

FEDERAL RESERVE BANK  
OF NEW YORK

[Circular No. 8948]  
November 10, 1980]

AMENDMENTS TO REGULATION D

- Clarification of the Definition of Eurocurrency Liabilities
- Deferral of Reserve Reporting Requirements for Certain Depository Institutions
- Quarterly Reporting for Certain Depository Institutions
- Simplification of the Calculation of Reserve Requirements for Institutions Involved in Mergers
- Correction of Supplement to Regulation D

REGULATION Q

- Amendments Regarding 14-Day Minimum Maturity of Time Deposits
- Interpretation Providing that Certain Fixed Rate Obligations of Bank Holding Companies Are Not Subject to Interest Rate Ceilings

To All Depository Institutions  
in the Second Federal Reserve District:

As previously announced, the Board of Governors of the Federal Reserve System has amended its Regulation D, "Reserve Requirements of Depository Institutions," effective November 13, 1980, in order to (1) extend the special rule allowing for quarterly, rather than weekly, reporting to depository institutions that have total deposits between \$2 million and \$15 million, (2) defer until May 1981 the reporting and reserve maintenance requirements for nonmember depository institutions with less than \$2 million in total deposits, and (3) simplify the method of calculating reserve requirements where member and nonmember banks are involved in mergers so that the requirements will be calculated in the same manner regardless of whether the surviving institution is a member or nonmember bank. In addition, the Board of Governors has adopted a technical amendment to Regulation D that will serve to clarify the definition of "Eurocurrency liabilities."

Enclosed is a copy of the text of the amendments to Regulation D, which have been reprinted from the *Federal Register* of November 4, 1980.

Also enclosed are (1) amendments to Regulation Q, "Interest on Deposits," effective October 30, 1980, designed to permit member banks to pay interest on time deposits with maturities or required notice periods of 14 days or more; (2) an interpretation of Regulation Q providing that certain *fixed rate* obligations issued by bank holding companies are not subject to interest rate ceilings; and (3) a corrected copy of the Supplement to Regulation D.

(OVER)



Questions regarding the amendments to Regulation D or other matters relating to that regulation, reserve maintenance, or reporting requirements should be directed to the following:

**Reporting Requirements**

Richard J. Gelson, Assistant Vice President	(212) 791-7904
Patricia H. Kuwayama, Manager, Statistics Department	(212) 791-6625
Nancy Bercovici, Chief, Domestic Reports Division	(212) 791-5794

**Reserve Maintenance and Pass-Through Procedures**

Thomas J. Campbell, Accounting Officer	(212) 791-7769
Jane L. Katz, Chief, Accounting Control Division	(212) 791-5250
Patricia Lupack, Assistant Chief, Accounting Control Division	(212) 791-5249
Robert J. McDonnell, Operations Officer (Buffalo Branch)	(716) 849-5022

**Interpretation of Regulation D**

Bradley K. Sabel, Assistant Counsel	(212) 791-5033
Raleigh M. Tozer, Senior Attorney	(212) 791-5009
Joyce E. Motylewski, Attorney	(212) 791-5037

Questions regarding Regulation Q may be directed to our Regulations Division (Tel. No. 212-791-5914).

ANTHONY M. SOLOMON,  
*President.*



# Board of Governors of the Federal Reserve System

## RESERVE REQUIREMENTS OF DEPOSITORY INSTITUTIONS

### AMENDMENTS TO REGULATION D

#### FEDERAL RESERVE SYSTEM

##### 12 CFR Part 204

[Docket R-0331; Reg. D]

#### Reserve Requirements of Depository Institutions

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

**ACTION:** Final rule and technical amendments.

**SUMMARY:** The Board of Governors has amended Regulation D—Reserve Requirements of Depository Institutions (12 CFR Part 204) to: (1) extend the special rule regarding quarterly reporting to apply to all depository institutions that have total deposits of less than \$15 million (As originally adopted, quarterly reporting was limited to depository institutions with total deposits of less than \$5 million); (2) defer until May 1981 the reporting and reserve maintenance requirements for nonmember depository institutions with less than \$2 million in total deposits; and (3) simplify the method of calculation of reserve requirements where member and nonmember institutions are involved in mergers so that reserves of the surviving institutions are calculated by allocating its deposits according to the relative deposit size and structure of the institutions involved in the merger on a proportional basis without regard to whether the surviving institution is a member or a nonmember.

