

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 82-116
September 15, 1982

REGULATIONS D AND Q

AMENDMENTS

TO ALL MEMBER BANKS AND OTHERS CONCERNED
IN THE ELEVENTH FEDERAL RESERVE DISTRICT:

The Board of Governors of the Federal Reserve System has amended its Regulation D (Reserve Requirements of Depository Institutions) and Regulation Q (Interest on Deposits) as follows:

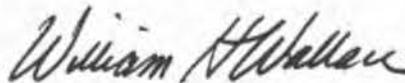
1. Regulation D has been amended in order to classify the new 7- to 31-day account as a time deposit. This new account was explained in our Circular No. 82-97 dated August 11, 1982. The shortest maturity for all other time deposits remains 14 days.
2. The Board amended Regulation Q to permit member banks to offer, exempt from interest rate ceilings, automatically renewable small denomination (less than \$100,000) repurchase agreements on U.S. Government and agency securities. At the same time, the Board removed the present 89-day maturity limit on such repurchase agreements.

In addition, the Board has requested comment by October 1, 1982, on the minimum maturity of all time deposits and limits to business savings accounts at member banks.

Attached are copies of the Board's press release and the material as submitted for publication in the Federal Register. Questions regarding the material contained in this circular should be directed to this Bank's Legal Department, Extension 6171.

Additional copies of this circular and the attachment will be furnished upon request to the Department of Communications, Financial and Community Affairs, Extension 6289.

Sincerely yours,



William H. Wallace
First Vice President

Attachment

Banks and others are encouraged to use the following incoming WATS numbers in contacting this Bank: 1-800-442-7140 (intrastate) and 1-800-527-9200 (interstate). For calls placed locally, please use 651 plus the extension referred to above.

FEDERAL RESERVE press release



For immediate release

August 25, 1982

The Federal Reserve Board today announced changes under its Regulation D (Reserves of Depository Institutions) and Regulation Q (Interest on Deposits) and two proposals under these regulations.

The Board's actions, spelled out in accompanying official notices, were:

1. In connection with the recent authorization, effective September 1, of a new 7 to 31 day account by the Depository Institutions Deregulation Committee (DIDC), the Board amended Regulation D to classify the new account as a time deposit. The shortest maturity for all other time deposits remains 14 days.

--Simultaneously, the Board issued for comment a proposal to make the minimum maturity on all time accounts, including large certificates of deposit (over \$100,000), seven days. The Board requested comment by October 29, 1982.

2. The Board amended Regulation Q to permit member banks to offer, exempt from interest rate ceilings, automatically renewable small denomination (less than \$100,000) repurchase agreements on U.S. Government and agency securities ("RPs"). At the same time, the Board removed the present 89-day maturity limit on such repurchase agreements.
3. The Board requested comment on what limit should apply to business savings accounts at member banks. Although the Board favors having a limit, it will consider comment on no limitation. The present limit is \$150,000. The Board indicated that it was specifically interested in comments concerning the potential impact on monetary control of raising or removing the limitation on business savings. The Board requested comment by October 1, 1982.

Attachments

FEDERAL RESERVE SYSTEM

Regulation D

[12 CFR Part 204]

[Docket No. R-0416]

RESERVE REQUIREMENTS OF DEPOSITORY INSTITUTIONS

Time Deposits With Original Maturities or
Notice Periods of Seven to Thirteen Days

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Final rule.

SUMMARY: The Board of Governors has amended Regulation D--Reserve Requirements of Depository Institutions (12 CFR Part 204) to define the new seven to 31 day deposit category authorized by the Depository Institutions Deregulation Committee ("DIDC") as a "time deposit" for purposes of Regulation D. Accordingly, these deposits will be subject to no basic reserve requirements if they are personal time deposits and to a 3 per cent reserve requirement if they are nonpersonal time deposits. All other deposit categories, with original maturities or notice periods of less than 14 days, will continue to be defined as "demand deposits" and subject to transaction account reserve requirements. This action was taken in view of the DIDC's authorization of a new category of deposit with an original maturity or notice period of no less than seven nor more than 31 days and a ceiling rate based on the 91-day Treasury bill rate (auction average on a discount basis).

