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

Enclosed is a copy of an amendment, effective June 21, 1973, to section 213.7(b) of Regulation M, "Foreign Activities of National Banks," of the Board of Governors of the Federal Reserve System. The amendment excludes from the computation of reserve requirements under the regulation certain types of credit extended to United States residents. In submitting the amendment for publication in the Federal Register, the Board of Governors made the following statement:

By order published in the Federal Register on May 25, 1973 (38 Federal Register 101), the Board amended section 204.5(c) of Regulation D and section 213.7 of Regulation M (effective June 21, 1973) pursuant to its authority under sections 19 and 25 of the Federal Reserve Act (12 U.S.C. 461 and 601). The purpose of such amendments was to establish reserve requirements on member banks' Eurodollar borrowings that provide roughly parallel treatment as compared with large certificates of deposit and bank-related commercial paper and to simplify, and improve the effectiveness of, such reserve requirements by gradually eliminating reserve-free bases which applied only to a small number of member banks.

As proposed in its notice of proposed rule making published in the Federal Register on September 20, 1972 (37 Federal Register 19386), the Board's amendment of section 213.7(b) of Regulation M, relating to reserve requirements computed on the basis of credit extended by member banks' foreign branches to United States residents, eliminated a provision that excluded from the computation of such reserve requirements credit extended by a foreign branch which at no time during the computation period had credit outstanding to United States residents exceeding $5 million. However, after additional consideration of the comments received with regard to its earlier proposal, the Board has determined to further amend section 213.7(b) to exclude from the computation of reserve requirements thereunder credit extended (1) in the aggregate amount of $100,000 or less to any United States resident, or (2) by a foreign branch which at no time during the computation period had credit outstanding to United States residents exceeding $1 million.

The present amendment is made pursuant to the Board's authority under section 25 of the Federal Reserve Act. The purpose of this amendment is to minimize the administrative burden on member banks in complying with those reserve requirements relating to extensions of credit by their foreign branches to United States residents. This amendment, which will be effective on the same date as the earlier amendments published in the Federal Register on May 25, 1973, will remove from the computation of reserve requirements under section 217.3(b) of Regulation M credits extended that are of such small amounts as are unlikely to be significant to the effectiveness of the Board's regulations as a moderate restraint on overall increases in member banks' Eurodollar borrowings.

There was no notice and public participation with respect to that portion of the amendment relating to credit extended to any U. S. resident in the aggregate amount of $100,000 or less. The Board found that such procedures were unnecessary and would serve no useful purpose since the rule relieves a restriction without adversely affecting any private interest; furthermore, such procedures would result in delay that would be contrary to the public interest.

Additional copies of the enclosure will be furnished upon request.

Alfred Hayes,
President.
AMENDMENT TO REGULATION M

Effective June 21, 1973, the proviso in section 213.7(b) is amended to read as follows:

SECTION 213.7—RESERVES AGAINST FOREIGN BRANCH DEPOSITS

(b) Credit extended to United States residents.

Provided, That this paragraph does not apply to credit extended (1) in the aggregate amount of $100,000 or less to any United States resident, (2) by a foreign branch which at no time during the computation period had credit outstanding to United States residents exceeding $1 million, (3) to enable the borrower to comply with the requirements of the Office of Foreign Direct Investments, Department of Commerce, or (4) under binding commitments entered into before May 17, 1973.

9 The branch may in good faith rely on the borrower's certification that the funds will be so used.