

FEDERAL RESERVE BANK  
OF NEW YORK

[ Circular No. 8341 ]  
May 9, 1978

AMENDMENTS TO REGULATIONS D AND Q  
Exempting Treasury Funds in Member Banks  
From Reserve Requirements and Deposit Interest Rate Restrictions

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

The following statement was issued by the Board of Governors of the Federal Reserve System on May 1 in connection with amending its Regulation D, "Reserves of Member Banks," and Regulation Q, "Interest on Deposits":

The Board of Governors of the Federal Reserve System today amended two of its regulations to facilitate the participation of member banks in a newly announced Treasury program for the handling of its funds in commercial banks and other depositories.

The new Treasury Tax and Loan Investment Program is designed to permit the Treasury to earn interest on its funds in commercial banks. Previously, these funds (which can be withdrawn at any time by the Treasury) have been treated as demand deposits, which may earn no interest.

The Treasury Tax and Loan Investment Program will enable the Treasury to invest its non-interest-bearing funds in interest-bearing notes of commercial banks.

The Board has amended its rules to provide that such notes will not be regarded as deposits subject to Regulation D (reserve requirements) or to Regulation Q (interest on time and savings deposits).

The Board's action will be effective with the effective date of the Treasury's Tax and Loan Investment Program, July 6, 1978.

Enclosed are copies of the amendments to Regulations D and Q. Questions thereon may be directed to our Consumer Affairs and Bank Regulations Department (Tel. No. 212-791-5919).

PAUL A. VOLCKER,  
*President.*

Board of Governors of the Federal Reserve System

RESERVES OF MEMBER BANKS

AMENDMENT TO REGULATION D

(effective July 6, 1978)

*AGENCY:* Board of Governors of the Federal Reserve System.

*ACTION:* Final rule.

*SUMMARY:* The Board of Governors of the Federal Reserve System has amended § 204.1(f) (1) of Regulation D (12 CFR 204) and § 217.1(f) (1) of Regulation Q (12 CFR 217) to exempt from deposit treatment a member bank's liability on its promissory note that evidences an investment of funds by the United States Treasury. Consequently, these liabilities of member banks will not be subject to the reserve requirements and interest rate limitations imposed on member bank deposits.

*EFFECTIVE DATE:* July 6, 1978.

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

*SUPPLEMENTARY INFORMATION:* Regulations D and Q provide, in part, that a member bank's liability on its promissory note will not be considered a "deposit" of the member bank if the note is issued to a domestic banking office of another bank, an agency of the United States, or the Government Development Bank for Puerto Rico. Under the amendments adopted today, a note issued by a member bank to evidence an investment of funds by the United States Treasury will also be exempt from deposit treatment.

This action is taken in recognition of Public Law 95-147, which authorizes the Secretary of the Treasury to invest operating cash in obligations of depositaries maintaining Treasury tax and loan accounts. The Board of Governors believes that Congress intended that these member bank obligations be exempt from reserve requirements and interest rate limitations. Accordingly, the amendments approved

today will promote Congress' purpose in enacting this legislation to provide Treasury with a direct means of obtaining interest on its cash balances. The Treasury has issued rules regarding implementation of this legislation and it is intended that the Board's rules and the Treasury's rules take effect simultaneously on July 6, 1978.

It should be noted that these amendments do not affect the status of Treasury tax and loan accounts as demand deposit accounts. Funds placed in these accounts at member banks will retain their status as demand deposits until such time as they are remitted to the Treasury or until they are invested by Treasury in obligations of the depositaries pursuant to the rules adopted by Treasury. Until such time, member banks will be required to maintain reserves against the Treasury tax and loan demand deposits.

Because these amendments implement legislation enacted by Congress and augment rules published by Treasury, the Board believes that significant public benefits will immediately result from their adoption. The immediate adoption of the final rules will remove uncertainty concerning the deposit status of promissory notes issued to Treasury by member banks, and thus will permit banks to begin preparing immediately for participation in the Treasury program. Consequently, the Board has determined that notice and public participation with respect to these amendments is unnecessary and would be contrary to the public interest.

