FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 7464
September 20, 1974]

REGULATION D

Amendment and Interpretation on Funds
Secured Through Issuance of Uncollateralized Due Bills

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

Our Circular No. 7415, dated June 27, 1974, contained the text of a revised proposal by the Board of Governors of the Federal Reserve System to amend its Regulation D, "Reserves of Member Banks." That proposal would classify as "deposits," under Regulation D, funds received by member banks through the issuance of uncollateralized due bills and thereby extend reserve requirements to such funds.

The Board of Governors has adopted an amendment, effective October 14, 1974, to Regulation D in substantially the same form as the proposed amendment contained in Circular No. 7415. The Board has also issued an interpretation of Regulation D that describes the types of collateralization and other conditions required to remove due bill transactions from the reserve requirements of that regulation.

In submitting the amendment and interpretation for publication in the *Federal Register*, the Board of Governors made the following statement:

By notice published in the *Federal Register* of July 1, 1974, (39 *Federal Register* 24243) the Board of Governors proposed to amend Regulation D to classify as "deposits," and thereby subject to reserve requirements, funds received by member banks from the issuance of due bills in connection with sales of securities where the securities sold are not delivered to or for the account of the purchaser within three business days from the time of the purchase and where, for any period thereafter, such due bills are not fully collateralized by securities similar to those that the due bill represents. The July 1, 1974 proposal reflected the Board's consideration of comments received on its proposal of December 26, 1973 (38 *Federal Register* 35236) to amend both Regulations D and Q to classify uncollateralized due bills as deposits. After review and consideration of all comments received, pursuant to its authority under §19 of the Federal Reserve Act to define the terms used in that section and for the reasons stated in the Board's previous notices on this subject, the Board has approved an amendment to Regulation D in substantially the same form as published for comment on July 1, 1974.

Since 1966 due bills that are issued by a member bank principally as a means of obtaining funds to be used in its banking business have been defined as deposits subject to reserve requirements and interest rate limitations under both Regulations D and Q. The Board regards the good faith effort to make timely delivery of the underlying security and full disclosure to customers that a due bill may be issued in lieu of the security sought to be purchased as basic elements of bona fide due bill transactions. This amendment does not alter the regulatory stance adopted in 1966, but adds a provision under Regulation D to define as deposits funds received from the issuance of due bills in connection with sales of securities where the securities sold are not delivered to or for an account of the purchaser within three business days from the time of purchase and where, for any period thereafter, such due bills are not fully collateralized by securities similar to those that the due bill represents.

Under the amendment, due bill transactions entered into on or after the effective date of this amendment, which remain uncollateralized for more than three business days, are treated as demand deposits under

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Regulation D. Deposit treatment applies to such due bill transactions whether funds are received from another bank or other customers and regardless of the method by which such transactions are evidenced or recorded—whether by issuance of an instrument, oral undertaking or understanding, record notation or other manner.

At the same time, the Board approved an interpretation (12 CFR 204.110) intended to describe the types of collateralization and other conditions required to remove due bill transactions from the reserve requirements of Regulation D. The interpretation approved by the Board indicates that due bills in Treasury issues may be secured by appropriate amounts of any other marketable Treasury issues regardless of maturities and that due bills in Federal agency securities can be secured by either Treasury or agency issues, again regardless of maturities. The Board stated also that the collateralization requirement may be satisfied by the pooling of appropriate collateral as well as by piece-by-piece collateralization using specific Treasury and Federal agency securities.

Enclosed are copies of the amendment to, and interpretation of, Regulation D. Additional copies will be furnished upon request.

Alfred Hayes,
President.