SUPPLEMENT TO REGULATION D
Effective November 2, 1978

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

Our Circular No. 8446, dated November 1, 1978, announced actions by the Treasury and the Federal Reserve to strengthen the dollar and thereby counter continuing domestic inflationary pressures. Included among those actions was the establishment, by the Board of Governors of the Federal Reserve System, of a new 2% supplementary reserve requirement on time deposits in denominations of $100,000 or more and certain other member bank liabilities. The new reserve requirement applies to deposits outstanding in the week beginning November 2, 1978 and thereafter and affect reserves held by member banks in the week beginning November 16, 1978 and thereafter.

Enclosed is a copy of a revised Supplement, effective November 2, 1978, to Regulation D, "Reserves of Member Banks," which reflects the Board's action.

In addition, printed below is the text of a statement made by the Board of Governors in submitting the changes for publication in the Federal Register:

The Board of Governors has amended its Regulation D to modify the reserve balances that member banks are required to maintain against their deposits. The amendment imposes a 2% supplementary reserve requirement against member bank time deposits in denominations of $100,000 or more and certain other member bank liabilities. This action is being taken to strengthen the dollar in exchange markets and thereby counter continuing domestic inflationary pressures. The action will help to moderate recent relatively rapid expansion in bank credit and will also increase the incentive for member banks to increase their borrowings in the Eurodollar market and to decrease their domestic borrowings.

The supplementary 2% reserve requirement will apply to a member bank's time deposits of the following types:

a) Time deposits of $100,000 or more; and

b) Time deposits of $100,000 or more represented by promissory notes, acknowledgements of advance, due bills, or similar obligations (written or oral) as provided in § 204.1(f) of Regulation D; and

c) Time deposits of any denomination represented by ineligible bankers' acceptances or obligations issued by a member bank's affiliate with maturities of 7 years or less to the extent that the proceeds are supplied to the member bank as provided in § 204.1(f) of Regulation D.

The supplementary 2% reserve requirement will not apply to savings deposits and Christmas club-type deposits.

This action was taken pursuant to the Board's authority under § 19 of the Federal Reserve Act (12 USC 461) to establish reserve ratios for member banks. This amendment is effective on deposits outstanding during the week beginning November 2, 1978, and affects reserves held by member banks during the week beginning November 16, 1978.

In view of the current conditions in the foreign exchange markets, and in order to achieve the above stated objectives as soon as possible, 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 the Board's action are impracticable and contrary to the public interest.

As provided for in paragraph (a) of the Supplement, in no event shall the reserves required on the aggregate of time and savings deposits be less than 3%. It should be noted that the determination of this 3% minimum requirement shall be made after the application of the 2% supplementary reserve requirement referred to herein.

Additional copies of the enclosure will be furnished upon request.

PAUL A. VOLCKER,
President.
Board of Governors of the Federal Reserve System

SUPPLEMENT TO REGULATION D

Effective November 2, 1978

SECTION 204.5—RESERVE REQUIREMENTS

(a) Reserve percentages. Pursuant to the provisions of section 19 of the Federal Reserve Act and §204.2(a) and subject to paragraph (c) of this section, the Board of Governors of the Federal Reserve System hereby prescribes the following reserve balances that each member bank of the Federal Reserve System is required to maintain on deposit with the Federal Reserve Bank of its district:

(1) If not in a reserve city—

(i) 3 per cent of (A) its savings deposits and (B) its time deposits, open account, that constitute deposits of individuals, such as Christmas club accounts and vacation club accounts, that are made under written contracts providing that no withdrawal shall be made until a certain number of periodic deposits have been made during a period of not less than 3 months; and

(ii) 1 per cent of its time deposits outstanding on or issued after October 16, 1975, that have an initial maturity of 4 years or more; 2½ per cent of its time deposits outstanding on or issued after December 25, 1975, that have an initial maturity of 180 days or more but less than 4 years; 3 per cent of its time deposits up to $5 million, outstanding on or issued after October 16, 1975, that have an initial maturity of less than 180 days, plus 6 per cent of such deposits in excess of $5 million: Provided, however, That in no event shall the reserves required on its aggregate amount of time and savings deposits be less than 3 per cent. In addition, a member bank shall maintain a reserve balance equal to 2 per cent of its time deposits of the following types:

(a) Time deposits of $100,000 or more; and

(b) Time deposits of $100,000 or more represented by promissory notes, acknowledgement notes, drafts, or similar obligations as provided in §204.1(f); and

(c) Time deposits represented by ineligible bankers’ acceptances or obligations issued by a member bank’s affiliate, as provided in §204.1(f).