In addition, a technical amendment has been adopted to clarify that the definition of "Eurocurrency liabilities" (1) includes sales of assets by depository institutions in the United States to their overseas offices that occurred only after October 6, 1979, and (2) with respect to a U.S. branch or agency of a foreign bank, does not include assets sold by its affiliated Edge or Agreement Corporations to its foreign bank (including offices thereof located outside the United States) or its parent holding company, but does include assets sold by the U.S. branch or agency

to the non-U.S. offices of an affiliated Edge or Agreement Corporation.

**EFFECTIVE DATE:** November 13, 1980.

#### FOR FURTHER INFORMATION CONTACT:

Gilbert T. Schwartz, Assistant General Counsel (202/452-3625), Paul S. Pilecki, Attorney (202/452-3281) or Paige Winebarger, Attorney (202/452-3265), Legal Division, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

**SUPPLEMENTARY INFORMATION:** The Monetary Control Act of 1980 (Title I of Pub. L. 96-221) ("Act") authorizes the Federal Reserve to impose reserve requirements solely for the purpose of conducting monetary policy on all depository institutions that maintain transaction accounts or nonpersonal time deposits. Depository institutions subject to reserve requirements include any Federally-insured commercial or savings bank, or any such bank that is eligible to become insured by the Federal Deposit Insurance Corporation; any mutual or stock savings bank; any savings and loan association that is a member of a Federal Home Loan Bank, insured by, or eligible to apply for insurance with, the Federal Savings and Loan Insurance Corporation; and any credit union that is insured by, or eligible to apply for insurance with, the National Credit Union Administration Board. The reserve requirements of the Act also will apply to United States branches of foreign banks, to United States agencies of foreign banks with total worldwide consolidated bank assets in excess of \$1 billion, and to Edge and Agreement Corporations.

On August 15, 1980, the Board announced a revised Regulation D—Reserve Requirements of Depository Institutions (12 CFR Part 204; 45 FR 56009), to become effective on November 13, 1980, implementing the reserve requirement provisions of the Act. In order to facilitate the implementation of reserve requirements, the Board has amended the regulation in the areas of quarterly reporting by smaller depository institutions and reserve requirement treatment of depository institutions involved in mergers. In addition, the Board has announced a technical amendment clarifying the definition of "Eurocurrency liabilities" concerning

sales of assets by depository institutions located in the United States to their overseas offices.

#### Quarterly Reporting for Certain Depository Institutions

In an effort to reduce the reporting and reserve management burden of very small depository institutions and to reduce the reserve requirement processing burden of the Reserve Banks, the Board established in August a procedure of quarterly reporting for depository institutions with total deposits of less than \$5 million. In addition, the Board deferred reserve requirements of institutions that have less than \$1 million in total deposits as of December 31, 1979, until May 1981.

Since that time, the Federal Reserve, through numerous contacts with depository institutions and from analysis of more recent data, has determined that simplified reporting procedures could be adopted for a larger number of institutions without substantial effect on the System's ability to conduct monetary policy. Accordingly, the Board has expanded the quarterly reporting procedure to apply to all depository institutions with less than \$15 million in total deposits and to defer all reserve maintenance and reporting requirements for nonmember depository institutions with less than \$2 million in total deposits as of December 31, 1979. Nonmember institutions with less than \$2 million in deposits will be exempt from quarterly reporting and reserve maintenance until May 1981, at which time the Board will determine whether a further delay is warranted.

Under the procedure of quarterly reporting, depository institutions with total deposits of less than \$15 million as of December 31, 1979, will complete and file the Report of Transaction Accounts, Other Deposits and Vault Cash (FR 2900) with the Federal Reserve for a 7-day computation period only once during each calendar quarter and maintain reserves over a subsequent three-month period based on the report filed. Quarterly reporting will be staggered so that each month one-third of all quarterly reporters will report data for one week. Reserves will be maintained during a period beginning



two weeks after the start of the computation period and ending one week after the end of the institution's next computation period. Balances to be held at the Federal Reserve over the three-month maintenance period, either directly or indirectly on a pass-through basis, will equal required reserves based on the deposit report for one week less vault cash held during the seven-day reporting period. An institution will remain eligible for quarterly reporting until its total deposits are \$15 million or more for two consecutive quarterly reports. Depository institutions eligible for quarterly reporting and reserve maintenance would retain the option of reporting and maintaining required reserves on a weekly rather than a quarterly basis.

