

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 6593]
August 21, 1970

REGULATION D

Amendment, Supplement, and Interpretation

To All Member Banks, and Others Concerned,
in the Second Federal Reserve District:

Enclosed are copies of a revised Supplement, effective October 1, 1970, to Regulation D, and an amendment, effective September 17, 1970, to Regulation D. These documents give effect to the changes in reserve requirements announced by the Board of Governors of the Federal Reserve System on August 17; the text of that announcement was contained in our Circular No. 6589, dated August 17, 1970. In addition, printed below is the text of an interpretation issued by the Board of Governors, illustrating the application of the rules governing member bank reserve requirements to funds received by member banks through the issuance of commercial paper by their affiliates. *If the commercial paper has a maturity of less than 30 days, the usual reserve percentages on member bank demand deposits will apply.*

The Board of Governors has also ruled that "the authority of the Reserve Banks to waive penalties for deficient reserves resulting from issuance of obligations by bank subsidiaries is withdrawn effective with the reserve computation period beginning October 1 as to deposits outstanding in the week beginning September 17."

Additional copies of this circular and its enclosures will be furnished upon request.

ALFRED HAYES,
President.

[Reg. D]

PART 204—RESERVES OF MEMBER BANKS

Commercial Paper of Bank Affiliates

§ 204.115 *Borrowings by bank affiliates as deposits.*

Effective September 17, 1970, the Board of Governors has amended § 204.1 (f) to apply the rules governing member bank reserve requirements (Regulation D) to funds received by member banks as the result of issuance of obligations by affiliates of the bank, including obligations commonly described as commercial paper. The following examples illustrate the effect of the amendment:

(1) A corporation that controls a majority of the stock of a member bank establishes and acquires a majority of the stock of another corporation. That corporation proposes to acquire \$10 million by the public sale on September 1 of promissory notes in amounts of \$100,000 or more with a maturity of 90 days and to use \$5 million to acquire, on September 1,

interests in loans made by the bank, \$3 million of which will mature in 90 days and \$2 million of which will mature in 180 days. Under the amendment to Regulation D, \$5 million of the notes will become subject, on September 17, to a 5 per cent reserve requirement (assuming the member bank has other time deposits subject to § 204.5(a) of \$5 million), which will continue as long as, and to the extent that, funds of the affiliate are used to maintain the availability of funds to the bank.

(2) If, on September 15, the affiliate described in the preceding paragraph sells to a third person \$1 million of the 90-day loans, the bank may thereupon reduce its deposits subject to time deposit reserve requirements by \$1 million. If, on November 1, \$1 million of the affiliate's funds are again used to purchase from the bank notes maturing in 45 days, the bank

(OVER)

must add back \$1 million to its deposits subject to time deposit reserve requirements, even though the affiliate does not issue additional obligations. (If, between the sale of notes on September 15 and the additional purchase on November 1, the affiliate places the idle funds in a checking account with the bank, the usual demand deposit reserve requirement applies instead, for that period.) If, upon maturity on November 30 of the affiliate's \$5 million of obligations, the affiliate extends \$1 million thereof for 60 days and \$2 million for 90 days, the \$1 million is subject to reserves only for 16 days—until the maturity of the 45-day loans—unless additional funds are channeled to the bank or repayments on the loans maturing in that time are deferred. If, on January 1, a portion of the \$2 million 180-day loans is prepaid, the amount of such prepayments will reduce the amount of the affiliate's obligations that are subject to reserves, unless additional funds are channeled to the bank.

(3) A corporation that is majority-controlled by a company that also majority-controls a member bank proposes to acquire \$10 million by the sale of 90-day \$100,000 promissory notes and to use the proceeds to acquire all of the automobile loans of the bank. The bank will thereupon cease to engage in that type of lending. The amendments apply to an affiliate's obligations issued to finance such a reorganization, even though the shift of operations from the bank is on a one-time basis. The funds obtained by the bank may be used by it to expand its remaining lending activities, and the Board considers that such funds should be subject to reserve requirements at least as long as the affiliate holds the assets acquired from the bank.

(Interprets and applies 12 U.S.C. 461.)

