

FEDERAL RESERVE BANK  
OF NEW YORK

[Circular No. 8558]  
April 20, 1979

PROPOSED AMENDMENT TO REGULATION D

Comments Invited on a Proposal to Apply 3 Per Cent Reserve  
Requirement on Certain Types of Borrowings

*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:

The Federal Reserve Board today [April 13] invited public comment on a proposed restructuring of reserve requirements designed to establish more effective control over growth of bank credit.

Comment was requested by May 18 on a proposal to apply a 3 per cent reserve requirement on certain types of borrowings through repurchase agreements and federal funds that banks have used increasingly to help finance the expansion of their loans and investments. This area has been under study and discussion by the Board for some time.

Specifically, the new 3 per cent reserve would apply to repurchase agreements on U.S. Government and Federal agency securities made by member banks or Edge Corporations with any lenders except those whose deposits are subject to reserve requirements set by the Federal Reserve. The 3 per cent reserve on federal funds would apply to borrowings from any eligible lender with the same exceptions.

At present, these types of borrowings by member banks are not subject to reserve requirements. Under the Board's proposal, the only types of RPs and federal funds borrowings that would not be subject to reserve requirements would be borrowings from a member bank, a U.S. branch or agency of a foreign bank, or an Edge Corporation (a corporation chartered by the Board to do a foreign lending business).

A repurchase agreement involves the simultaneous sale and agreement to repurchase a financial asset at a specified price. The difference between the sale and repurchase price represents interest on the transaction. Repurchase agreements made with non-bank customers on assets other than U.S. Government and Federal agency securities have been subject to reserve requirements since 1969.

Federal funds historically were reserves that member banks lent to each other on an overnight basis. They now include certain borrowings by a commercial bank from a specified group of financial institutions and Federal agencies.

In making its announcement, the Board also proposed making credit unions eligible as lenders in the federal funds market. Such borrowings by member banks from a credit union would be subject to the proposed 3 per cent reserve requirement. Presently, eligible federal funds lenders include commercial banks, savings banks, savings and loan associations, cooperative banks, any Federal agency, or U.S. branch or agency of a foreign bank. They also include many types of bank subsidiaries.

About 20 per cent of the growth in commercial bank credit in the last six months was financed from repurchase agreements and federal funds borrowings. As of the end of March, the total amount of RP liabilities of member banks to lenders other than member banks, Edge Corporations and U.S. branches and agencies of foreign banks was estimated at \$42 billion. Federal funds purchased from the same set of lenders was estimated at \$23 billion. This represented a significant increase over March of 1975 when RPs of this type were estimated at \$13 billion and federal funds at \$10 billion.

Under the proposal announced today, member banks, in calculating their required reserves, could subtract from RPs the amount of U.S. Government and Federal agency securities that they hold in trading accounts. The trading account represents the securities which commercial banks hold for their "dealer" transactions—that is, they are purchased with the intention that they will be resold rather than held as an investment.

This exclusion from the proposed reserve requirement is necessary to provide competitive equality among

bank and non-bank dealers in the government securities markets, since non-bank dealers typically finance a large portion of inventories with repurchase instruments.

Printed below is the text of the proposed amendment to Regulation D. Comments should be submitted by May 18, and may be sent to our Consumer Affairs and Bank Regulations Department.

PAUL A. VOLCKER,  
*President.*

## RESERVES OF MEMBER BANKS

[Regulation D; Docket No. R-0218]

### Reserve Requirements on Federal Funds and Repurchase Agreement Time Deposits

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

*ACTION:* Proposed Rule.

*SUMMARY:* The Board proposes to restructure its reserve requirements as applied to certain borrowings by member banks. Under the proposed restructuring, member banks would be required to maintain a 3 per cent reserve against borrowings from domestic offices of nonmember banks and other depository institutions whose liabilities are not subject to reserve requirements and from the United States government (and its agencies), as well as a 3 per cent reserve against certain repurchase agreements on U.S. government and agency securities. Currently, such liabilities are exempt from the Board's reserve requirements.

*DATE:* Comments must be received by May 18, 1979.

