

**FEDERAL RESERVE BANK
OF NEW YORK**

[Circular No. 8412]
August 30, 1978

AMENDMENTS TO REGULATIONS D AND M

**Reduction in Reserve Requirements on Foreign Borrowings of Member Banks
and on Foreign Branch Loans to U.S. Borrowers**

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

Following is the text of a statement issued by the Board of Governors of the Federal Reserve System, announcing a reduction in reserve requirements on foreign borrowings of member banks and on loans to U.S. borrowers by foreign branches of member banks:

In a further move to improve the international position of the dollar, the Federal Reserve Board today [August 28] announced a change in reserve requirements to make it more attractive for member banks to borrow funds in the Eurodollar market.

The change was the second move announced by the Board within the past 10 days to improve conditions in the foreign exchange markets.

On August 18, the Board announced an increase in the discount rate from $7\frac{1}{4}$ to $7\frac{3}{4}$ per cent in view of disorderly conditions that prevailed earlier this month in foreign exchange markets as well as the continuing serious domestic inflationary problem.

Today's action involves a reduction from 4 per cent to zero in the reserve requirement on foreign borrowings of member banks, primarily Eurodollars, from their foreign branches and other foreign banks. The 1 per cent reserve ratio on foreign branch loans to U. S. borrowers was also reduced to zero.

Also affected by today's decision are U.S. offices of foreign-owned banking institutions that have voluntarily maintained reserves on increases in net foreign borrowings since mid-1973.

The effect of the reserve reduction is intended to encourage member banks to substitute Eurodollar borrowings for domestic borrowings as a source of funds. Such increased Eurodollar borrowings should improve the demand in Euromarkets for dollar-denominated assets.

In taking the action, the Board re-emphasized the importance of U.S. banks complying with its previous requests not to solicit or encourage deposits by U.S. residents at their foreign branches unless such deposits serve a definite international purpose.

The reduction in reserve requirements will be effective with borrowings during the four-week computation period that began August 24.

Enclosed are copies of the amendments to Regulation D, "Reserves of Member Banks," and Regulation M, "Foreign Activities of National Banks," reflecting the Board of Governors' action.

The reserve requirement reduction will apply to borrowings during the four-week computation period beginning August 24, 1978, and will affect reserves required to be maintained beginning October 5, 1978. Although the Board of Governors' action reduces the reserve requirement percentages against Eurodollars to zero, member banks that either have maintained reserves on Eurodollars in prior periods or will engage in these types of transactions in the future will continue to be required to submit reports on their Eurodollar holdings. Banks must report net balances due to their own foreign branches even when those amounts are negative.

The program whereby U. S. offices of foreign banks have voluntarily maintained reserves on increases in net foreign borrowings is being abolished. It is no longer necessary for these institutions to continue to provide data on these borrowings.

Questions regarding these matters may be directed to our Consumer Affairs and Bank Regulations Department (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

(effective October 5, 1978)

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Final Rule.

SUMMARY: The Board has amended its regulations to lower to zero percent the reserve requirement percentage that member banks must maintain against their Eurodollar borrowings. The amendments are being adopted in order to encourage member banks to borrow in the Eurodollar market as a substitute for domestic borrowings as a source of funds, thereby improving the demand in Euromarkets for dollar-denominated assets.

DATE: Effective October 5, 1978.

FOR FURTHER INFORMATION, CONTACT: Robert F. Gemmill, Associate Director, Division of International Finance, Board of Governors of the Federal Reserve System, Washington, D.C. 20551 (202/452-3733).

SUPPLEMENTARY INFORMATION: In accordance with the Board's Regulations D and M, member banks of the Federal Reserve System currently are required to maintain a four percent reserve requirement against their deposits represented by their borrowings from foreign offices of other banks and institutions that are exempt from interest rate limitations pursuant to § 217.3(g) of the Board's Regulation Q. In addition, member banks that have one or more foreign branches are required to maintain a reserve requirement equal to four percent of the daily average total of net balances due to their foreign branches and assets held by their foreign branches that were acquired from the member banks' domestic offices. With certain exceptions, member banks also are required to maintain a reserve requirement equal to one percent of the daily average credit outstanding from their foreign branches to United States residents. The Board has determined to reduce these reserve requirement percentages to zero percent in view of the conditions prevailing in foreign exchange markets.

The reduction in Eurodollar reserve requirements is being made in view of recent dis-

orderly conditions in foreign exchange markets and their effects on the domestic economy. The purpose of the reduction in the reserve requirement percentages is to encourage member banks to substitute Eurodollar borrowings for domestic borrowings as a source of funds, thereby improving the demand in Euromarkets for dollar-denominated assets.

Currently, under Regulations D and M, member banks maintain Eurodollar reserves during a four-week maintenance period based on Eurodollar deposits outstanding during the four-week computation period ending on the Wednesday fifteen days previous. Consequently, the reserve reduction will apply to Eurodollar deposits outstanding during the four-week computation period beginning August 24, 1978, and will affect reserves required to be maintained beginning October 5, 1978. Although the Board's action reduces the reserve requirement percentages against Eurodollar deposits to zero, member banks will continue to be required to submit reports on their Eurodollar holdings.

