

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 6646]
December 1, 1970]

Changes in Reserve Requirements on Eurodollar Borrowings
Under Regulations M and D

Reductions in Discount Rates

To the Member Banks of the Second Federal Reserve District:

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

The Board of Governors of the Federal Reserve System announced today a further reduction in Federal Reserve Bank discount rates to $5\frac{1}{2}$ per cent.

At the same time, the Board announced steps to strengthen the inducement for American banks to retain their Eurodollar liabilities, and thus moderate the pace of repayments of Eurodollar borrowings.

The reduction in the discount rate was accomplished as the Board approved actions by the directors of the Federal Reserve Banks of Boston, Cleveland, Atlanta, Minneapolis, and Dallas reducing the discount rate at those banks from $5\frac{3}{4}$ to $5\frac{1}{2}$ per cent, effective Tuesday, December 1. The move was in recognition of the further downward trend in short-term interest rates in recent weeks. The discount rate had been reduced from 6 to $5\frac{3}{4}$ per cent effective November 11.

Three inter-related decisions were made by the Board regarding bank borrowings of Eurodollars:

First the Board raised from 10 to 20 per cent the reserves required from member banks against Eurodollar borrowings that exceed amounts that the banks are allowed as a reserve-free base. The higher requirement is intended to give banks an added inducement to preserve their reserve-free bases presently at substantial levels against a time of future need, instead of allowing their bases to be lowered automatically by repaying their Eurodollar borrowings. The higher requirement becomes effective in the current four-week reserve computation period ending December 23.

In a second step, to assure that the higher marginal reserve requirement does not penalize banks that currently have Eurodollar liabilities above their reserve-free bases, the Board also amended its regulations so as to make the marginal reserve requirement applicable to borrowings above either (1) the minimum base equal to a percentage of deposits, or (2) the average level in the reserve computation period ended November 25, whichever is higher.

Third, the Board amended its regulations to discourage repayment of Eurodollar liabilities, not only by banks that use an historically determined reserve-free base originally related to their May 1969 borrowings, but also by those banks that operate under a minimum base equal to 3 per cent of their overall deposits subject to reserve requirements. The amendment will apply the automatic downward adjustment to reserve-free bases of the latter kind as well as of the former. This amendment becomes effective with the reserve computation period ending January 20, 1971.

Although the steps announced today were deliberately made of modest scale, the Board has under review other measures that might be adopted for the purpose of tempering the repayment of Eurodollars while avoiding penalty to banks that operate so as to retain their reserve-free bases.

Enclosed are copies of an amendment to Regulation M, "Foreign Activities of National Banks," and the Supplement to Regulation D, "Reserves of Member Banks," giving effect to the reserve requirement changes referred to above. Additional copies of the enclosures will be furnished upon request.

ALFRED HAYES,
President.

SUPPLEMENT TO REGULATION D

As amended effective January 7, 1971

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 (c) 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.

(c) **Reserve percentages against certain deposits by foreign banking offices.** Deposits represented by promissory notes, acknowledgements 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 20 per cent of the amount by which 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 exceeds the lesser of (i) 3 per cent of such member bank's daily average deposits subject to paragraph (a) of this section during the current computation period or during the computation period ending November 25, 1970, whichever is greater, or (ii) the lowest corresponding daily average total for any computation period beginning on or after December 24, 1970. 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).⁹

⁸ Any banking office located outside the States of the United States and the District of Columbia of a bank organized under domestic or foreign law.

⁹ 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.

FOREIGN ACTIVITIES OF NATIONAL BANKS

AMENDMENT TO REGULATION M

Effective January 7, 1971, section 213.7 is amended to read as follows:

SECTION 213.7—RESERVES AGAINST FOREIGN BRANCH DEPOSITS

(a) **Transactions with parent bank.**—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 having one or more foreign branches shall maintain with the Reserve Bank of its district, as a reserve against its foreign branch deposits, a daily average balance equal to 20 per cent of the amount by which the daily average total of

- (1) net balances due from its domestic offices to such branches, and
- (2) assets (including participations) held by such branches which were acquired from its domestic offices,⁷

during the four-week (“computation”) period ending on the Wednesday fifteen days before the beginning of the maintenance period, exceeds the greater of

- (i) the corresponding daily average total⁸ for the computation period ending November 25, 1970, or the lowest corresponding daily average total for any computation period beginning after that date, whichever amount is the lesser, or
- (ii) 3 per cent of the member bank’s daily average deposits subject to § 204.5(a) of this chapter (Regulation D) during the current computation period, or, if the bank has had a foreign branch in operation for more than 90 days, the lowest corresponding daily

⁷ Excluding (1) assets so held on June 26, 1969 representing credit extended to persons not residents of the United States and (2) credit extended or renewed by a domestic office after June 26, 1969 to persons not residents of the United States to the extent such credit was not extended in order to replace credit outstanding on that date which was paid prior to its original maturity (see definition of United States resident in footnote 9).

⁸ Excluding assets representing credit extended to persons not residents of the United States.

average total for any computation period beginning on or after December 24, 1970, whichever amount is the lesser:

Provided, That the applicable base computed under (i) or (ii) shall be reduced by the daily average amount of any deposits of the member bank subject to § 204.5(c) of this chapter (Regulation D) during the computation period.

(b) **Credit extended to United States residents.**—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 having one or more foreign branches shall maintain with the Reserve Bank of its district, as a reserve against its foreign branch deposits, a daily average balance equal to 20 per cent of the amount by which daily average credit outstanding from such branches to United States residents⁹ (other than assets acquired and net balances due from its domestic offices), during the four-week computation period ending on Wednesday fifteen days before the beginning of the maintenance period, exceeds the corresponding daily average total during the four-week period ending on November 25, 1970: *Provided*, That this paragraph does not apply to credit extended (1) by a foreign branch which at no time during the computation period had credit outstanding to United States residents exceeding \$5 million, (2) to enable the borrower to comply with requirements of the Office of Foreign Direct Investments, Department of Commerce,¹⁰ or (3) under binding commitments entered into before December 1, 1970.

⁹ (a) any individual residing (at the time the credit is extended) in any State of the United States or the District of Columbia; (b) any corporation, partnership, association or other entity organized therein ("domestic corporation"); and (c) any branch or office located therein of any other entity wherever organized. Credit extended to a foreign branch, office, subsidiary, affiliate or other foreign establishment ("foreign affiliate") controlled by one or more such domestic corporations will not be deemed to be credit extended to a United States resident if the proceeds will be used in its foreign business or that of other foreign affiliates of the controlling domestic corporation(s).

¹⁰ The branch may in good faith rely on the borrower's certification that the funds will be so used.