

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 7304]
[December 24, 1973]

PROPOSED AMENDMENTS TO REGULATIONS D AND Q

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

The Board of Governors of the Federal Reserve System has proposed amendments to its Regulation D, "Reserves of Member Banks," and its Regulation Q, "Interest on Deposits," to classify as "deposits" funds received by member banks through the issuance of due bills that are uncollateralized, and thereby to extend reserve requirements and interest-rate limitations to such funds.

Printed below is the text of the proposal. Comments thereon should be submitted by January 18, 1974, and may be sent to our Regulations and Bank Analysis Department.

ALFRED HAYES,
President.

(Regs. D, Q)

RESERVES OF MEMBER BANKS; PAYMENT OF INTEREST ON DEPOSITS
Due Bills as Deposits

The Board of Governors proposes to amend Regulations D and Q to classify as "deposits", and thereby extend reserve requirements and interest rate limitations to funds received by member banks through the issuance of due bills that are uncollateralized. Such treatment would apply to due bills issued in connection with sales of securities where the securities purchased are not delivered to the purchaser at the time of payment, whether such funds are received from another bank or other customers and regardless of the method by which such transaction is evidenced or recorded — whether by issuance of an instrument, oral undertaking or understanding, record notation or other manner. The 1966 amendments to Regulations D and Q included due bills issued by a member bank principally as a means of obtaining funds to be used in its banking business within the definition of "deposits". Funds received in exchange for due bills issued in connection with a "genuine" securities transaction with respect to which the bank is not in a position to make same-day delivery against payment, however, are not now classified as a deposit under Regulations D and Q. The substantial increase in the use of due bills since adoption of the 1966 amendments evidences an apparent need to apply a clearer standard to due bill transactions and to insure that when used as a means of obtaining funds, funds so obtained are subject to the reserve and interest rate provisions of Regulations D and Q.

The proposed amendments would not apply reserve requirements and interest rate limitations to due bill transactions that are fully secured by securities similar to those that are the subject of the due bill transaction and thereby would establish a presumption in Regulations D and Q that uncollateralized due bills are issued principally for the purpose of obtaining funds for the issuing bank.

To aid in the consideration of the matter by the Board, interested persons are invited to submit relevant data, views, and arguments. Any such material should be submitted in writing to the Secretary of the Board of Governors of the Federal Reserve System, Washington, D. C. 20551, to be received not later than January 18, 1974. 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 sections 204.1(f) of Regulation D (12 CFR part 204) and 217.1(f) of Regulation Q (12 CFR 217) by adding a new sentence at the end thereof to read as follows:

SECTION 204.1 — DEFINITIONS

SECTION 217.1 — DEFINITIONS

* * *

(f) Deposits as including certain promissory notes and other obligations.

* * *

"Notwithstanding the foregoing, the term 'deposit' includes any liability or undertaking on the part of a member bank to sell or deliver securities to or purchase securities for the account of any customer, involving the receipt of funds by the member bank or a debit to an account of such customer before the securities are delivered, unless such liability or undertaking is fully secured by collateral consisting of securities similar to and with an aggregate market value at least equal to that of the securities which are the subject of the member bank's liability or undertaking."

By order of the Board of Governors, December 13, 1973.