

FEDERAL RESERVE BANK OF DALLAS
DALLAS, TEXAS

November 9, 1960

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

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

Reference is made to our letter of August 5, 1960, enclosing an interpretation issued by the Board of Governors of the Federal Reserve System on August 4, 1960, relating to the absorption of exchange charges as payment of interest on deposits. In this connection there is attached an interpretation issued by the Board on November 8, 1960, which permits member banks to disregard and absorb, as trivial, exchange charges in amounts aggregating not more than \$2.00 for any one depositor in any calendar month or any regularly established period of thirty days. The interpretation will be published in the Federal Reserve Bulletin and Federal Register.

You will note that a survey is being undertaken jointly by the Board, the Comptroller of the Currency, and the Federal Deposit Insurance Corporation, to obtain additional information on various aspects of the relation between exchange charges and the payment of interest on deposits. As you will also note, the interpretation is a tentative authorization, to be applicable only during the study and until a final determination can be made. Member banks will be expected to conform to the August 4, 1960, ruling as modified by the enclosed interpretation.

Member banks are requested to insert this interpretation under Regulation Q 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

PAYMENT OF INTEREST ON DEPOSITS — ABSORPTION OF EXCHANGE CHARGES

In an interpretation of August 4, 1960, published at p. 858 of the August 1960 Federal Reserve Bulletin, the Board expressed the opinion that any absorption by member banks of exchange charges would constitute the payment of interest on demand deposits, including an arrangement whereby a member bank maintained a balance with another bank in return for which such other bank directly or indirectly absorbed for it exchange charges made by drawee banks.

The Board has been asked to reconsider the application of the interpretation in certain situations said to involve relatively small amounts of exchange charges and those where the cost of collection is said to exceed the amount of the charges. The Board of Governors, the Comptroller of the Currency, and the Federal Deposit Insurance Corporation have decided to undertake a study to obtain additional information. In connection therewith, a survey will be made of a number of institutions in each Federal Reserve District on a spot-check basis.

Further consideration will be given the subject in the light of the findings of the survey. In the meantime, and as a tentative authorization, to be applicable only during the pendency of the study and the reaching of a final determination, member banks are authorized to absorb exchange charges in amounts aggregating not more than \$2 for any one depositor in any calendar month or any regularly established period of 30 days.

Member banks, both State and national, will be expected to conform to the August 4, 1960 interpretation as herein modified.

November 8, 1960