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Applicability of Regulation D, "Reserves of Member Banks," to Borrowings from Banks in Puerto Rico

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

It has come to our attention that some member banks and others may not be according proper treatment for reserve purposes under Regulation D to borrowings from banks or banking offices located outside the 50 States and the District of Columbia, and particularly those located in Puerto Rico. Such borrowings are generally subject to the reserve requirements set forth in Section 204.5(c) of the Supplement to Regulation D (currently at the rate of 4 percent), notwithstanding that the borrowings represent interbank transactions.

Under Regulation D, all borrowings from all banking offices of other banks where such offices are located outside the States of the United States and the District of Columbia are deemed to be "deposits" and therefore subject to reserve requirements, unless the borrowing is expressly covered by the limited exceptions of Section 204.1(f) of the Regulation. Whether reserves must be maintained against borrowings is determined without reference to the term used to describe them (such as "Federal funds").

For example, if a bank were to borrow funds from a bank or banking office located in Puerto Rico (other than the Government Development Bank of Puerto Rico), the first exemption in Section 204.1(f) of Regulation D (commonly referred to as the "bank-to-bank borrowing exemption") would not apply, since it is limited to borrowings from a "domestic banking office" which is defined in a footnote as, "Any banking office in any State of the United States or the District of Columbia organized under domestic or foreign law." Consequently, the "deposit" liability created would fall within the scope of Section 204.5(c) of the Supplement to the Regulation.

It should be noted that funds borrowed from foreign offices of other banks that are subject to the reserve requirements of Regulation D are not necessarily subject to Regulation Q, which contains a bank-to-bank borrowing exemption for all banks, both domestic and foreign. Furthermore, the applicability of reserve requirements should be considered as separate from any reporting procedures specified for balances due to or from banks in territories or insular possessions.

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It should be noted that the 4 percent reserve requirement of Section 204.5(c) of the Supplement applies to borrowed funds and not funds booked as deposits. Such deposits are subject to reserve requirements under Section 204.5(a).

Should there be any questions with regard to the provisions of Regulation D and the applicability of reserve requirements to a given transaction, please contact James McNeil (791-5914) of our Regulations Division. Any questions regarding the correct reporting of such transactions under the provisions of Regulation D should be directed to Frank Reischach (791-5250) of our Accounting Division.

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