*ADDRESS:* Comments should be addressed to Theodore E. Allison, Secretary of the Board, Board of Governors of the Federal Reserve System, Washington, D.C. 20551. Comments should contain Docket No. R-0218.

*FOR FURTHER INFORMATION CONTACT:* Allen L. Raiken, Associate General Counsel, Legal Division (202-452-3625), or Gilbert T. Schwartz, Assistant General Counsel, Legal Division (202-452-3623), Board of Governors of the Federal Reserve System.

*SUPPLEMENTARY INFORMATION:* The Board of Governors proposes to amend its Regulation D, Reserves of Member Banks (12 CFR 204) to restructure reserve requirements as applied to certain borrowings and repurchase agreements entered into by member banks.

Currently, borrowings by member banks from domestic offices of other banks are not defined as deposits and are not subject to reserve requirements. Also, borrowings by member banks from the United States government (principally in the form of Treasury tax and loan account note balances) and its agencies have not been regarded as deposits subject to reserve requirements. Under the Board's proposal, member bank borrowings from the domestic offices of other banks whose liabilities are not subject to reserve requirements and from the U.S. government and its agencies would be treated as a new category of time deposit subject to a 3 per cent reserve requirement.

The term "bank" has been regarded as including commercial banks, savings banks, savings and loan associations, cooperative banks, the Export-Import Bank, and Minbanc Capital Corporation (See 12 CFR 217.137). For purposes of reserve requirements (and interest rate restrictions) it is also proposed that the term "bank" be expanded to include credit unions. Member bank borrowings from domestic offices of other member banks or other organizations that are or may be required by the Board to maintain reserves and from Federal Reserve Banks would continue to be exempt from reserve requirements. The institutions that currently are subject to reserve requirements include Edge Corporations (12 U.S.C. 615), Agreement Corporations (12 U.S.C. 601-604a), and operations subsidiaries of member banks (12 CFR 204.117). In addition, pursuant to § 7 of the International Banking Act of 1978 (Pub. L. 95-369), the Board may subject U.S. branches and agencies of foreign banks to reserve requirements. The exemption is believed appropriate to facilitate the reserve adjustment process of member banks and to avoid the possibility of imposing double reserve requirements on liabilities that already may be subject to reserve requirements.

The Board's proposal would also affect member bank borrowings in the form of repurchase agreements based on U.S. government and agency securities. Currently, such repurchase agreements entered into by a member bank with any entity are not deposits and are not subject to reserve requirements. Under the Board's proposal, such obligations would be regarded as deposits and would be subject to a 3 per cent reserve requirement. However, repurchase agreements entered into by a member bank with domestic banking offices of other member banks or organizations subject to reserve requirements and with the Federal Reserve System would continue to be exempt from reserve requirements.

In order to continue to facilitate the activities of member bank dealers in the U.S. government and agency securities markets, and to provide competitive equality between bank and nonbank dealers the Board's proposal would regard repurchase agreements entered into with institutions not subject to reserve requirements as time deposits only when the amount of such repurchase agreements exceeds the amount of U.S. government and agency securities held by the member bank in its own trading account. A member bank's trading account represents the U.S. and agency securities that it holds for its dealer transactions—i.e., securities are purchased with the intention that they will be resold

rather than held as an investment. Public comment is requested on appropriate limitations on, or other descriptions of, member bank trading accounts.

It is also proposed that the 3 percent reserve requirement apply to any obligation that arises from a borrowing by a member bank for one business day from a dealer in securities whose liabilities are not subject to the reserve requirements of the Federal Reserve Act of proceeds of a transfer of deposit credit in a Federal Reserve Bank (or other immediately available funds), received by such dealer on the date of the loan in connection with clearance of securities transactions.

The proposed actions are designed to establish more effective control over growth of bank credit. Approximately 20 per cent of the growth in commercial bank credit during the past six months has been financed by exempt borrowings in the form of Federal funds and repurchase agreements on U.S. government and agency securities. It is anticipated that the proposed reserve requirements would moderate the growth of commercial bank credit financed through the issuance of these types of bank liabilities.