The quarterly reporting system will commence in January 1981. Member banks with total deposits under \$15 million will continue to report deposits and maintain reserves on a weekly basis until that time. Eligible nonmember institutions will not be required to report or maintain reserves until the quarterly procedure begins. It should be noted that Edge and Agreement Corporations and U.S. branches and agencies of foreign banks will not be eligible for quarterly reporting and reserve maintenance. Rather, all such institutions will—regardless of size—be required to report and to maintain reserves on a weekly basis.

#### **Reserve Requirement Treatment of Institutions Involved in Mergers**

Under section 19(b)(8)(D) of the Federal Reserve Act (12 U.S.C. § 461(b)(8)(D)), as amended by the Monetary Control Act of 1980 (Title I of Pub. L. 96-221), any bank that was a member bank on or after July 1, 1979, but which subsequently withdraws from membership in the Federal Reserve System shall maintain reserves in the same manner as a member bank. On April 23, 1980, the Board announced an interpretation of the reserve requirement treatment of former member banks (12 CFR 204.120; 45 FR 28305) that included a policy concerning mergers involving former member banks. Under that interpretation, where a bank that withdraws from membership due to merger or consolidation with a nonmember bank on or after July 1, 1979, and the surviving bank is a nonmember bank, the surviving bank is required to maintain Federal reserves in the same manner as a member bank on the fixed proportion of its deposits attributable to the absorbed member bank. This fixed proportion is the ratio that daily average deposits of the absorbed member bank were to the daily average deposits of the

combined banks during the reserve computation period immediately preceding the date of the merger. The proportion of deposits attributable to the nonmember survivor is entitled to an eight-year phase-in of reserve requirements. The Board also adopted a policy of allocating deposits between a member bank and a nonmember bank in cases where a member bank is the surviving bank of a merger or consolidation that takes place between a member and a nonmember bank on or after March 31, 1980. However, only the amount of deposits of the nonmember bank outstanding on a daily average basis during the computation period immediately preceding the date of the merger is eligible for an eight-year phase-in of reserves. These policies were incorporated into revised Regulation D that was announced by the Board on August 15, 1980 (45 FR 56009) and were applied to all depository institutions involved in mergers.

After further consideration of how reserve requirements should apply to mergers, the Board has determined to adopt a simplified procedure of computing reserve requirements in the event of mergers between institutions. The Board has amended Regulation D so that mergers and consolidations involving member and nonmember banks are treated on the same basis for reserve requirement purposes without regard to the membership status of the surviving bank. Accordingly, where (1) a nonmember bank merges or consolidates with a member bank on or after July 1, 1979, and the surviving bank is a nonmember bank, or (2) a member bank merges or consolidates on or after March 31, 1980, with a nonmember bank that was engaged in business on July 1, 1979, and the surviving bank is a member bank, the bank is required to maintain Federal reserves in the same manner as a member bank on the proportion of deposits attributable to the member bank party to the merger or consolidation. This proportion will be the ratio that daily average required reserves of the absorbed member bank were to the sum of daily average required reserves of the banks during the reserve computation period immediately preceding the date of the merger. The proportion of deposits attributable to a nonmember bank that was engaged in business on July 1, 1979, will be entitled to an eight-year phase-in of reserve requirements. In computing the proportion of required reserves for purposes of allocating deposits, calculations will be made before application of the phase-in provisions of Regulation D. For mergers that occur

prior to November 6, 1980, the reserve requirement ratios that were in effect on August 31, 1980 (section 204.8(b)) will be used to compute the proportional allocation. For mergers occurring on or after November 6, 1980, the reserve ratios in effect under the Act (section 204.8(a)) will be used.

The rules concerning proportional allocation of deposits shall also apply to any merger occurring on or after September 1, 1980, that involves depository institutions that are subject to different reserve requirement phase-in provisions under Regulation D (section 204.4(a) through (f)). Where a merger involves institutions that are subject to the same phase-in provision, the surviving institution will continue to have its reserves calculated under such applicable rule. For all mergers, the surviving institution is entitled to a two-year transitional period to phase in its increase in reserve requirements that occurs due to the loss of low reserve tranches of an absorbed institution as a result of the merger or consolidation.

