

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 6671]
[January 15, 1971]

AMENDMENT TO REGULATION M
Reserves Against Eurodollar Borrowings

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 amended its regulations to permit U. S. banks to count toward maintenance of their reserve-free Eurodollar bases any funds invested by their overseas branches in Export-Import Bank securities offered under the program announced today by the Export-Import Bank.

The amendment is a further step resulting from the Board's continuing review of measures needed to temper the adverse impact of Eurodollar outflows on the U. S. balance of payments.

Eurodollar borrowings by a member bank are subject to a 20 per cent reserve requirement to the extent that they exceed a bank's reserve-free base.

For those banks that have had a minimum (3 per cent of deposits) reserve-free base, the Board postponed for four weeks, through the computation period ending February 17, 1971, the application of the automatic downward adjustment of their bases.

Enclosed is a copy of the amendment, effective today, to Regulation M, "Foreign Activities of National Banks," referred to above. Additional copies of the enclosure will be furnished upon request.

ALFRED HAYES,
President.

FOREIGN ACTIVITIES OF NATIONAL BANKS

AMENDMENT TO REGULATION M

Effective January 15, 1971, § 213.7(a) of Regulation M 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

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).

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 lowest corresponding daily average total⁸ for any computation period ending after November 25, 1970, 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 the lowest corresponding daily average total⁸ for any computation period beginning on or after January 21, 1971 and after the bank has had a foreign branch in operation for more than 90 days, 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.

⁸ Including the principal amount paid by a foreign branch of the member bank for obligations held by such branch that were purchased by it from the Export-Import Bank of the United States pursuant to its program announced on January 15, 1971, and excluding assets representing credit extended to persons not residents of the United States.