

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 7300]
[December 20, 1973]

INTERPRETATION OF REGULATION Q
Treatment of "Interbank Loan Participations" (IBLPs)

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

The Board of Governors of the Federal Reserve System has issued an interpretation of its Regulation Q, "Interest on Deposits," indicating that the use of "interbank loan participations" (IBLPs), involving participation by nonbank third parties in Federal funds transactions, does not come within the exemption from "deposit" classification for certain obligations between banks that is provided in § 217.1(f) of Regulation Q and § 204.1(f) of Regulation D. The interpretation supplements an earlier interpretation of Regulation Q (§ 217.137) originally issued in 1970 by the Board of Governors, on member bank participation in the Federal funds market.

Enclosed is a copy of the interpretation, which has been printed in a form that will allow it to be maintained with your copies of Regulation Q and its amendments and Supplement. Future interpretations printed by this Bank will also be sent to you in that form.

Additional copies of the enclosure will be furnished upon request.

ALFRED HAYES,
President.

Board of Governors of the Federal Reserve System

INTEREST ON DEPOSITS

INTERPRETATION OF REGULATION Q

Federal Funds Transactions

§217.138 — Nonbank participation in “Federal funds” market

The Board has recently considered whether the use of “interbank loan participations” (“IBLPs”), which involves participation by nonbank third parties in Federal funds transactions, comes within the exemption from “deposit” classification for certain obligations between banks contained in §204.1(f) of Regulation D and §217.1(f) of Regulation Q. An IBLP transaction is one through which a bank that has sold Federal funds to another bank, subsequently “sells” or participates out its loan contract to a nonbank third party without notifying the bank that has “purchased” its funds.

The Board’s 1970 interpretation regarding Federal funds transactions (§217.137) clarifies the meaning of “bank” as that term is used in the exemption for liabilities to banks. Paragraph (b) of that interpretation states that the purpose of requiring that interbank transactions be issued to another bank for its own account, in order to come within the non-deposit exemption, is “to assure that the exemp-

tion for liabilities to banks is not used as a means by which nonbanks may arrange through a bank to ‘sell’ Federal funds to a member bank that are not subject to Regulations D and Q”. The Board regards transactions which result in third parties gaining access to the Federal funds interbank loan market as contrary to the interbank exemption contained in §217.1(f) of Regulation Q, and §204.1(f) of Regulation D regardless of whether the nonbank third party is a party to the initial interbank transaction or thereafter becomes a participant in the transaction through purchase of all or part of the obligation held by “selling” bank.

The Board regards the notice requirements set out in §217.137 as applicable to IBLP-type transactions as described herein so that a bank “selling” Federal funds must provide to the purchasing bank (1) notice of its intention, at the time of the initial transaction, to sell or participate out its loan contract to a nonbank third party, and (2) full and prompt notice whenever it (the “selling” bank) subsequently sells or participates out its loan contract to a nonbank third party.