EFFECTIVE DATE: September 1, 1982. The first reserve maintenance period to which this amendment applies commences September 9, 1982.

FOR FURTHER INFORMATION CONTACT: Gilbert T. Schwartz, Associate General Counsel (202/452-3625), Paul S. Pilecki, Senior Attorney (202/452-3281), or Robert G. Ballen, Attorney (202/452-3265), Legal Division, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

SUPPLEMENTARY INFORMATION: The Monetary Control Act of 1980 ("MCA") (Title I of P.L. 96-221; 94 Stat. 132) defines "transaction account" as a deposit or account on which the depositor or account holder is permitted to make payments or transfers to third persons or others including demand deposits (12 U.S.C. § 461(b)(1)(C)). The Board is empowered to determine which deposits or accounts are demand deposits and, thus, transaction accounts for reserve requirement purposes (12 U.S.C. § 461(a)). The Board at present defines "demand deposit" to include any deposit

or account with a maturity or required notice period of less than 14 days (12 CFR § 204.2(b)(1)). Deposits or accounts with a maturity or required notice period of 14 days or more currently are defined as "time deposits."

The Depository Institutions Deregulation Committee ("DIDC"), pursuant to its authority under the Depository Institutions Deregulation Act of 1980 (Title II of Pub. L. 96-221), authorized Federally-insured commercial banks, mutual savings banks, and savings and loan associations^{1/} to offer, effective September 1, 1982, a new category of time deposit with an original maturity or required notice period of seven to 31 days, at the discretion of the depository institution, with a required minimum deposit balance of \$20,000 and a ceiling rate tied to the 91-day Treasury bill rate (auction average on a discount basis). Thrift institutions may pay the bill rate and commercial banks may pay 25 basis points less than the bill rate. The interest rate ceilings will be suspended whenever the 91-day Treasury bill rate has been nine per cent or below for four consecutive Treasury bill auctions and, in any event, will be eliminated on May 1, 1983. 47 Fed. Reg. 34127; August 6, 1982.

Under the Board's Regulation D, the new instrument, if issued with an original maturity or required notice period of seven to 13 days, would be considered a transaction account and as such subject to a three or twelve per cent reserve requirement, depending upon the level of total net transaction accounts at the depository institution. If issued with an original maturity or required notice period of 14 to 31 days, the new instrument would be considered a time deposit and as such would not be subject to basic reserve requirements if nontransferable and held by a natural person or would be subject to a 3 per cent reserve requirement if transferable or if held by other than a natural person. Thus, the existing reserve requirement structure presents a disincentive for issuing the new instrument with an original maturity or required notice period of seven to 13 days.

In light of the DIDC's objective in authorizing this new instrument to enable depository institutions to compete more effectively with short-term market instruments, the Board has amended its regulations so that the new instrument, when issued with an original maturity or required notice period of seven to 13 days will be regarded as a time deposit for reserve requirement purposes. The new instrument has various restrictions that limit its transactional capabilities, including a \$20,000 minimum deposit balance, prohibitions against third party negotiable drafts drawn directly on the instrument and sweep arrangements involving the instrument, and a requirement that it be issued in nonnegotiable form.

^{1/} Generally, United States branches and agencies of foreign banks and Edge or Agreement Corporations may offer this account pursuant to section 7(a)(1)(A) of the International Banking Act of 1978 (12 U.S.C. § 3105(a)(1)(A)), section 18(g) of the Federal Deposit Insurance Act (12 U.S.C. § 1828(g)), sections 25 and 25(a) of the Federal Reserve Act (12 U.S.C. §§ 601 et seq., 611 et seq.) and 12 CFR § 211.4(d).

