

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 6998]
September 11, 1972

PROPOSED AMENDMENTS TO REGULATIONS D AND M
Reserves Against Eurodollar Borrowings

To the Member Banks of
the Second Federal Reserve District:

Following is the text of a statement issued September 7 by the Board of Governors of the Federal Reserve System:

The Board of Governors of the Federal Reserve System proposed today to reduce its reserve requirements on certain foreign borrowings of U.S. banks, primarily Euro-dollars, from 20 per cent to 10 per cent and to eliminate the reserve-free bases now available to banks subject to these requirements.

Normally, the Board does not offer proposed changes in reserve requirement percentages for public comment but is doing so in this case because the proposal involves a restructuring of the reserve requirement on Euro-dollar borrowings.

The proposal would simplify the regulations in this field and provide parallel treatment for all member banks subject to reserve requirements on Euro-dollar transactions, irrespective of their past use of Euro-dollar borrowings. The Euro-dollar reserve requirement was imposed in 1969 to moderate short-term dollar flows between the U.S. and other countries.

Comment on the proposal should be submitted to the Board within 90 days.

The reserve requirement was set in 1969 at 10 per cent to the extent that borrowings exceeded the daily average amount of foreign borrowings in a specified base period (or, alternatively, a specified percentage of total deposits) — the so-called reserve-free base. The regulation provided that as Euro-dollar borrowings were repaid a bank's reserve-free base would be lowered automatically, and thus served to moderate the outflow of repayments to foreign banking systems.

In November of 1970, the reserve ratio was increased to 20 per cent to give banks an added incentive to preserve their bases at substantial levels. At that time, the Board indicated it would review the reserve ratio as circumstances warranted.

At the time of the original action in 1969, liabilities of U.S. banks to their foreign branches had more than doubled over a seven-month period and had reached \$14.6 billion by July 30, 1969. As monetary conditions in the U.S. eased, U.S. banks repaid their Euro-dollar borrowings, and repayments accelerated after mid-1970. In recent months, such borrowings have been relatively small, fluctuating in the range of \$1 billion and \$1-3/4 billion. On Wednesday, August 30, gross liabilities of U.S. banks to their foreign branches totaled \$1-1/4 billion.

Elimination of the reserve-free base would have little practical effect for most banks. Only a few U.S. banks have continued to borrow in the Euro-dollar market this year.

The proposal would amend the Board's Regulation M which governs foreign activities of member banks, and Regulation D which governs reserves of member banks.

Printed on the reverse side is the text of the proposed amendments. Comments thereon should be submitted by December 6 and may be sent to our Regulations and Bank Analysis Department.

ALFRED HAYES,
President.

[Regs. D, M]
12 CFR PART 204—RESERVES OF MEMBER BANKS
12 CFR PART 213—FOREIGN ACTIVITIES OF NATIONAL BANKS
Reserves Against Eurodollar Borrowings
Notice of Proposed Rule Making

The Board of Governors is considering amending Parts 204 and 213 to reduce reserve requirements against certain transactions usually involving so-called "Eurodollars" — deposits of U.S. dollars with banks located outside the United States, including overseas branches of U.S. banks. The proposed amendments would apply a general reserve requirement of 10 per cent to liabilities of member banks upon Eurodollar borrowings from foreign banks and to foreign branch deposits of member banks that support transactions of such branches with the domestic offices of their parent banks and credits extended by such branches to United States residents. This reserve requirement would replace a marginal reserve requirement of 20 per cent which applies to the excess of such liabilities over reserve-free bases that are provided for under current regulations. The changes would eliminate such reserve-free bases and would also eliminate a special exemption — affecting small amounts of credit to U.S. residents — that had been granted for the purpose of moderating the administrative burden on the banks in adjusting the operations of their foreign branches to a new type of reserve requirement.

The change would reduce the rate of reserve requirements to the rate that prevailed before a special increase instituted in November of 1970, and at the same time would simplify the regulations and apply the reserve requirements equally to all member banks regardless of their past use of Eurodollar borrowings.

Normally the Board does not offer proposed changes in reserve requirement percentages for public comment (see section 262.2(e) of the Board's Rules of Procedure). In this case, the amendments are being proposed for comment because they involve a restructuring of the reserve requirements. To aid in the consideration by the Board of this matter, interested persons are invited to submit relevant data, views, or arguments. Any such material should be submitted in writing to the Secretary, Board of Governors of the Federal Reserve System, Washington, D. C. 20551, to be received not later than December 6, 1972. Such material will be made available for inspection and copying upon request, except as provided in § 261.6(a) of the Board's rules regarding availability of information.

To implement its proposal, the Board proposes to amend Regulations D and M in the following respects:

1. Section 204.5(c) of Regulation D would be amended to read as follows:

(c) *Reserve percentages against certain deposits by foreign banking offices.* Deposits represented by promis-

sory notes, acknowledgements of advance, due bills, or similar obligations described in § 204.1(f) to foreign offices of other banks,⁸ or to 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 [, 1973] and during 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. 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

2. Section 213.7(a) of Regulation M would be amended to read as follows:

(a) *Transactions with parent bank.* During each week of the four-week period beginning [, 1973] 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 10 per cent of 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 (other than assets representing credit extended to persons not residents of the United States)

during the four-week computation period ending on the Wednesday fifteen days before the beginning of the maintenance period.

3. Section 213.7(b) of Regulation M would be amended to read as follows:

(b) *Credit extended to United States residents.* During each week of the four-week period beginning

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.

[, 1973] 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 10 per cent of the daily average credit outstanding from such branches to United States residents⁷ (other than assets acquired and net balances due from its

domestic offices) during the four-week computation period ending on the Wednesday fifteen days before the beginning of the maintenance period: *Provided*, That this paragraph does not apply to credit extended (1) to enable the borrower to comply with the requirements of the Office of Foreign Direct Investments, Department of Commerce,⁸ or (2) under binding commitments entered into before September 8, 1972.

7 (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).

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