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

RESERVES OF MEMBER BANKS

AMENDMENT TO REGULATION D

Effective September 17, 1970, section 204.1(f) is amended by adding the following sentence at the end thereof:

SECTION 204.1—DEFINITIONS

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(f) Deposits as including certain promissory notes and other obligations.

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For the purposes of this Part, "deposits" of a member bank also include the liability of a member bank's affiliate, as defined in section 2 of the Banking Act of 1933 (12 U.S.C. 221a(b)), on any promissory note, acknowledgement of advance, due bill, or similar obligation (written or oral) with a maturity of 7 years or less, to the extent that the proceeds are used for the purpose of supplying funds to the bank for use in its banking business, or to maintain the availability of such funds, except any such obligation that, if it had been issued directly by the member bank, would not constitute a deposit in view of exceptions (1) and (2) above.

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SUPPLEMENT TO REGULATION D

As amended effective October 1, 1970

SECTION 204.5—SUPPLEMENT

(a) **Reserve percentages.** Pursuant to the provisions of section 19 of the Federal Reserve Act and § 204.2(a) and subject to paragraph (e) of this section, the Board of Governors of the Federal Reserve System hereby prescribes the following reserve balances which each member bank of the Federal Reserve System is required to maintain on deposit with the Federal Reserve Bank of its district:

(1) **If not in a reserve city—**

(i) 3 per cent of (a) its savings deposits and (b) its time deposits, open account, that constitute deposits of individuals, such as Christmas club accounts and vacation club accounts, that are made under written contracts providing that no withdrawal shall be made until a certain number of periodic deposits have been made during a period of not less than 3 months; and

(ii) 3 per cent of its other time deposits up to \$5 million, plus 5 per cent of such deposits in excess of \$5 million; and

(iii) 12½ per cent of its net demand deposits up to \$5 million, plus 13 per cent of such deposits in excess of \$5 million.

(2) **If in a reserve city** (except as to any bank located in such a city which is permitted by the Board of Governors of the Federal Reserve System, pursuant to § 204.2(a)(2), to maintain the reserves specified in subparagraph (1) of this paragraph)—

(i) 3 per cent of (a) its savings deposits and (b) its time deposits, open account, that constitute deposits of individuals, such as Christmas club accounts and vacation club accounts, that are made under written contracts providing that no withdrawal shall be made until a certain number of periodic deposits have been made during a period of not less than 3 months; and

(ii) 3 per cent of its other time deposits up to \$5 million, plus 5 per cent of such deposits in excess of \$5 million; and

(iii) 17 per cent of its net demand deposits up to \$5 million, plus 17½ per cent of such deposits in excess of \$5 million.

(b) **Currency and coin.** The amount of a member bank's currency and coin shall be counted as reserves in determining compliance with the reserve requirements of paragraph (a) of this section.

(e) **Reserve percentages against certain deposits by foreign banking offices.** Deposits represented by promissory notes, acknowledgments of advance, due bills, or similar obligations described in § 204.1(f) to foreign offices of other banks,⁸ or institutions the time deposits of which are exempt from the rate limitations of Regulation Q pursuant to § 217.3(g) thereof, shall not be subject to paragraph (a) of this section or to § 204.3(a)(1) and (2); but during each week of the four-week period beginning October 16, 1969, and during each week of each successive four-week ("maintenance") period, a member bank shall maintain with the Reserve Bank of its district a daily average balance equal to 10 per cent of the daily average amount of such deposits during the four-week ("computation") period ending on the Wednesday fifteen days before the beginning of the maintenance period; except that only 3 per cent need be so maintained against such deposits which are time deposits⁹ aggregating not more than 4 per cent of such member bank's daily average deposits subject to paragraph (a) of this section during the computation period. An excess or deficiency in reserves in any week of a maintenance period under this paragraph shall be subject to § 204.3(a)(3), as if computed under § 204.3(a)(2), and deficiencies under this paragraph shall be subject to § 204.3(b).¹⁰

⁸ I.e., offices of other banks not covered by § 204.1(f)(1).

⁹ For the purposes of this paragraph, "time deposits" means any deposit having a maturity of one day or more.

¹⁰ The term "computation period" in § 204.3(a)(3) and (b) shall, for this purpose, be deemed to refer to each week of a maintenance period under this paragraph.