However, the supplementary 2 per cent reserve requirement shall not apply to a savings deposit, or a time deposit, open account that constitutes deposits of individuals, such as Christmas club accounts and vacation club accounts, that are made under written contracts providing that no withdrawal shall be made until a certain number of periodic deposits have been made during a period of not less than 3 months.

(iii) (a) 7 per cent of its net demand deposits if its aggregate net demand deposits are $2 million or less, (b) $140,000 plus 9½ per cent of its net demand deposits in excess of $2 million if its aggregate net demand deposits are in excess of $2 million but not more than $10 million, (c) $900,000 plus 11¾ per cent of its net demand deposits in excess of $10 million if its aggregate net demand deposits are in excess of $10 million but not more than $100 million, or (d) $11,475,000 plus 12¾ per cent of its net demand deposits in excess of $100 million.

(2) If in a reserve city (except as to any bank located in such a city that is permitted by the Board of Governors of the Federal Reserve System, pursuant to §204.2(a)(2), to maintain the reserves specified in paragraph (a)(1) of this section)—

(i) 3 per cent of (A) its savings deposits and (B) its time deposits, open account, that constitute deposits of individuals, such as Christmas club accounts and vacation club accounts, that are made under written contracts providing that no withdrawal shall be made until a certain number of periodic deposits have been made during a period of not less than 3 months; and

(ii) 1 per cent of its time deposits outstanding on or issued after October 16, 1975, that have an initial maturity of 4 years or more; 2½ per cent of its time deposits outstanding on or issued after December 25, 1975, that have an initial maturity of 180 days or more but less than 4 years; 3 per cent of its time deposits up to $5 million, outstanding on or issued after October 16, 1975, that have an initial maturity of less than 180 days, plus 6 per cent of such deposits in excess of $5 million: Provided, however, That in no event shall the reserves required on its aggregate amount of time and savings deposits be less than 3 per cent. In addition, a member bank shall maintain a reserve...
balance equal to 2 per cent of its time deposits of the following types:

(a) Time deposits of $100,000 or more; and

(b) Time deposits of $100,000 or more represented by promissory notes, acknowledgements of advance, due bills, or similar obligations as provided in §204.1(f); and

(c) Time deposits represented by ineligible bankers' acceptances or obligations issued by a member bank's affiliate, as provided in §204.1(f).

However, the supplementary 2 per cent reserve requirement shall not apply to a savings deposit, or a time deposit, open account that constitutes deposits of individuals, such as Christmas club accounts and vacation club accounts, that are made under written contracts providing that no withdrawal shall be made until a certain number of periodic deposits have been made during a period of not less than 3 months.

(iii) $49,725,000 plus 16 1/4 per cent of its net demand deposits in excess of $400 million.

(b) **Currency and coin**. The amount of a member bank's currency and coin shall be counted as reserves in determining compliance with the reserve requirements of paragraph (a) of this section.

(c) **Reserve percentages against certain deposits by foreign banking offices**. Deposits represented by promissory notes, acknowledgements of advance, due bills, or similar obligations described in §204.1(f) to foreign offices of other banks, or to institutions the time deposits of which are exempt from the rate limitations of Regulation Q pursuant to §217.3(g) thereof, shall not be subject to paragraph (a) of this section or to §204.3(a) (1) and (2); but during each week of the four-week period beginning May 22, 1975, and during each successive four-week (“maintenance”) period, a member bank shall maintain with the Reserve Bank of its district a daily average balance equal to zero per cent of the daily average amount of such deposits during the four-week computation period ending on the Wednesday fifteen days before the beginning of the maintenance period. An excess or deficiency in reserves in any week of a maintenance period under this paragraph shall be subject to §204.3(a) (3), as if computed under §204.3(a) (2), and deficiencies under this paragraph shall be subject to §204.3(b).^7

^7 Any banking office located outside the States of the United States and the District of Columbia of a bank organized under domestic or foreign law.

^8 The term “computation period” in §204.3(a) (3) and (b) shall, for this purpose, be deemed to refer to each week of a maintenance period under this paragraph.