

FEDERAL RESERVE BANK OF DALLAS
DALLAS, TEXAS

August 5, 1960

**INTERPRETATION RELATIVE TO ABSORPTION OF
EXCHANGE CHARGES AS PAYMENT OF
INTEREST ON DEPOSITS**

**To All Member Banks in the
Eleventh Federal Reserve District:**

Enclosed is a copy of an interpretation by the Board of Governors relative to absorption of exchange charges as payment of interest on deposits. The interpretation will, in due course, be published in the Federal Register and the Federal Reserve Bulletin.

This interpretation supersedes all such earlier interpretations on the subject, including those published in the 1944 Federal Reserve Bulletin, page 339, and the 1945 Federal Reserve Bulletin, page 564.

Member banks are requested to insert this interpretation in their ring binders containing the Regulations of the Board of Governors and the Bulletins of this bank.

Yours very truly,

Watrous H. Irons

President

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM**ABSORPTION OF EXCHANGE CHARGES AS PAYMENT OF
INTEREST ON DEPOSITS**

The Board has had occasion to consider whether certain practices involving the absorption of exchange charges constitute the payment by a Federal Reserve member bank of interest on demand deposits in violation of Regulation Q, Payment of Interest on Deposits, and Section 19 of the Federal Reserve Act.

One question was whether such absorption would constitute the payment of interest on demand deposits when the amounts absorbed by a member bank are claimed to be less than the cost of collecting them from depositors. Another question was whether a member bank would be paying interest on demand deposits if it maintained balances with another bank or banks in return for which such other bank or banks directly or indirectly would absorb for it exchange charges made by the drawee banks.

Upon a careful review of the subject, the Board has concluded that both these practices should be deemed to be the payment of interest on demand deposits in violation of Regulation Q and Section 19 of the Federal Reserve Act. In other words, the payment of interest includes any direct or indirect payment or absorption of exchange charges by any device whatsoever, regardless of whether such payment or absorption is made directly by a member bank or indirectly through any other bank for a member bank or a depositor of such member bank. This principle will be applied hereafter by examiners for the Federal Reserve Banks in their examinations of State member banks, and the Comptroller of the Currency has advised that it will be applied by national bank examiners in their examinations of national banks.

In reaching this conclusion the Board has carefully reexamined earlier interpretations on the subject, and this interpretation supersedes all such earlier interpretations, including those published in the 1944 Federal Reserve Bulletin, p. 339, and 1945 Federal Reserve Bulletin, p. 564.

August 4, 1960.