Deposits or accounts issued by depository institutions subject to the rules of the DIDC with original maturities or required notice periods of less than 14 days that do not have all of the characteristics of the new seven to 31 day instrument will continue to be treated as demand deposits and will be subject to reserve requirements at the ratios applicable to transaction accounts.

A deposit or account issued with an original maturity or required notice period of seven to 13 days by depository institutions that are not subject to the rules of the DIDC will be regarded as a time deposit for purposes of Regulation D only if a minimum deposit balance of \$20,000 is maintained, it is in nonnegotiable form, and the account otherwise would not be classified as a transaction account under Regulation D. This, however, will not affect the ability of such institutions to offer other types of time deposits. It should be noted that the Board also is seeking public comment on a proposed amendment that would regard any deposit issued with an original maturity or required notice period of seven days or more as a time deposit.

In view of the fact that commercial banks, mutual savings banks, and savings and loan associations may offer the new time deposit category authorized by the DIDC as of September 1, 1982, the Board finds that application of the notice and public participation provisions of 5 U.S.C. § 553 to this action would be contrary to the public interest, and that good cause exists for making this action effective September 1, 1982.

List of Subjects in 12 CFR Part 204

Banks, banking; Currency; Federal Reserve System; Penalties; Reporting requirements.

Pursuant to its authority under sections 19, 25, and 25(a) of the Federal Reserve Act (12 U.S.C. §§ 461, 601 et seq., 611 et seq.) and under section 7 of the International Banking Act of 1978 (12 U.S.C. § 3105), the Board amends Regulation D (12 CFR Part 204) effective September 1, 1982, as follows:

1. By amending subparagraph (2) of section 204.2(b) to read as follows:

SECTION 204.2--DEFINITIONS

* * * * *

(b) * * *

(2) A "demand deposit" does not include (i) checks or drafts drawn by the depository institution on the Federal Reserve or on another depository institution; (ii) a deposit or account issued pursuant to 12 CFR § 1204.121, including those with an original maturity or required notice period of seven to 13 days; or (iii) for depository

institutions not subject to the rules of the Depository Institutions Deregulation Committee under 12 U.S.C. § 3501 et seq., a deposit or account issued with an original maturity or required notice period of seven to 13 days if such deposit or account is nonnegotiable, subject to a minimum balance of \$20,000, and not otherwise a transaction account under section 204.2(e) of this Part.

* * * * *

2. By amending subparagraph (1) of section 204.2(c) to read as follows:

SECTION 204.2--DEFINITIONS

(c) (1) * * *

(E) that constitute a "savings deposit" which is not regarded as a "transaction account;"

(ii) borrowings, regardless of maturity, represented by a promissory note, an acknowledgment of advance, or similar obligation described in section 204.2(a) (1) (vii) that is issued to any office located outside the United States of another depository institution or Edge or agreement corporation organized under the laws of the United States, to any office located outside the United States of a foreign bank, or to institutions whose time deposits are exempt from interest rate limitations under section 217.3(g) of Regulation Q (12 CFR 217.3(g)); and

(iii) a deposit or account issued pursuant to 12 CFR § 1204.121, including those with an original maturity or required notice period of seven to 13 days; or for depository institutions not subject to the rules of the Depository Institutions Deregulation Committee under 12 U.S.C. § 3501 et seq., a deposit or account issued with an original maturity or required notice period of seven to 13 days if such deposit or account is nonnegotiable, subject to a minimum balance of \$20,000, and is not otherwise a transaction account under section 204.2(e) of this Part.

* * * * *

By order of the Board of Governors, August 24, 1982.

(signed) William W. Wiles

William W. Wiles
Secretary of the Board

[SEAL]

FEDERAL RESERVE SYSTEM

Regulations D and Q

[12 CFR Parts 204 and 217]

[Docket No. R-0417]

RESERVE REQUIREMENTS OF DEPOSITORY INSTITUTIONS
INTEREST ON DEPOSITS

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Request for public comment.

