

FEDERAL RESERVE BANK
OF NEW YORK

Circular No. 6589
August 17, 1970

CHANGES IN RESERVE REQUIREMENTS

- Five Percent Reserve Requirement Established
For Bank-Related Commercial Paper
- Reserve Requirement For Time Deposits Over
\$5 Million Reduced From 6 to 5 Percent

*To All Member Banks, and Others Concerned,
in 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 today applied a 5 per cent reserve requirement on funds obtained by member banks through the issuance of commercial paper by their affiliates, and at the same time reduced from 6 to 5 per cent the reserves that member banks must hold against time deposits in excess of \$5 million.

Both actions will become effective in the reserve computation period beginning October 1 and will be applicable on such deposits and commercial paper outstanding in the week beginning September 17. This coincides with the beginning of the fall period of seasonal expansion of deposits and required reserves.

The dual action will result in a reduction of required reserves of about \$350 million for the banking system as a whole. The extension of reserve requirements to bank-related commercial paper is estimated to increase required reserves of the affected member banks by roughly \$350 million. On the other hand, the reduction in reserve requirements against time deposits over \$5 million is expected to lower required reserves by some \$300 million at banks issuing commercial paper, and by about \$400 million at all other member banks.

The greater portion of the net reserves thus released will become available to banks that in the present circumstances might be expected to use a sizable share of the available funds in financing housing and state and local governments.

Both actions of the Board were adopted unanimously.

No change was made in the 3 per cent reserve requirement on a member bank's savings deposits, and time deposits of less than \$5 million. Today's action represents the first change in reserve requirements since April 17, 1969, when the Board increased reserves on demand deposits by one-half of one per cent for all member banks.

(Over)

Since most commercial paper is issued in denominations of \$100,000 or more, the extension of reserve requirements to bank-related commercial paper will put instruments of this kind on a substantially equal footing, in terms of reserve requirements, with negotiable certificates of deposit issued by banks.

In imposing reserve requirements on commercial paper issued by bank affiliates, the Board used for the first time the authority contained in the Act of December 23, 1969, which explicitly authorized such action. The reserve requirement will apply to funds obtained by member banks through the issuance of commercial paper or similar obligations by their affiliates.

Presently, about \$7.5 billion of bank-related commercial paper is outstanding. Over the past year, the amount of such paper had risen by \$5.5 billion.

At the time the new reserve requirements become effective the permission initially granted on November 4, 1969, to the Federal Reserve Banks to waive penalties for reserve deficiencies connected with the application of reserve requirements to subsidiaries' commercial paper will be withdrawn.

In taking this action with respect to bank-related commercial paper, the Board urged member banks and their holding companies to comply with the spirit and purpose as well as the letter of the rules regarding member bank reserve requirements.

Copies of the Supplement to Regulation D, revised to reflect the above changes, will be sent to you shortly. Additional copies of this circular will be furnished upon request.

Alfred Hayes,
President.