#### **Definition of "Eurocurrency Liabilities"**

Technical amendments have been made to the definition of "Eurocurrency liabilities" in Regulation D to clarify the definition with regard to sales of assets by a depository institution in the United States to its overseas offices or by a United States branch or agency of a foreign bank to its related offices abroad. In the case of a depository institution or an Edge or Agreement Corporation organized under the laws of the United States, "Eurocurrency liabilities" include assets held by its non-United States offices or by non-United States offices of an affiliated Edge or Agreement Corporation that were acquired from its United States offices only after October 6, 1979. For United States branches and agencies of a foreign bank, such term includes assets held by its foreign bank, by its parent holding company, or by non-United States offices of an affiliated Edge or Agreement Corporation that were acquired from the U.S. branch or agency only after October 6, 1979. However, "Eurocurrency liabilities" of a U.S. branch or agency of a foreign bank does not include assets sold by its affiliated Edge or Agreement Corporation to the branch's or agency's foreign bank or its parent holding company.

The Board believes that these modifications will be more equitable to depository institutions and also will alleviate to some extent the burden associated with maintaining required reserves consistent with the needs of monetary policy. Consequently, the



Board, for good cause finds that the notice, public procedure, and deferral of effective date provisions of 5 U.S.C. § 553(b) with regard to this action are impracticable and contrary to the public interest.

Effective November 13, 1980, pursuant to the Board's authority under sections 19, 25 and 25(a) of the Federal Reserve Act (12 U.S.C. 461 *et seq.*, 601 *et seq.*, 611 *et seq.*) and section 7 of the International Banking Act of 1978 (12 U.S.C. 3105), Regulation D (12 CFR Part 204) is amended as follows:

1. In § 204.2, paragraph (h) is amended by revising paragraphs (h)(1), (i)(B) and (h)(1)(ii)(B) to read as follows:

#### § 204.2 Definitions.

(h) "Eurocurrency liabilities" means the sum of the following:

(1) Transactions with related offices outside the United States.

(i) Assets (including participations) held by its non-United States offices or by non-United States offices of an affiliated Edge or Agreement Corporation that were acquired after October 6, 1979, from its United States offices.

(ii) Assets (including participations) held by its foreign bank (including offices thereof located outside the United States), by its parent holding company, or by non-United States offices of an affiliated Edge or Agreement Corporation that were acquired after October 6, 1979, from the United States branch or agency (other than assets required to be sold by Federal or State supervisory authorities).

2. In § 204.3, paragraphs (d) (1) and (3) are revised to read as follows:

#### § 204.3 Computation and maintenance.

(d) *Special rule for depository institutions that have total deposits of less than \$15 million.* (1) A depository institution with total deposits of less than \$15 million shall file a report of deposits once each calendar quarter for a seven-day computation period that begins on the third Thursday of a given month during the calendar quarter. Each Reserve Bank shall divide the depository institutions in its District that qualify under this paragraph into three substantially equal groups and assign each group a different month to report during each calendar quarter.

(3) A depository institution that has less than \$15 million in total deposits as

of December 31, 1979, shall qualify under this paragraph until it reports total deposits of \$15 million or more for two consecutive calendar quarters.

3. In § 204.4, paragraph (g) is revised to read as follows:

#### § 204.4 Transitional adjustments.

(g) *Mergers and consolidations.* The following rules concerning transitional adjustments apply to mergers and consolidations of depository institutions.

(1) Where all depository institutions involved in a merger or consolidation are subject to the same paragraph of the transitional adjustment rules contained in paragraphs (a) through (f) of this section during the reserve computation period immediately preceding the merger, the surviving institution shall continue to compute its transitional adjustment of required reserves under such applicable paragraph, except that the amount of reserves which shall be maintained shall be reduced by an amount determined by multiplying the amount by which the required reserves during the computation period immediately preceding the date of the merger (computed as if the depository institutions had merged) exceeds the sum of the actual required reserves of each depository institution during the same computation period, times the appropriate percentage as specified in the following schedule:

Maintenance <sup>1</sup>	Percent- age <sup>2</sup>
1 .....	87.5
2 .....	75.0
3 .....	62.0
4 .....	50.0
5 .....	37.5
6 .....	25.0
7 .....	12.5
8 and succeeding .....	0

<sup>1</sup> Periods occurring during quarterly periods following merger.

<sup>2</sup> Applied to difference to compute amount to be subtracted.