SUMMARY: The Board of Governors is requesting comment on a proposal to amend Regulation Q--Interest on Deposits (12 CFR Part 217) and Regulation D--Reserve Requirements of Depository Institutions (12 CFR Part 204) to reduce the minimum maturity of all time deposits to seven days.

EFFECTIVE DATE: Comments must be received by October 29, 1982.

ADDRESS: Interested parties are invited to submit written data, views, or arguments concerning the rule to William W. Wiles, Secretary, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue, N.W., Washington, D.C. 20551, or should be delivered to room B-2223 between 8:45 a.m. and 5:15 p.m. Comments may be inspected in room B-1122 between 8:45 a.m. and 5:15 p.m., except as provided in section 261.6(a) of the Board's Rules Regarding Availability of Information (12 CFR 261.6(a)).

FOR FURTHER INFORMATION CONTACT: Gilbert T. Schwartz, Associate General Counsel (202/452-3625), Paul S. Pilecki, Senior Attorney (202/452-3281), or Beverly A. Belcamino, Legal Assistant (202/452-3623), Legal Division, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

SUPPLEMENTARY INFORMATION: Section 19(a) of the Federal Reserve Act (12 U.S.C. § 461(a)) authorizes the Board to determine the types of obligations that constitute deposits. At present, the Board defines time deposits as deposits or accounts with a minimum maturity or required notice period of 14 days (12 CFR §§ 204.2(c) and 217.1(b), (c)) and defines demand deposits to include any deposit or account with a maturity or required notice period of less than 14 days (12 CFR §§ 204.2(b)(1) and 217.1(a)).

The Depository Institutions Deregulation Committee ("DIDC"), pursuant to its authority under the Depository Institutions Deregulation Act of 1980 (Title II of Pub. L. 96-221), authorized Federally-insured

commercial banks, mutual savings banks, and savings and loan associations to offer, effective September 1, 1982, a new category of time deposit with an original maturity or required notice period of seven to 31 days at the discretion of the depository institution and a ceiling rate tied to the 91-day Treasury bill rate (auction average on a discount basis). Thrift institutions may pay the bill rate and commercial banks may pay the bill rate minus 25 basis points. Under current regulations, the seven to 31 day deposit would be defined as a transaction account if it is issued with a maturity or required notice period of less than 14 days and, thus, would be subject to transaction account reserve requirements. Accordingly, the Board considered whether to amend its regulations to regard the newly authorized account as a time deposit. The Board amended Regulation D, effective September 1, 1982, to provide that the seven to 31 day instrument would be regarded as a time deposit for reserve requirement purposes. The Board also determined that it would be appropriate to solicit public comment on the issue of lowering the minimum maturity on all other time deposit accounts to seven days.^{1/}

Reducing the minimum maturity or notice requirement for all time deposits to seven days could broaden the certificate of deposit ("CD") market for depository institutions, enabling them, among other things, to compete more effectively through the issuance of CDs with the Eurodollar and commercial paper markets and increasing the attractiveness of CDs issued by smaller banks--which do not trade in the secondary market. It would also provide depository institutions with more flexibility to vary the maturity mix of their liability structures.

On the other hand, the Board is concerned that a seven day time deposit could tend to reduce further the distinction between transaction accounts and time deposits and, conceivably, could lead to shifting between transaction balances and seven-day CDs, which could contribute to difficulties in interpreting the monetary aggregates. Moreover, the liquidity positions of depository institutions could erode if, without making compensating adjustments to the maturity structure of their assets or their other liabilities, they were to rely more heavily on shorter-term funds obtained through issuing negotiable CDs--which typically are acquired in large blocs from corporate and institutional investors who are quite sensitive to changes in market conditions.

