

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 6501]
March 2, 1970

Proposed Amendments of Regulations D and Q

To the Member Banks of the Second Federal Reserve District:

Following is the text of a statement issued today by the Board of Governors of the Federal Reserve System:

The Board of Governors of the Federal Reserve System announced today that it is considering establishing a new minimum denomination and maturity on subordinated notes and debentures that are presently outside the definition of "deposit" and are being sold by member banks without regard to reserve requirements and interest rate ceilings. Comments on the proposal should be submitted to the Board by April 2.

The intent of the proposed amendments is to distinguish between deposit-type funds and true capital funds.

The proposal would establish a minimum maturity of more than five years and a minimum denomination of \$20,000 on such capital notes and debentures. Present regulations specify a minimum maturity of more than two years but do not specify a minimum denomination for capital notes or debentures.

Under the proposal a capital note or debenture would be exempt from reserve requirements (Regulation D) and interest rate ceilings (Regulation Q) if it (1) has an original maturity of more than five years, (2) is expressly subordinated to the claims of depositors and is unsecured, (3) expressly states that it will not be eligible as collateral for a loan by the issuing bank, and (4) is issued in denominations not less than \$20,000, with certain exceptions.

Printed below is the text of the proposed amendments. Comments thereon should be submitted by April 2 and may be sent to our Bank Examinations Department.

ALFRED HAYES, *President.*

[Reg. D; Q]

RESERVES OF MEMBER BANKS; INTEREST ON DEPOSITS
Certain Subordinated Obligations as Deposits

The Board of Governors is considering changing present requirements for an obligation issued by a member bank subordinated to the claims of depositors to be classified by the bank as a non-deposit borrowing for the purposes of member bank reserve requirements (Regulation D) and interest rate controls (Regulation Q).

This would be accomplished by amending the relevant portions of section 204.1(f) and section 217.1(f) to read as follows:

(f) *Deposits as including certain promissory notes and other obligations.* (The term "deposit" does not include an obligation that)

(3) is designated as a capital note or capital debenture and possesses the following characteristics:

(i) has an original maturity of more than five years;

(ii) is subordinated expressly to the claims of depositors and is unsecured;

(iii) expressly provides that it will not be eligible as collateral for a loan by the issuing bank; and

(iv) is of a denomination not less than \$20,000, unless part of an issue of securities sold by means of a pre-emptive rights offering, an underwriting, or other securities marketing channel not connected with the issuing bank's regular banking operations and personnel or those of its affiliates;

but this subparagraph (3) shall not affect (a) any instrument issued before March 9, 1970, that has an

original maturity of more than two years, is unsecured, and states expressly that it is subordinated to the claims of depositors, or (b) capital notes or debentures issued, other than to the general public, by a national bank with the specific approval of the Comptroller of the Currency or by a State member bank with the specific approval of its State Supervisor and the Board of Governors, upon a determination in each case that exigent circumstances require the issuance of such capital notes or debentures without regard to the provisions of this Part.

Recent evidence indicates that member banks are marketing certain types of subordinated obligations to acquire deposit-type funds, with results that the Board considers as impairing the effective application of regulations with respect to deposit interest rates and reserve requirements. The intent of the amendment is to distinguish between deposit-type funds and true capital funds.

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 April 2, 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.