

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 6474]
[January 22, 1970]

Correction of Board of Governors' Statement in Circular No. 6470

Notice of Proposed Amendment of Regulation D

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

Our Circular No. 6470 contains the text of a statement issued January 20 by the Board of Governors of the Federal Reserve System announcing an upward realignment of maximum interest rates member commercial banks may pay on time and savings deposits and a proposed amendment of Regulation D that would apply reserve requirements to certain types of bank-related commercial paper. The Board of Governors has advised us that the next to the last paragraph of that statement, dealing with the proposal to amend Regulation D, should be corrected to read as follows:

In proposing to use new legislative authority for the first time, the Board said it is considering a 10 per cent reserve requirement on funds obtained by member banks through the issuance of commercial paper or similar obligations by bank affiliates, including a member bank's parent company—either a one-bank holding company or a company registered under the Bank Holding Company Act.

On October 29, 1969, the Board announced that it was considering amending its rules governing the payment of interest on deposits to apply to funds received by member banks from the issuance of commercial paper by bank affiliates or by a parent holding company. Subsequently, the Act of December 23, 1969, explicitly authorized the Board to apply reserve requirements to such obligations. Accordingly, the Board has withheld action in applying interest rate ceilings to bank-related commercial paper while it is considering amending its rules to apply reserve requirements to the same type paper. Comments on this proposal should be received by the Board by February 16.

Printed on the reverse side is a copy of the notice of the proposed amendment of Regulation D, as submitted by the Board for publication in the *Federal Register*. Comments on the proposed amendment should be submitted by February 16 and may be sent to our Bank Examinations Department.

ALFRED HAYES,
President.

(OVER)

FEDERAL RESERVE SYSTEM

[12 CFR Part 204]

[Reg. D]

RESERVES OF MEMBER BANKS

Certain Borrowings by Bank Affiliates as Deposits

The Board of Governors is considering amending Regulation D, effective February 26, 1970, in the following respects:

(1) By adding to § 204.1(f) the following sentences:

"For the purposes of this part, 'deposits' of a member bank also include the liability of a member bank's affiliate, as defined in section 2(b)(2) or 2(b)(4) of the Banking Act of 1933 (12 U.S.C. 221a(b)(2) and (b)(4)), on any promissory note, acknowledgment of advance, due bill, or similar obligation (written or oral), with a maturity of two years or less, that is issued or undertaken principally as a means of supplying funds to the bank for use in its banking business, or maintaining the availability of such funds, except any such obligation that, if it had been issued directly by the member bank, would not constitute a deposit in view of exceptions (1) and (2), above."

(2) By changing the caption of § 204.5(c) to read "Reserve percentages against certain deposits", by inserting "(1)" before the present text of such section, and by inserting the following before the period at the end thereof: "and (2) Time deposits⁹ represented by obligations

⁹ For the purposes of this paragraph, "time deposits" means any deposit having a maturity of one day or more.

of affiliates shall not be subject to paragraph (a) of this section, but a member bank shall maintain with the Reserve Bank of its district, a daily average balance equal to 10 per cent of the daily average amount of such deposits."

The main purpose of the proposed amendments is to apply a 10 per cent reserve requirement to funds received by member banks as the result of issuance of obligations commonly described as commercial paper by a corporation or trust that (1) majority-controls the member bank, (2) is majority-controlled by persons who also majority-control the member bank, or (3) is controlled by trustees for the benefit of the shareholders of the member bank. The amendments would implement authority granted by the Congress to the Board in section 4(a) of the Act of December 23, 1969 (Public Law 91-151).

The following illustrate the effect of the proposed amendments:

(1) A corporation that controls a majority of the stock of a member bank establishes and acquires a majority of the stock of another corporation. That corporation proposes to acquire \$10 million by the public sale on February 1 of promissory notes with a maturity of 90 days and to use \$5 million to acquire on February 1 interests in loans made by the bank, \$3 million of which will mature in 90 days and \$2 million of which will mature in 180 days. Under the proposed amendment, on February 26, \$5 million of the notes will become subject to a 10 per cent reserve requirement, which would continue as long as the funds of the affiliate are used to maintain the availability of funds to the bank.

(2) If, on March 1, the affiliate described in the preceding paragraph sells to a third person \$1 million of the 90-day

loans, the bank may thereupon reduce its deposits subject to the 10 per cent requirement by \$1 million. If, on April 1, \$1 million of the affiliate's funds are again used to purchase from the bank notes maturing in 45 days, the bank must add back \$1 million to its deposits subject to the 10 per cent requirement, even though the affiliate does not issue additional obligations. If, upon maturity on May 2 of the affiliate's \$5 million of obligations, the affiliate extends \$1 million thereof for 60 days and \$2 million for 90 days, the \$1 million is subject to reserves only for 14 days—until the maturity of the 45-day loans—unless additional funds are channeled to the bank or repayments on the loans maturing in that time are deferred. If, on June 1, a portion of the \$2 million 180-day loans is prepaid, the amount of such prepayments will reduce the amount of the affiliate's obligations that are subject to reserves, unless additional funds are channeled to the bank.

To aid in the consideration of this matter by the Board, interested persons are invited to submit relevant data, views, or arguments. Any such material should be submitted in writing to the Secretary, Board of Governors of the Federal Reserve System, Washington, D. C. 20551, to be received not later than February 16, 1970. Under the Board's rules regarding availability of information (12 CFR Part 261), such materials will be made available for inspection and copying upon request unless the person submitting the material asks that it be considered confidential.

By order of the Board of Governors,
January 20, 1970.

KENNETH A. KENYON,
Deputy Secretary.

[SEAL]