All comments and information on this proposal should be submitted in writing to Theodore E. Allison, Secretary of the Board of Governors of the Federal Reserve System, Washington, D.C. 20551, to be received by May 18, 1979. All material submitted should include the Docket Number R-0218. Such material will be made available for inspection and copying upon request except as provided in section 261.6(a) of the Board's Rules Regarding Availability of Information (12 CFR 261.6(a)).

Pursuant to its authority under section 19 of the Federal Reserve Act (12 U.S.C. 461) to define the term deposit and to prescribe reserve ratios for member banks, the Board amends Regulation D (12 CFR 204) as follows:

1. Section 204.1 is amended to read as follows:

#### SECTION 204.1—DEFINITIONS

\* \* \*

(b) **Time deposits.** The term "time deposits" means "time certificates of deposit," "time deposits, open account," and "savings deposit," as defined below; except that for the purposes of § 204.5(b) "time deposits" shall have the meaning set forth therein.

\* \* \*

(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, acknowledgment of advance, due bill, bankers' acceptance, repurchase agreement, 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> or agency of another member bank or other organization whose liabilities are or may be subject to the reserve requirements of the Federal Reserve Act<sup>6a</sup> or (ii) a Federal Reserve Bank;

(2) is a repurchase agreement arising from a transfer of direct obligations of, or obligations that are fully guaranteed as to principal and interest by, the United States or any agency thereof (except any obligation that is issued to a domestic banking office or agency of another member bank or other organization whose liabilities are or may be subject to the reserve requirements of the Federal Reserve Act<sup>6a</sup> or to a Federal Reserve Bank) to the extent that the amount of such repurchase agreements does not exceed the total amount of United States and agency securities held by the member bank in its trading account;

\* \* \*

2. Section 204.1(f) is amended by deleting subparagraph (4) and renumbering subparagraph (5) as subparagraph (4).

3. Section 204.5 [*Supplement to Regulation D*] is amended to read as follows:

#### SECTION 204.5—RESERVE REQUIREMENTS

(a) **Reserve percentage.** Pursuant to the provisions of section 19 of the Federal Reserve Act and § 204.2(a) and subject to paragraphs (b) through (e) of this section,\*\*\*

\* \* \*

(b) **Reserve percentages against Federal funds and repurchase time deposits.** Deposits represented by the following shall be "time deposits," upon which a member bank shall maintain reserve balances of 3 per cent in accordance with § 204.2 and 204.3:

(1) any deposit described in § 204.1(f) with a maturity of one day or more (including deposits subject to withdrawal after one or more day's notice) in the form of a promissory note, acknowledgement of advance, due bill, bankers' acceptance, repurchase agreement, or similar obligation (written or oral) issued to and held for the account of a domestic banking office or agency

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<sup>6a</sup> Liabilities of Edge Corporations, Agreement Corporations, and operations subsidiaries of member banks are subject to reserve requirements of the Federal Reserve Act. As specified by the International Banking Act of 1978, liabilities of U.S. branches or agencies of foreign banks may be subject to reserve requirements of the Federal Reserve Act.

of another commercial bank or trust company, a savings bank (mutual or stock), a building or savings and loan association, a cooperative bank, a credit union, or the United States or an agency thereof, the Export-Import Bank of the United States, and Minbanc Capital Corporation;

(2) any deposit described in § 204.1(f) that is a repurchase agreement arising from a transfer of direct obligations of, or obligations that are fully guaranteed as to principal and interest, by the United States or any agency thereof that the member bank is obligated to repurchase; or

(3) any obligation that arises from a borrowing by a member bank from a dealer in securities that is not a

member bank or other organization whose liabilities are or may be subject to the reserve requirements of the Federal Reserve Act, for one business day, of proceeds of a transfer of deposit credit in a Federal Reserve Bank (or other immediately available funds), received by such dealer on the date of the loan in connection with clearance of securities transactions.

\* \* \*

(f) **Currency and coin.** The amount of a member bank's currency and coin shall be counted as reserves in determining compliance with the reserve requirements of this section.

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