FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 7611
April 15, 1975]

Reserves Against Eurodollar Borrowings

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

The Board of Governors of the Federal Reserve System has amended its Regulation D, "Reserves of Member Banks," and Regulation M, "Foreign Activities of National Banks," regarding reserve requirements on foreign borrowings of member banks. In this connection, the Board of Governors issued the following statement on April 9:

> The Board of Governors of the Federal Reserve System announced today a reduction from 8 per cent to 4 per cent in the reserve requirement on foreign borrowings of member banks, primarily Eurodollars.
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> This action will bring the Eurodollar reserve requirement into better alignment with reserve requirements on the time and savings deposits of domestic residents and may strengthen the position of the U.S. dollar in the foreign exchange markets.
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> The reduction will affect reserves that must be maintained against Eurodollar borrowings in the four-week period beginning May 22. The actual reserve will be based on the level of borrowings during the period from April 10 through May 7. The action will reduce required reserves by about $65 million.
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> Also affected by the action are foreign-owned banking institutions that have voluntarily maintained a reserve requirement on Eurodollar borrowings since mid-1973. The Board originally requested the voluntary action during a period of monetary restraint. Although current monetary policy is not directed toward credit restraint, the Board believes it is important that banking institutions operating in the United States receive parallel treatment with respect to maintaining reserves on increases in their Eurodollar borrowings. Therefore, the Board requested the foreign-owned institutions to maintain a voluntary reserve of 4 per cent against increases in net foreign borrowings that exceed the average of such borrowings during May 1973.
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> The reduction in the voluntary reserve from 8 per cent to 4 per cent will release about $15 million in reserves. A reserve requirement on Eurodollar borrowings by member banks was originally established in 1969. The reserve ratio has been 8 per cent since May 1973.

In submitting the amendments for publication in the *Federal Register,* the Board of Governors made the following additional statement:

> The Board of Governors has approved amendments to its Regulation D, Reserves of Member Banks, and to its Regulation M, Foreign Activities of National Banks, to reduce from 8 per cent to 4 per cent the reserve requirement on member banks' Eurodollar borrowings and foreign branch loans to United States residents.
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> The Board first required member banks to maintain reserves against Eurodollar borrowings in 1969. At that time, a reserve rate of 10 per cent was applied to borrowings in excess of base period amounts, and subsequently in November of 1970 this marginal rate was increased to 20 per cent. In May 1973, the Board decided to eliminate gradually existing reserve free bases by April of 1974 and to apply a general 8 per cent reserve requirement. The Board has now decided to lower this general reserve rate further to 4 per cent. The Board noted that it took this action to bring the Eurodollar reserve requirement into better alignment with reserve requirements on time and savings deposits. The Board also noted this action may strengthen the position of the United States dollar in foreign exchange markets.
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> Under the amendments, which will become effective May 22, 1975, the reduced rate of reserve requirements will apply in the case of reserves that must be maintained during the maintenance period beginning May 22, 1975, based on the computation period extending from April 10, 1975 to May 7, 1975. The amendments will thus have an immediate impact on member banks' Eurodollar borrowings.

(OVER)

These amendments are issued pursuant to the Board's authority under section 19 of the Federal Reserve Act (12 U.S.C. 461) to set reserve ratios for member banks and under sections 25 and 9 of that Act (12 U.S.C. 601 and 321) to regulate foreign branches of member banks. There was no notice or public participation with respect to these amendments because the Board found such procedures would delay the desired impact on member bank Eurodollar borrowings and thus be contrary to the public interest for the reasons discussed above.

Enclosed is a copy of the amendment to Regulation M and a revised Supplement to Regulation D, both effective May 22, 1975. You may address any questions thereto to our Foreign Banking Regulations Department.

Additional copies of the enclosures will be furnished upon request.

ALFRED HAYES,
President.