

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 7825]
February 26, 1976

AMENDMENT TO REGULATION M
Eurodollar Reserve Requirements

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 M—Foreign Activities of National Banks—to avoid the duplication of Eurodollar reserve requirements in certain situations.

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

The Board of Governors has amended § 213.7(b) of its Regulation M, Foreign Activities of National Banks, to prevent duplication of Eurodollar reserve requirements in two situations.

Currently, § 213.7(b) of Regulation M requires member banks that have one or more foreign branches to maintain reserves equal to 4 per cent of the daily average credit outstanding from such branches to United States residents.* However, the regulation provides several exceptions from this reserve requirement, one of which is for credit extended "to another member bank that will be maintaining reserves on such credit under § 204.5(c) of Regulation D." This exception was added to Regulation M, effective May 24, 1974, and was intended to prevent duplication of Eurodollar reserve requirements.

The amendment adopted today expands this exception to prevent duplication of reserve requirements in two other situations: (1) when a foreign branch lends to a corporation operating under section 25 or 25(a) of the Federal Reserve Act that is maintaining reserves on such credit under § 211.7(c) of Regulation K (12 CFR 211.7 (c)), and (2) when a foreign branch lends to a foreign-owned U. S. banking institution (including branches and agencies of foreign banks, U. S. subsidiaries of foreign banks, and investment companies affiliated with foreign banks) that is voluntarily maintaining member bank reserves on such credit pursuant to the Board's requests of June 1, 1973 and April 9, 1975.

Regulation M currently prevents duplication of Eurodollar reserve requirements in one situation, that is, when the foreign branch of a member bank extends credit to another member bank. The Board believes that it is in the public interest to eliminate immediately duplication of reserves in the two situations described above. Therefore, with respect to this amendment, the Board believes that good cause exists for dispensing with the notice and public participation required by § 553(b) of Title 5 of the United States Code. The effective date of this amendment is postponed for less than the 30 days required by § 553(d) of Title 5 because the amendment relieves a restriction.

This action is taken pursuant to the Board's authority under § 25 of the Federal Reserve Act.

* "United States resident" is defined as (a) any individual residing (at the time the credit is extended) in any State of the United States or the District of Columbia; (b) any corporation, partnership, association or other entity organized therein ("domestic corporation"); and (c) any branch or office located therein of any other entity wherever organized. Credit extended to a foreign branch, office, subsidiary, affiliate or other foreign establishment ("foreign affiliate") controlled by one or more such domestic corporations will not be deemed to be credit extended to a United States resident if the proceeds will be used in its foreign business or that of other foreign affiliates of the controlling domestic corporation(s).

Enclosed is a copy of the amendment to Regulation M, effective February 6, 1976. Any questions regarding this matter may be directed to our Bank Regulations Department.

Additional copies of the enclosure will be furnished upon request.

PAUL A. VOLCKER,
President.

Board of Governors of the Federal Reserve System

FOREIGN ACTIVITIES OF
NATIONAL BANKS

AMENDMENT TO REGULATION M

Effective February 6, 1976, paragraph (b) of section 213.7 is amended to read as follows:

SECTION 213.7—RESERVES AGAINST
FOREIGN BRANCH DEPOSITS

* * *

(b) **Credit extended to United States residents.** During each week of the four-week period beginning May 22, 1975, and during each week of each successive four-week maintenance period, a member bank having one or more foreign branches shall maintain with the Reserve Bank of its district, as a reserve against its foreign branch deposits, a daily average balance equal to 4 per cent of the daily average credit outstanding from such branches to United States residents⁷ (other than assets acquired

and net balances due from its domestic offices) during the four-week computation period ending on the Wednesday fifteen days before the beginning of the maintenance period: *Provided*, That this paragraph does not apply to credit extended (1) in the aggregate amount of \$100,000 or less to any United States resident, (2) by a foreign branch which at no time during the computation period had credit outstanding to United States residents exceeding \$1 million, (3) to enable the borrower to comply with the requirements of the Office of Foreign Direct Investments, Department of Commerce,⁸ (4) under binding commitments entered into before May 17, 1973, or (5) to an institution that will be maintaining reserves on such credit under § 204.5(c) of Regulation D or § 211.7(c) of Regulation K or to a foreign-owned banking institution that will voluntarily be maintaining member bank reserves on such credit.

⁷ (a) Any individual residing (at the time the credit is extended) in any State of the United States or the District of Columbia; (b) any corporation, partnership, association or other entity organized therein ("domestic corporation"); and (c) any branch or office located therein of any other entity wherever organized. Credit extended to a foreign branch, office, subsidiary, affiliate or other foreign establishment ("foreign affiliate") controlled by one or more such domestic corporations will not be deemed to be credit extended to a United States resident if the proceeds will be used in its foreign business or that of other foreign affiliates of the controlling domestic corporation(s).

⁸ The branch may in good faith rely on the borrower's certification that the funds will be so used.

PRINTED IN NEW YORK

[Enc. Cir. No. 7825]