

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 6432]
[November 5, 1969]

Obligations of Subsidiaries of Member Banks

To the Member Banks of the Second Federal Reserve District:

Following is the text of a statement issued November 4 by the Board of Governors of the Federal Reserve System:

The Board of Governors of the Federal Reserve System today outlined measures to allow member banks whose subsidiaries had commercial paper outstanding on October 29, 1969, a reasonable time to adjust to a determination by the Board published on that date. In that determination the Board pointed out that obligations of bank subsidiaries are, under present provisions of Regulations Q and D, subject to interest rate limitations and reserve requirements to the same extent as obligations issued directly by the bank. Following is the text of a letter to the Federal Reserve Banks setting out these measures:

"In answer to inquiries from some Reserve Banks as to appropriate steps for implementing the the Board's determination, announced October 29, 1969, that certain kinds of obligations issued by member bank subsidiaries are presently covered by Regulations Q and D, the Board has responded as follows:

"1. *Regulation Q.* The Board has suspended until December 1, 1969, the limitations on the rate of interest that may be specified in commercial paper or similar obligations with a maturity of 30 days or more issued by a subsidiary of a member bank, to the extent that the total amount of such obligations does not exceed the total amount of the subsidiary's commercial paper outstanding on October 29.

"2. *Regulation D.* The Board regards it as appropriate for a Reserve Bank to waive (a) penalties for member bank reserve deficiencies in reserve periods ending on or before October 29, 1969, that result from the treatment of bank subsidiary obligations as deposits and (b) penalties for such deficiencies in reserve periods ending on or before December 3, 1969, that result from such treatment of obligations of the subsidiary, to the extent that the total amount of such obligations does not exceed the total amount of the subsidiary's commercial paper outstanding on October 29.

"3. *Discount window accommodation.* The Board also regards it as appropriate for a Reserve Bank to provide accommodation at the discount window for member banks affected by the October 29 determination, in order to allow such banks a reasonable time to adjust in an orderly manner to that determination."

The October 29 determination by the Board of Governors, referred to in the above statement, is contained in our Circular No. 6429, which was sent to you on October 29.

Additional copies of this circular will be furnished upon request.

ALFRED HAYES,
President.