Pursuant to § 19(a) of the Federal Reserve Act (12 U.S.C. 461), effective July 6, 1978, § 204.1(f) of Regulation D (12 CFR 204) is amended to read as follows:

SECTION 204.1—DEFINITIONS

\* \* \*

(f) *Deposits as including certain promis-*

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.

*sory notes and other obligations.* For the purposes of this Part, the term "deposits" also includes a member bank's liability on any promissory note, acknowledgment 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 office<sup>6</sup> of another bank, or

(ii) the United States or an agency thereof, or the Government Development Bank for Puerto Rico;

\* \* \*

---

<sup>6</sup>Any 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.

# Board of Governors of the Federal Reserve System

## INTEREST ON DEPOSITS

### AMENDMENT TO REGULATION Q

(effective July 6, 1978)

**AGENCY:** Board of Governors of the Federal Reserve System.

**ACTION:** Final rule.

**SUMMARY:** The Board of Governors of the Federal Reserve System has amended § 204.1(f)(1) of Regulation D (12 CFR 204) and § 217.1(f)(1) of Regulation Q (12 CFR 217) to exempt from deposit treatment a member bank's liability on its promissory note that evidences an investment of funds by the United States Treasury. Consequently, these liabilities of member banks will not be subject to the reserve requirements and interest rate limitations imposed on member bank deposits.

**EFFECTIVE DATE:** July 6, 1978.

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

**SUPPLEMENTARY INFORMATION:** Regulations D and Q provide, in part, that a member bank's liability on its promissory note will not be considered a "deposit" of the member bank if the note is issued to a domestic banking office of another bank, an agency of the United States, or the Government Development Bank for Puerto Rico. Under the amendments adopted today, a note issued by a member bank to evidence an investment of funds by the United States Treasury will also be exempt from deposit treatment.

This action is taken in recognition of Public Law 95-147, which authorizes the Secretary of the Treasury to invest operating cash in obligations of depositories maintaining Treasury tax and loan accounts. The Board of Governors believes that Congress intended that these member bank obligations be exempt from reserve requirements and interest rate limitations. Accordingly, the amendments approved

today will promote Congress' purpose in enacting this legislation to provide Treasury with a direct means of obtaining interest on its cash balances. The Treasury has issued rules regarding implementation of this legislation and it is intended that the Board's rules and the Treasury's rules take effect simultaneously on July 6, 1978.

It should be noted that these amendments do not affect the status of Treasury tax and loan accounts as demand deposit accounts. Funds placed in these accounts at member banks will retain their status as demand deposits until such time as they are remitted to the Treasury or until they are invested by Treasury in obligations of the depositories pursuant to the rules adopted by Treasury. Until such time, member banks will be required to maintain reserves against the Treasury tax and loan demand deposits.

Because these amendments implement legislation enacted by Congress and augment rules published by Treasury, the Board believes that significant public benefits will immediately result from their adoption. The immediate adoption of the final rules will remove uncertainty concerning the deposit status of promissory notes issued to Treasury by member banks, and thus will permit banks to begin preparing immediately for participation in the Treasury program. Consequently, the Board has determined that notice and public participation with respect to these amendments is unnecessary and would be contrary to the public interest.

Pursuant to § 19(a) of the Federal Reserve Act (12 U.S.C. 461), effective July 6, 1978, § 217.1(f) of Regulation Q (12 CFR 217) is amended to read as follows:

#### SECTION 217.1—DEFINITIONS

\* \* \*

(f) *Deposits as including certain promissory notes and other obligations.* For the purposes

For this Regulation to be complete, retain:

- 1) Regulation Q pamphlet, effective December 4, 1975.
- 2) Amendments effective March 1, 1976, July 26, 1976, November 8, 1976, March 24, 1977, July 6, 1977, November 23, 1977, December 1, 1977, and November 1, 1978.
- 3) Supplement effective December 4, 1975.
- 4) This slip sheet.

of this Part, the term "deposits" also includes any member bank's liability on any promissory note, acknowledgment of advance, due bill, or similar obligation (written or oral) that is issued or undertaken by a member bank principally 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 bank or an institution the time deposits of which are exempt from § 217.7 pursuant to § 217.3(g), or (ii) the United States or an agency thereof, or the Government Development Bank for Puerto Rico;

\* \* \*