

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 7165]
June 18, 1973]

AMENDMENT TO REGULATION D

Reserve Requirements on Funds Raised Through Sale of "Finance Bills"

*To All Member Banks, and Others Concerned,
in 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 announced today that reserve requirements will be applied to funds raised by member banks through the sale of finance bills. There is presently no reserve requirement on this type of instrument, which is sometimes called a working capital acceptance or an "ineligible" acceptance.

By its action today the Board amended its Regulation D, governing the reserves of member banks, to apply a basic 5 per cent reserve requirement on all outstanding finance bills. An additional 3 per cent reserve requirement will apply to the total of funds raised through finance bills, large (\$100,000 and over) certificates of deposit (or other single-maturity time deposits of like size) and commercial paper issued by an affiliate of a bank, to the extent the total exceeds the level outstanding during the week ended May 16 or \$10 million, whichever is larger.

Under the amendment, member banks will be required to include finance bills in their reserve calculations for the week beginning June 28. Member banks will be required to hold the reserves in the week beginning July 12.

The amendment is the same as the proposal made by the Board on May 16, as part of a series of actions designed to curb rapid expansion of bank credit, help moderate inflationary pressures and also assure the availability of credit on a reasonable scale. The Board's actions at that time included: (1) imposition of the above-mentioned 8 per cent reserve requirements on large certificates of deposit and on outstanding funds obtained by banks through issuance by an affiliate of obligations subject to the existing reserve requirements, and (2) suspension of the ceilings then applicable to the rate of interest commercial banks may pay on large certificates of deposit.

At present, about \$1.6 billion in finance bills is outstanding.

The amendment adopted by the Board today will apply to funds obtained by a bank for use in its banking business through bank acceptances that are not eligible for discount by a Federal Reserve Bank. The traditional type of bank acceptances that apply to specific transactions in goods are exempt from reserve requirements and are eligible for discount by a Federal Reserve Bank.

Copies of the amendment to Regulation D will be sent to you shortly. The text of the amendment in the form in which it was proposed for public comment, is contained in our circular No. 7148, which was sent to you on May 21.

ALFRED HAYES,
President.