(2)(i) Where the depository institutions involved in a merger or consolidation are not subject to the same paragraph of the transitional adjustment rules contained in paragraphs (a) through (f) of this section and such merger or consolidation occurs:

(A) On or after July 1, 1979, between a nonmember bank and a bank that was a member bank on or after July 1, 1979, and the survivor is a nonmember bank;

(B) On or after March 31, 1980, between a member bank and a nonmember bank and the survivor is a member bank; or

(C) On or after September 1, 1980, between any other depository institutions.

the required reserves of the surviving institution shall be computed by allocating its deposits, Eurocurrency liabilities, other reservable claims, balances due from other depository institutions and cash items in process of collection to each depository institution involved in the merger transaction and applying to such amounts the transitional adjustment rule of paragraphs (a) through (f) of this section to which each such depository institution was subject during the reserve computation period immediately prior to the merger or consolidation.

(ii) The deposits of the surviving institution shall be allocated according to the ratio that daily average total required reserves of each depository institution involved in the merger were to the sum of daily average total required reserves of all institutions involved in the merger or consolidation during the reserve computation period immediately preceding the date of the merger.

(A) If the merger occurs before November 6, 1980, such ratio of daily average total required reserves shall be computed using the reserve requirement ratios in section 204.8(b).

(B) If the merger occurs on or after November 6, 1980, such ratio of daily average total required reserves shall be computed using the reserve requirement ratios in section 204.8(a) without regard to the transitional adjustments of this section.

(iii) The low reserve tranche on transaction accounts (section 204.8(a)) shall be allocated to each institution involved in the merger or consolidation using the ratio computed in paragraph (g)(2)(ii) and the reserve requirement tranches on demand deposits (section 204.8(b)) shall be allocated to member bank deposits using such ratio of daily average total required reserves.

(iv) The vault cash of the surviving depository institution also will be allocated to each institution involved in the merger or consolidation according to the ratio that daily average vault cash of each depository institution involved in the merger was to the sum of daily average vault cash of all institutions involved in the merger or consolidation during the reserve computation period immediately preceding the date of the merger.

(v) The amount of reserves which shall be maintained shall be reduced by an amount determined by multiplying the amount by which the required reserves during the computation period immediately preceding the date of the



merger (computed as if the depository institutions had merged) exceeds the sum of the actual required reserves of each depository institution during the same computation period, times the appropriate percentage as specified in the following schedule:

Maintenance <sup>1</sup>	Percent- age <sup>2</sup>
1.....	87.5
2.....	75.0
3.....	62.0
4.....	50.0
5.....	37.5
6.....	25.0
7.....	12.5
8 and succeeding.....	0

<sup>1</sup> Periods occurring during quarterly periods following merger.

<sup>2</sup> Applied to difference to compute amount to be subtracted.

By order of the Board of Governors,  
October 29, 1980.

Theodore E. Allison,  
Secretary of the Board.

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## BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

## RESERVE REQUIREMENTS OF DEPOSITORY INSTITUTIONS

## SUPPLEMENT TO REGULATION D †

As amended effective for reserves required to be maintained during the seven-day period beginning November 13, 1980, against deposits outstanding during the seven-day period beginning on October 30, 1980.

## SECTION 204.8—RESERVE REQUIREMENT RATIOS

(a) **Reserve percentages.** The following reserve ratios are prescribed for all depository institutions, Edge and Agreement Corporations and United States branches and agencies of foreign banks:

Category	Reserve requirements
<i>Net transaction accounts</i>	
\$0-\$25 million	3% of amount
Over \$25 million	\$750,000 plus 12% of amount over \$25 million

*Nonpersonal time deposits*

By original maturity (or notice period)	
less than 4 years	3%
4 years or more	0%

<i>Eurocurrency liabilities</i>	3%
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(b) **Reserve ratios in effect during last computation period prior to September 1, 1980.**

Category	Reserve Requirement
<i>Net Demand Deposits</i>	
Deposit Tranche:	
\$0-\$2 million	7%

over \$2 million-\$10 million	\$140,000 + 9½% of amount over \$2 million
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over \$10 million-\$100 million	\$900,000 + 11¾% of amount of over \$10 million
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over \$100 million-\$400 million	\$11,475,000 + 12¾% of amount over \$100 million
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over \$400 million	\$49,725,000 + 16¼% of amount over \$400 million
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<i>Savings deposits</i>	3%
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*Time deposits*

(subject to 3% minimum specified by law)

By initial maturity:

Less than 180 days	
\$0-5 million	3%
over \$5 million	6%
180 days to 4 years	2½%
4 years or more	1%

Accounts authorized pursuant to Section 303 of Public Law 96-221 offered by member banks located in States outside Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Rhode Island and Vermont	12%
Club accounts	3%

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For purposes of computing the reserves under this Part, that would have been required using the reserve ratios that were in effect on August 31, 1980, the reserve ratio on time deposits of a member bank shall be the average time deposit ratio of the member bank during the 14-day period ending August 6, 1980, except that the reserve ratio on

time deposits of a nonmember bank that was a member bank on or after July 1, 1979, but which became a nonmember bank before March 31, 1980, may be the average time deposit ratio of the nonmember during the 14-day period ending August 27, 1980.