The impact of this proposal on small entities has been considered in accordance with section 604 of the Regulatory Flexibility Act (5 U.S.C. § 604; Pub. L. 96-354). This proposal will provide an additional tool for small banks to use in competing with larger institutions for short term, large denomination deposits. A seven day minimum maturity could enhance the attractiveness of CDs issued by small banks which normally do not trade in the secondary market.

^{1/} In connection with this proposal, the Board additionally proposes to reduce to seven days from 14 days the period for which an institution must reserve the right to require notice prior to withdrawal of funds in savings deposits (12 CFR 204.2(d)(1); 12 CFR 217.1(e)(2)).

To aid in consideration of this matter by the Board, interested persons are invited to submit relevant data, views, comment or argument. All material should be submitted in writing to the Secretary, Board of Governors of the Federal Reserve System, Washington, D.C. 20551 to be received by October 29, 1982. All material submitted should include the Docket No. R-0417. Such material will be made available for inspection and copying upon request except as provided in section 261.6(a) of the Board's Rules Regarding Availability of Information (12 CFR 261.6(a)).

List of Subjects in 12 CFR Part 204

Banks, banking; Currency; Federal Reserve System; Penalties; Reporting requirements.

List of Subjects in 12 CFR Part 217

Advertising; Banks, banking; Federal Reserve System; Foreign banking.

Pursuant to its authority under section 19(a) of the Federal Reserve Act (12 U.S.C. § 461(a)) to define deposits, the Board proposes to amend Regulation D (12 CFR Part 204) and Regulation Q (12 CFR Part 217), as follows:

1. In section 204.2 by revising paragraph (b) to read as follows:

SECTION 204.2--DEFINITIONS

* * * * *

(b) (1) "Demand deposit" means a deposit that is payable on demand, or a deposit issued with an original maturity or required notice period of less than seven days, or a deposit representing funds for which the depository institution does not reserve the right to require at least seven days' written notice of an intended withdrawal. The term includes all deposits other than time and savings deposits. Demand deposits may be in the form of (i) checking accounts; (ii) certified, cashier's and officer's checks (including checks issued by the depository institution in payment of dividends); (iii) traveler's checks and money orders that are primary obligations of the issuing institution; (iv) checks or drafts drawn by, or on behalf of, a non-United States office of a depository institution on an account maintained at any of the institution's United States offices; (v) letters of credit sold for cash or its equivalent; (vi) withheld taxes, withheld insurance and other withheld funds; (vii) time deposits that have matured or time deposits upon which the required notice of withdrawal period has expired and which have not been renewed

(either by action of the depositor or automatically under the terms of the deposit agreement); and (viii) an obligation to pay on demand or within seven days a check (or other instrument, device, or arrangement for the transfer of funds) drawn on the depository institution, where the account of the institution's customer already has been debited. The term does not include an obligation that is a time deposit under section 204.2(c)(1)(ii).

(2) A "demand deposit" does not include checks or drafts drawn by the depository institution on the Federal Reserve or on another depository institution.

* * * * *

2. In section 204.2 by revising paragraph (c) to read as follows:

SECTION 204.2--DEFINITIONS

* * * * *

(c)(1) "Time deposit" means (i) a deposit that the depositor does not have a right to withdraw for a period of seven days or more after the date of deposit. "Time deposit" includes funds:

(A) payable on a specified date not less than seven days after the date of deposit;

(B) payable at the expiration of a specified time not less than seven days after the date of deposit;

(C) payable upon written notice which actually is required to be given by the depositor not less than seven days before the date of repayment;

(D) such as "Christmas club" accounts and "vacation club" accounts, that are deposited 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 three months even though some of the deposits may be made within seven days from the end of the period; or

(E) that constitute a "savings deposit" which is not regarded as a transaction account; and

(ii) * * *

(2) * * *

* * * * *

3. In section 217.1 by revising paragraph (b) to read as follows:

SECTION 217.1--DEFINITIONS

* * * * *

(b)(1) "Time deposit" means (i) a deposit that the depositor does not have a right to withdraw for a period of seven days or more after the date of deposit. "Time deposit" includes funds:

(A) payable on a specified date not less than seven days after the date of deposit;

(B) payable at the expiration of a specified time not less than seven days after the date of deposit:

(C) payable upon written notice which actually is required to be given by the depositor not less than seven days before the date of repayment;^{1/}

(D) such as "Christmas club" accounts and "vacation club" accounts, that are deposited 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 three months even though some of the deposits may be made within seven days from the end of the period; and

(ii) an "international banking facility time deposit" as defined in this section.

