



FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 75-80

June 16, 1975

American Revolution Bicentennial

PROPOSED AMENDMENTS TO REGULATIONS D AND Q

TO ALL MEMBER BANKS IN THE ELEVENTH FEDERAL RESERVE DISTRICT:

There is quoted below the text of a press release issued Thursday, June 5, 1975, by the Board of Governors of the Federal Reserve System announcing proposed amendments to Regulations D and Q which would authorize member banks to accept savings deposits from corporations, partnerships, and other profitmaking organizations.

The Board of Governors of the Federal Reserve System today announced it is considering amending the definition of savings deposits in its Regulations D and Q to permit corporations, partnerships, and other profitmaking organizations to maintain savings accounts at member banks.

Comment will be received by the Board through July 25.

Savings accounts have not previously been available, in general, at member banks to profitmaking business organizations. The proposed revised rules would limit savings accounts for profitmaking businesses to \$100,000 for each organization at a member bank.

The Board suggested a dollar ceiling on such accounts to make them attractive chiefly to small businesses that do not have access to the money markets for temporarily idle funds.

The Board said it is considering amending the provisions of Regulation D (reserve requirements), and Regulation Q (interest on deposits) to enable member banks to compete more effectively with savings and loan associations and other thrift institutions. These institutions are permitted to accept savings deposits from businesses.

In Massachusetts and New Hampshire, where the law permits financial institutions to offer deposits subject to negotiable orders of withdrawal (NOWs--check-like use of interest bearing deposits), such accounts will continue to be available only to individuals and other qualifying organizations. Businesses are not eligible to establish NOW accounts.

If the proposed amendments are adopted, member banks would be asked to classify their business savings account deposits as a separate item for reporting purposes.

The proposal is printed on the following pages for your information.

Sincerely yours,

T. W. Plant

First Vice President

TITLE 12--BANKS AND BANKING

CHAPTER II--FEDERAL RESERVE SYSTEM

SUBCHAPTER A--BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

[REG. D] AND [REG. Q]

PART 204--RESERVES OF MEMBER BANKS

PART 217--INTEREST ON DEPOSITS

Definition of Savings Deposits

The Board of Governors has been asked to consider amendments to Regulations D and Q to permit member banks to classify funds of corporations, associations, and other organizations operated for profit as savings deposits.

Recent correspondence received by the Board indicates that continuation of a rigid ban on the ability of member banks to accept savings deposits from business organizations may be having an adverse effect upon the ability of member banks to compete with other financial institutions for deposits of business enterprises since, at present, savings and loan associations and other thrift institutions are permitted to accept savings from businesses. In addition, the Board is aware that corporations with large amounts of idle funds are able to realize a return on their temporarily idle funds by investment in short-term money market instruments. Smaller business organizations do not ordinarily have such access to money markets and are, therefore,

precluded from realizing any short-term return on their funds. Based on a review of the original basis for imposition of the corporate deposit restriction and the current competitive environment, the Board has determined that a modification of its long-standing policy may be appropriate.

The Board believes that the proposed amendments would help to restore the competitive balance between financial institutions and would help to eliminate any adverse effects application of the present definition may have upon smaller business organizations. In order to confine the effects of the proposed amendments to small enterprises with limited liquidity alternatives and to limit the concentration of any volatile funds in savings deposits, the proposed amendments include a restriction of \$100,000 on the amount that a business enterprise may maintain in savings form at a member bank. The Board is interested in receiving comments from the public concerning the proposed \$100,000 per depositor limitation and whether some other limitation, if any, would be more appropriate. If the proposed amendment is adopted by the Board, it is expected that member banks would be asked to maintain savings deposits established by business organizations as a separate deposit classification for reporting purposes.

In those states where member banks are permitted by law to offer deposits subject to negotiable orders of withdrawal (NOW's), such accounts will continue to be available only to individuals and other qualifying organizations as provided for by 12 CFR 217.1(e)(3), which would remain unaffected by the proposed amendments.

To aid in the consideration of this matter by the Board, interested persons are invited to submit relevant data, views, or arguments. Any such material should be submitted in writing to the Secretary, Board of Governors of the Federal Reserve System, Washington, D.C. 20551, to be received not later than July 25, 1975. Such material will be made available for inspection and copying upon request except as provided in § 261.6(a) of the Board's Rules Regarding Availability of Information (12 CFR 261.6(a)).

Accordingly, pursuant to its authority under § 19 of the Federal Reserve Act (12 U.S.C. 461) to define the terms used in that section, the Board proposes to amend § 204.1(e)(1) of Regulation D (12 CFR 204.1(e)(1)) and § 217.1(e)(1) of Regulation Q (12 CFR 217.1(e)(1)) to read as follows:

§ 204.1--DEFINITIONS

* * * * *

- (e) Savings deposits. The term "savings deposit" means a deposit--
(1) which consists of funds deposited to the credit of one or more individuals, or of a corporation, association, or other organization operated primarily for religious, philanthropic, charitable, educational, fraternal, or other similar purposes and not operated

for profit;^{4/} or in which the entire beneficial interest is held by one or more individuals or by such a corporation, association or other organization; or which consists of funds deposited to the credit of or in which the entire beneficial interest is held by, the United States, any State of the United States, or any county, municipality, or political subdivision thereof, the District of Columbia, the Commonwealth of Puerto Rico, the Virgin Islands, American Samoa, Guam, or political subdivision thereof; or which consists of funds deposited to the credit of, or in which any beneficial interest is held by a corporation, association, or other organization not qualifying above to the extent such funds do not exceed \$100,000 per such depositor at a member bank;^{4a/} and

(New language underlined)

* * * * *

fn. 4/ Deposits in joint accounts of two or more individuals may be classified as savings deposits if they meet the other requirements of the above definition. Deposits of a partnership operated for profit may be so classified to the extent such deposits do not exceed \$100,000 per partnership at a member bank.

fn. 4a/ Where a deposit is to the credit of the bank's own trust department and the funds involved are utilized to cover checks, such deposit may not be classified as a savings deposit.

§ 217.1--DEFINITIONS

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(e) Savings deposits. The term "savings deposit" means a deposit--
(1) which consists of funds deposited to the credit
of one or more individuals, or of a corporation,
association, or other organization operated primarily
for religious, philanthropic, charitable, educational,
fraternal, or other similar purposes and not operated
for profit;^{4/} or in which the entire beneficial interest
is held by one or more individuals or by such a cor-
poration, association, or other organization; or which
consists of funds deposited to the credit of, or in
which the entire beneficial interest is held by, the
United States, any State of the United States, or any
county, municipality, or political subdivision thereof,
the District of Columbia, the Commonwealth of Puerto
Rico, the Virgin Islands, American Samoa, Guam, or
political subdivision thereof; or which consists of
funds deposited to the credit of, or in which any
beneficial interest is held by a corporation,
association, or other organization not qualifying
above to the extent such funds do not exceed \$100,000
per such depositor at a member bank; and

(New language underlined)

* * * * *

fn. 4/ Deposits in joint accounts of two or more individuals may be classified as savings deposits if they meet the other requirements of the above definition. Deposits of a partnership operated for profit may be so classified to the extent such deposits do not exceed \$100,000 per partnership at a member bank.

By order of the Board of Governors, June 5, 1975.

(Signed) Theodore E. Allison

Theodore E. Allison
Secretary of the Board

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