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-0306)

PART 217--INTEREST ON DEPOSITS

Definitions

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Technical amendment.

SUMMARY: The Board has adopted technical amendments to certain provisions of its Regulation Q--Interest on Deposits (12 CFR Part 217) to permit member banks to pay interest on time deposits with maturities or required notice periods of 14 days or more beginning October 30, 1980. These amendments implement actions taken by the Board announced on August 15, 1980 (45 FR 56009), reducing the minimum maturity of time deposits to 14 days and by the Depository Institutions Deregulation Committee on September 9, 1980, which adopted a final rule (12 CFR § 1204.112), effective October 30, 1980, establishing a ceiling rate of interest payable of 5-1/4 per cent by member banks on time deposits of under \$100,000 with original maturities or required notice periods of 14 to 90 days. This action will enable member banks to offer time deposits with original maturities (or required notice periods) of 14 days or more.

EFFECTIVE DATE: October 30, 1980.

FOR FURTHER INFORMATION CONTACT: Gilbert T. Schwartz, Assistant General Counsel (202/452-3625), or John Harry Jorgenson, Attorney (202/452-3778), Legal Division, Board of Governors of the Federal Reserve System, Washington, D.C., 20551.

SUPPLEMENTARY INFORMATION: On August 15, 1980, the Board announced a revised Regulation D--Reserve Requirements of Depository Institutions (12 CFR Part 204), implementing the reserve requirement provisions of the Monetary Control Act of 1980 (Title I of Pub. L. No. 96-221) (45 FR 56009). At that time the Board also shortened the minimum maturity of time deposits from 30 to 14 days for purposes of Regulations D and Q. (As a part of this action the Board also reduced the minimum notice period that may be required for the withdrawal of savings deposits from 30 to 14 days.) The Board believes that a shorter minimum maturity for time deposits would improve the competitive position of domestic depository institutions vis-a-vis open market instruments and foreign banking offices. Prior to this action the Board's Regulation Q (12 CFR Part 217) required at least a 30-day maturity or required notice

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period for a deposit to qualify as a time deposit. (12 CFR §§ 217.1(c) and (d)). In addition, the definition of a savings deposit under Regulation Q required that the deposit contract provide that the bank may require the depositor to give not less than 30 days notice before a withdrawal is made (12 CFR § 217.1(e)). The following technical amendment of Regulation Q conforms it to the Board's action of August 15, 1980.

On September 9, 1980, the Depository Institutions Deregulation Committee ("DIDC") adopted a final rule (12 CFR § 1204.112 (45 FR 68640)) establishing a ceiling rate of interest of 5-1/4 per cent payable by member banks on time deposits of under \$100,000 with original maturities (or required notice periods) of 14 to 90 days. There will be no ceiling rate for time deposits of \$100,000 or more with minimum maturities or notice periods of 14 days or more. Accordingly, the Board's amendment of Regulation Q also conforms it to the action adopted by the DIDC in establishing an interest rate ceiling on such deposits (12 CFR § 1204.112).

These amendments have been adopted to implement the Board's action of August 15, 1980 to permit member banks to offer time deposits with maturities of 14 days or more. Public comment was solicited on this proposal on June 4, 1980 (45 FR 38388). The Board finds that the deferral of effective date provisions of 5 U.S.C. § 553(b) to this action are unnecessary because this action relieves a regulatory restriction. Effective October 30, 1980, pursuant to the Board's authority under section 19 of the Federal Reserve Act (12 U.S.C. § 461 et seq.), to define the term deposit Regulation Q (12 CFR Part 217 is amended as follows:

1. Sections 217.1(c) (1), (2) and (3), (d) and (e) (2); 217.5(c) (2); 217.7(b) and (h) of Regulation Q and footnotes 1, 2 and 3 (12 CFR §§ 217.1(c) (1) (2) and (3), (d), (e) (2); 217.5(c) (2); 217.7(b) and (h)) are amended by striking "30" and inserting "14".

