

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 8253]
January 6, 1978]

AMENDMENT TO REGULATION D
Exemption From 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 D, "Reserves of Member Banks," to exempt from the definition of the term "deposit" a member bank's borrowings from a member bank headquartered outside the States of the United States or the District of Columbia. The effect of the Board's action is to exempt such borrowings from the reserve requirements of Regulation D.

A copy of the amendment, effective December 23, 1977, is enclosed. Questions regarding the amendment may be directed to our Regulations Division (Tel. No. 212-791-5914).

PAUL A. VOLCKER,
President.

Board of Governors of the Federal Reserve System
RESERVES OF MEMBER BANKS
AMENDMENT TO REGULATION D

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Final Rule.

SUMMARY: This rule amends Regulation D to exempt from the definition of the term deposit a member bank's borrowings from a member bank whose head office is located outside the United States.

EFFECTIVE DATE: Immediately [December 23, 1977].

FOR FURTHER INFORMATION, CONTACT: Allen L. Raiken, Assistant General Counsel, Legal Division, Board of Governors of the Federal Reserve System, Washington, D.C. 20551 (202/452-3625).

SUPPLEMENTARY INFORMATION: Section 204.1(f) of Regulation D provides that the term deposit includes a member bank's liability on any promissory note or similar obligation (written or oral) issued as a means of obtaining funds to be used in its banking business except any such obligation that is issued to and held for the account of a *domestic* banking office of another bank. The exemption for interbank borrowings is commonly referred to as the Federal funds exemption. A footnote contained in Regulation D provides that a *domestic* banking office is "any banking office in any State of the United States or the District of Columbia of a bank organized under domestic or foreign law." Consequently, a member bank's borrowings from another bank's banking office in one of the 50 States of the United States or the District of Columbia are not considered to be deposits and are, therefore, exempt from the reserve requirements imposed by Regulation D and interest rate restrictions of Regulation Q. Member bank borrowings from foreign offices of other banks are subject to a 4 per cent Euro-

dollar reserve requirement imposed by § 204.5(c) of Regulation D. Such borrowings are not, however, subject to Regulation Q.

The interbank borrowing (Federal funds) exemption provided for in Regulation D was adopted, in part, to facilitate reserve adjustments by member banks. Such borrowings have long been exempt from the Board's reserve requirements and interest rate limitations. The exemption also serves, in part, to avoid the maintenance of double reserves by member banks since the member bank selling the funds may already be maintaining reserves against them.

Section 19(h) of the Federal Reserve Act (12 U.S.C. § 466) provides that a national bank located in a dependency or insular possession of the United States may remain a non-member bank if it so desires. However, if such bank becomes a member of the Federal Reserve System, it is subject to all of the provisions of the Act, including the requirement of maintaining reserves against its deposits. Although a member bank headquartered outside the United States is required to maintain reserves against its deposits pursuant to Regulation D, under the current provisions of Regulation D borrowings by another member bank from such bank are also subject to reserve requirements.

In order to eliminate the possibility of double reserves being held by two separate member banks against such funds, the Board has determined that it is appropriate to amend Regulation D to exempt from deposit treatment, a member bank's borrowings from a member bank whose main office is located outside the States of the United States and the District of Columbia.

In view of the substantial public benefits that will result immediately from exempting member bank borrowings from member banks headquartered outside the United States, the Board

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For this Regulation to be complete, retain:

- 1) Regulation D pamphlet, effective November 9, 1972.
- 2) Amendments effective July 12, 1973, November 26, 1973, October 14, 1974, November 10, 1975, and July 26, 1976.
- 3) Supplement effective December 16, 1976.
- 4) This slip sheet.

has determined that the notice and public procedure provisions of 5 U.S.C. § 553(b) are unnecessary and contrary to the public interest. Since the Board's action grants an exemption to the provisions of Regulation D, the deferred effectiveness provisions of 5 U.S.C. § 553(d) are inapplicable.

Pursuant to section 19(a) of the Federal Reserve Act (12 U.S.C. § 461), effective immediately, section 204.1 of Regulation D (12 CFR 204.1) is amended to read as follows:

SECTION 204.1—DEFINITIONS

* * *

(f) *Deposits as including certain promissory notes and other obligations.* For the purposes of this Part, the term "deposits" also includes a member bank's liability on any promissory note, acknowledgement of

advance, due bill, banker's acceptance, or similar obligation (written or oral) that is issued or undertaken by a member bank as a means of obtaining funds to be used in its banking business, except any such obligation that:

(1) Is issued to (or undertaken with respect to) and held for the account of (i) a domestic banking office⁶ of another bank or (ii) an agency of the United States or the Government Development Bank for Puerto Rico;

* * *

⁶Any banking office (i) in any State of the United States or the District of Columbia of a bank organized under domestic or foreign law or (ii) of a member bank whose head office is located outside the States of the United States or the District of Columbia provided reserves are required to be maintained by such member bank under this Part against the deposit liabilities of such office.