proposal along these lines is necessary because the purposes of section 19 of the Federal Reserve Act are in danger of being frustrated, to a substantial degree, as a result of the issuance of commercial paper by bank affiliates of the types described, the proceeds being channeled to the bank for lending and investing.

The proposal does not refer to issuance of obligations by subsidiaries of member banks. In a related action, on which Governor Maisel dissented, the Board determined that obligations of such subsidiaries are, under present provisions of both Regulations Q and D, in the same status as obligations issued directly by the bank and, accordingly, covered by section 217.1(f) of Regulation Q and section 204.1(f) of Regulation D. See 12 CFR 250.141; 1968 Fed. Res. Bulletin 681.