By order of the Board of Governors of the Federal Reserve System, October 29, 1980.

(signed) Theodore E. Allison

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Theodore E. Allison  
Secretary of the Board

[SEAL]



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-0329]

Part 217--Interest on Deposits

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Final interpretation.

SUMMARY: This interpretation provides that Regulation Q interest rate limitations do not apply to fixed rate obligations issued by bank holding companies with a stated maturity of five years or more and with respect to which no more than 5 per cent of the original principal amount of the issue may be redeemed in any one year, with a limitation of \$25,000 per investor per year.

EFFECTIVE DATE: October 17, 1980.

FOR FURTHER INFORMATION CONTACT: Gilbert T. Schwartz, Assistant General Counsel (202/452-3623), or Anthony F. Cole, Senior Attorney (202/452-3612), Legal Division, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

SUPPLEMENTARY INFORMATION: 12 CFR 217 is amended by adding a new section 217.156 to read as follows:

§ 217.156 Application of Regulation Q to fixed rate obligations issued by the parent bank holding company of a member bank.

(a) The Board has received a request for an interpretation that sections 217.1(h) and 217.7(h) of Regulation Q (12 CFR §§ 217.1(h) and 217.7(h)) do not apply to small denomination fixed rate obligations with limited redemption features issued by bank holding companies. The obligations in question generally have a stated maturity of from 10 to 25 years, but are redeemable at the option of the holder subject to limitations as to the amount that any holder may redeem in any year (usually \$25,000) and as to the aggregate amount that may be redeemed in any year (usually 5 per cent of the original principal amount of the issue).

(b) Sections 217.1(h) and 217.7(h) were adopted by the Board effective March 14, 1980, and apply Regulation Q interest rate ceilings to certain obligations issued by a member bank's parent bank holding company. Section 217.1(h) specifically provides that the "deposits" of a member bank includes an obligation that is: (1) issued in a denomination

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of less than \$100,000; (2) required to be registered with the SEC; (3) issued or guaranteed in whole or in part by the member bank's parent which is a bank holding company (regardless of the use of the proceeds); and (4) issued with an original maturity or redemption period of four years or less. Section 217.7(h) specifies the ceiling rates of interest payable on such obligations.

Sections 217.1(h) and 217.7(h) were adopted in view of the Board's concern of the potential adverse impact the widespread issuance by bank holding companies of principally floating rate notes with a redemption feature aimed at the retail market was likely to have on deposit flows among depository institutions. The Board's concern was based on its belief that such obligations, which typically are issued at rates substantially in excess of Regulation Q ceiling rates payable on time deposits of comparable maturity, were competitive with consumer deposits issued by depository institutions.

(c) The Board believes that the obligations in question are distinguished from those that were the subject of the Board's principal concerns in two ways. First, they carry a fixed rate of interest; second, the amount that may be redeemed in any year is limited to 5 per cent. The Board regards this limited redemption feature as having an effect similar to a sinking fund which ensures that repayments are not concentrated, while at the same time preserving the long-term nature of the obligation. In view of these considerations, the Board does not believe that such obligations would be a major source of competition for deposits issued by depository institutions.

(d) Accordingly, the Board has determined that obligations issued by a member bank's parent which is a bank holding company will not be regarded as having a redemption period of four years or less under section 217.1(h) and, thus, will not be subject to the interest rate limitations specified in section 217.7(h), if they have the following characteristics: (1) the obligations possess a fixed rate of interest that does not change during the life of the obligation; (2) no more than 5 per cent of the original principal amount of the issue may be redeemed at the option of the holders in any one year; (3) no more than \$25,000 per holder may be redeemed in any one year; and (4) the obligations possess a minimum stated maturity of five years or more. The five year minimum maturity requirement (i.e., 25 per cent higher than the current more than four year requirement) offsets the possible 25 per cent maximum reduction (5 per cent per year for five years) in the amount outstanding after five years and is regarded as necessary to preserve the objective of the four year minimum maturity requirement in section 217.1(h). The Board also believes that in order to ensure that potential purchasers are aware of the limited nature of the redemption feature, those limitations should be prominently disclosed in any materials or solicitations concerning such obligations.

The Board has issued this interpretation based upon its statutory authority under section 19 of the Federal Reserve Act, 12 U.S.C. Sec. 461.

By order of the Board of Governors, October 23, 1980.