The reserve requirement reduction also applies to United States offices of foreign owned banking institutions that voluntarily have maintained reserves on increases in net foreign borrowings since 1973.

The Board re-emphasizes the importance of compliance by United States banks with the Board's previous requests not to solicit or encourage deposits by United States residents at their foreign branches unless such deposits serve to facilitate a definite international purpose.

In view of the current conditions in foreign exchange markets, the Board for good cause finds that the notice and public procedure provisions of 5 U.S.C. § 553(b) with regard to the Board's action are impracticable and contrary to the public interest. This action is taken pursuant to the Board's authority under §§ 19 and 25 of the Federal Reserve Act (12 U.S.C. §§ 461, 601).

Effective October 5, 1978, § 204.5(c) of Regulation D (12 CFR 204.5(c)) is amended by substituting the word "zero" for the number "4" that appears immediately before the term "per cent."

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, July 26, 1976, and July 6, 1978.
- 3) Supplement effective December 16, 1976.
- 4) This slip sheet.

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Board of Governors of the Federal Reserve System

FOREIGN ACTIVITIES OF
NATIONAL BANKS

AMENDMENT TO REGULATION M

(effective October 5, 1978)

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Final Rule.

SUMMARY: The Board has amended its regulations to lower to zero percent the reserve requirement percentage that member banks must maintain against their Eurodollar borrowings. The amendments are being adopted in order to encourage member banks to borrow in the Eurodollar market as a substitute for domestic borrowings as a source of funds, thereby improving the demand in Euromarkets for dollar-denominated assets.

DATE: Effective October 5, 1978.

FOR FURTHER INFORMATION, CONTACT: Robert F. Gemmill, Associate Director, Division of International Finance, Board of Governors of the Federal Reserve System, Washington, D.C. (202/452-3733).

SUPPLEMENTARY INFORMATION: In accordance with the Board's Regulations D and M, member banks of the Federal Reserve System currently are required to maintain a four percent reserve requirement against their deposits represented by their borrowings from foreign offices of other banks and institutions that are exempt from interest rate limitations pursuant to § 217.3(g) of the Board's Regulation Q. In addition, member banks that have one or more foreign branches are required to maintain a reserve requirement equal to four percent of the daily average total of net balances due to their foreign branches and assets held by their foreign branches that were acquired from the member banks' domestic offices. With certain exceptions, member banks also are required to maintain a reserve requirement equal to one percent of the daily average credit outstanding from their foreign branches to United States residents. The Board has determined to reduce these reserve requirement percentages to zero percent in view of the conditions prevailing in foreign exchange markets.

The reduction in Eurodollar reserve requirements is being made in view of recent disorderly conditions in foreign exchange markets and their effects on the domestic economy. The pur-

pose of the reduction in the reserve requirement percentages is to encourage member banks to substitute Eurodollar borrowings for domestic borrowings as a source of funds, thereby improving the demand in Euromarkets for dollar-denominated assets.

Currently, under Regulations D and M, member banks maintain Eurodollar reserves during a four-week maintenance period based on Eurodollar deposits outstanding during the four-week computation period ending on the Wednesday fifteen days previous. Consequently, the reserve reduction will apply to Eurodollar deposits outstanding during the four-week computation period beginning August 24, 1978, and will affect reserves required to be maintained beginning October 5, 1978. Although the Board's action reduces the reserve requirement percentages against Eurodollar deposits to zero, member banks will continue to be required to submit reports on their Eurodollar holdings.

The reserve requirement reduction also applies to United States offices of foreign owned banking institutions that voluntarily have maintained reserves on increases in net foreign borrowings since 1973.

The Board re-emphasizes the importance of compliance by United States banks with the Board's previous requests not to solicit or encourage deposits by United States residents at their foreign branches unless such deposits serve to facilitate a definite international purpose.

In view of the current conditions in foreign exchange markets, the Board for good cause finds that the notice and public procedure provisions of 5 U.S.C. § 553(b) with regard to the Board's action are impracticable and contrary to the public interest. This action is taken pursuant to the Board's authority under §§ 19 and 25 of the Federal Reserve Act (12 U.S.C. §§ 461, 601).

Effective October 5, 1978, § 213.7(a) of Regulation M (12 CFR 213.7(a)) is amended by substituting the word "zero" for the number "4" that appears immediately before the term "per cent," and § 213.7(b) of Regulation M (12 CFR 213.7(b)) is amended by substituting the word "zero" for the word "one" that appears immediately before the term "per cent."

For this Regulation to be complete, retain:

- 1) Regulation M pamphlet, effective January 7, 1971.
- 2) Amendments effective May 22, 1975, August 25, 1975, February 6, 1976, and December 1, 1977.
- 3) This slip sheet.

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