

FEDERAL RESERVE BANK  
OF NEW YORK

[ Circular No. 6566 ]  
June 29, 1970

AMENDMENTS TO REGULATIONS D AND Q  
Exemptions for Certain Subordinated Obligations

*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 announced new conditions that must be met for a subordinated note or debenture issued by a member bank to be exempt from interest rate controls (Regulation Q) and reserve requirements (Regulation D).

The new conditions, to become effective tomorrow (Tuesday, June 30), are designed to distinguish clearly between capital-type funds and deposit-type funds.

Under the basic rule for new issues, in order for a subordinated note to be exempt from Regulations Q and D it must have an original maturity of 7 years or more and be in an amount of at least \$500. Certain statements, designed to assure that an investor in such notes understands the nature of his investment, must be included in each note. The issuance of the notes must be approved by the bank's primary Federal bank supervisor.

In exigent circumstances, the primary bank supervisor may permit the issuance of nondeposit subordinated notes with a maturity of less than 7 years.

Formerly, the exemption from the regulations for subordinated notes applied if the maturity of the obligation was more than 2 years. The changes became necessary in view of recent evidence that member banks were able to market exempt obligations to acquire deposit-type funds.

Proposed changes in the Board's rules regarding subordinated notes were announced on March 2.

These changes in the Board's regulations were adopted following extensive consideration by the interagency coordinating committee—the Comptroller of the Currency, the Chairman of the Federal Deposit Insurance Corporation, the Chairman of the Federal Home Loan Bank Board, and the Vice Chairman of the Board of Governors.

Enclosed are copies of amendments, effective June 30, 1970, to the Board's Regulations D and Q, giving effect to the above change. Additional copies of the enclosures will be furnished upon request.

ALFRED HAYES,  
*President.*

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

RESERVES OF MEMBER BANKS

AMENDMENT TO REGULATION D

Effective June 30, 1970, section 204.1(f)(3) 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" also includes a member bank's liability on 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:

\* \* \*

(3)(i) bears on its face, in bold-face type, the following:

**"This obligation is not a deposit and is not insured by the Federal Deposit Insurance Corporation";**

states expressly that it is subordinated to the claims of depositors and ineligible as collateral for a loan by the issuing bank; is unsecured; has an original maturity of 7 years or more; is in an amount of at least \$500; and has been approved by the Comptroller of the Currency, in the case of a national bank, or by the Board of Governors, in the case of a State member bank, as an addition to the bank's capital structure; or (ii) meets all of the requirements in the preceding clause except maturity and with respect to which the Comptroller, in the case of a national bank, or the Board, in the case of a State member bank, has determined that exigent circumstances require the issuance of such obligation without regard to the provisions of this Part; or (iii) was issued or publicly offered before June 30, 1970, with an original maturity of more than 2 years; or

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BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

INTEREST ON DEPOSITS

AMENDMENT TO REGULATION Q

Effective June 30, 1970, section 217.1(f)(3) is amended to read as follows:

**“This obligation is not a deposit and is not insured by the Federal Deposit Insurance Corporation”;**

SECTION 217.1—DEFINITIONS

\* \* \*

(f) **Deposits as including certain promissory notes and other obligations.** For the purposes of this Part, the term “deposits” also includes a member bank’s liability on 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:

\* \* \*

(3) (i) bears on its face, in bold-face type, the following:

states expressly that it is subordinated to the claims of depositors and ineligible as collateral for a loan by the issuing bank; is unsecured; has an original maturity of 7 years or more; is in an amount of at least \$500; and has been approved by the Comptroller of the Currency, in the case of a national bank, or by the Board of Governors, in the case of a State member bank, as an addition to the bank’s capital structure; or (ii) meets all of the requirements in the preceding clause except maturity and with respect to which the Comptroller, in the case of a national bank, or the Board, in the case of a State member bank, has determined that exigent circumstances require the issuance of such obligation without regard to the provisions of this Part; or (iii) was issued or publicly offered before June 30, 1970, with an original maturity of more than 2 years; or

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