

**FEDERAL RESERVE BANK
OF NEW YORK**

Circular No. 8665
October 23, 1979

**INTERPRETATION OF REGULATIONS Q AND D
Borrowing of Federal Funds from Credit Unions**

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

The Board of Governors of the Federal Reserve System has modified an existing interpretation of its Regulation Q to provide that purchases of Federal funds from a credit union are not considered "deposits" and accordingly are not subject to the restrictions of Regulation Q. This modification also applies to the definition of "deposit" for the purposes of the basic reserve requirements of Regulation D.

Enclosed is a copy of the interpretation. Questions regarding this matter may be directed to our Consumer Affairs and Bank Regulations Department (Tel. No. 212-791-5914).

THOMAS M. TIMLEN,
First Vice President.

TITLE 12 -- BANKS AND BANKING

CHAPTER II -- FEDERAL RESERVE SYSTEM

SUBCHAPTER A -- BOARD OF GOVERNORS OF THE FEDERAL
RESERVE SYSTEM

[Regulation Q]

(Docket No. R-0218)

Member Bank Participation in "Federal Funds" Market

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Final interpretation.

SUMMARY: The Board of Governors has modified an existing interpretation of Regulation Q concerning the Federal funds market to include credit unions within the category of institutions from whom member banks may borrow Federal funds.

EFFECTIVE DATE: Immediately.

FOR FURTHER INFORMATION CONTACT: Gilbert T. Schwartz, Assistant General Counsel (202/452-3623), or Paul S. Pilecki, Attorney (202/452-3281), Legal Division, Board of Governors of the Federal Reserve System, Washington, D. C. 20551.

SUPPLEMENTARY INFORMATION: On April 13, 1979, the Board solicited public comment (44 Fed. Reg. 23867) on a proposal to apply reserve requirements to certain member bank Federal funds borrowings and to certain repurchase agreements entered into by member banks. The Board also proposed that the term "bank" be expanded to include credit unions. The Board has determined that credit unions should be included within the category of institutions from whom member banks may borrow Federal funds. It should be noted that member bank borrowings from credit unions in the form of Federal funds are managed liabilities that may be subject to marginal reserve requirements (12 CFR 204.5(f) as amended effective October 6, 1979). Effective immediately, 12 CFR 217.137 is amended by deleting the first paragraph and adding a new first paragraph as follows:

217.137 Member bank participation in "Federal funds" market:

Since the adoption of section 217.1(f) in 1966, an exemption from Regulation Q has existed for member bank obligations in nondeposit form to another bank. As used in such exemption, "bank" includes a member bank, a nonmember commercial bank, a savings bank (mutual or stock), a building or savings and loan association or cooperative bank,

the Export-Import Bank of the United States, Minbanc Capital Corp., a foreign bank, or a credit union. It also includes bank subsidiaries that engage in business in which their parents are authorized to engage and subsidiaries the stock of which is by statute explicitly eligible for purchase by national banks. These institutions are considered to be "banks" also for the purposes of Regulation D (12 CFR 204). * * *

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This action is taken pursuant to the Board's authority under section 19(a) of the Federal Reserve Act (12 U.S.C. § 461) to determine what types of obligations issued by a member bank shall be deemed a deposit.

By order of the Board of Governors, October 6, 1979.

(signed) Theodore E. Allison

Theodore E. Allison
Secretary of the Board

[SEAL]