(2) * * *

* * * * *

^{1/} A deposit with respect to which the bank merely reserves the right to require notice of not less than seven days before any withdrawal is made is not a "time deposit" within the meaning of the above definition.

By order of the Board of Governors, August 24, 1982.

(signed) William W. Wiles

William W. Wiles
Secretary of the Board

SEAL]

FEDERAL RESERVE SYSTEM

(12 CFR Part 217)

[Docket No. R-0418¹]Deposits as Including Certain Promissory Notes and
Other Obligations

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Final rule.

SUMMARY: The Board of Governors has amended Regulation Q--Interest on Deposits (12 CFR Part 217) to permit member banks to issue automatically renewable repurchase agreements on U.S. government or agency securities ("RPs") of less than \$100,000 with maturities of 89 days or less exempt from Federal interest rate ceilings. In addition, member banks will be permitted to issue small denomination RPs with maturities of 90 days or more exempt from interest rate ceilings. This action was taken to maintain the competitive position of member banks vis-a-vis other depository institutions.

EFFECTIVE DATE: August 24, 1982.

FOR FURTHER INFORMATION CONTACT: Gilbert T. Schwartz, Associate General Counsel (202/452-3625), or Paul S. Pilecki, Senior Attorney (202/452-3281), Legal Division, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

SUPPLEMENTARY INFORMATION: Effective August 1, 1979, the Board amended Regulation Q--Interest on Deposits (12 CFR Part 217) to subject small denomination repurchase agreements on U.S. government or agency securities ("RPs") of 90 days or more to interest rate ceilings. Under that action, an RP is defined as a deposit if issued in a denomination of less than \$100,000 with a maturity of 90 days or more. Small denomination RPs with maturities of less than 90 days are exempt from the interest rate ceilings of Regulation Q unless they can be automatically renewed or extended. The Board continued the exemption from the definition of deposits for small denomination RPs of less than 90 days in order to not affect adversely the practice of small businesses and government units using RPs for cash management purposes. This action was taken in response to the increased use of RPs as a method of avoiding Regulation Q interest rate ceilings for longer-term time deposits. The provision prohibiting automatic renewals or extensions was intended to make effective the 89-day maturity limit to insure that such instruments would not be used as longer-term, small time deposit substitutes.

The Depository Institutions Deregulation Committee has announced recently a schedule to deregulate the interest rate ceilings on small denomination time deposits. Under the initial step of the program, time deposits that mature in 3-1/2 years or longer are not subject to a Federal interest rate ceiling. Thus, there is less incentive for depository institutions to raise longer term funds through the issuance of small denomination RPs. In addition, depository institutions now have a greater variety of deposit instruments with which to compete than were available in 1979. Accordingly, the Board believes that it is no longer necessary to subject small denomination RPs of 90 days or more to interest rate ceilings or to restrict member banks from offering automatically renewable RPs of 89 days or less. Consequently, the Board has amended Regulation Q to exempt from interest rate limitations all member bank RPs on U.S. government and agency securities.

This action is consistent with previous actions taken by other Federal financial institutions regulatory agencies. In this regard, the Federal Home Loan Bank Board and the Federal Deposit Insurance Corporation recently authorized Federally-insured savings and loan associations and nonmember Federally-insured commercial banks and mutual savings banks, respectively, to issue automatically renewable small denomination RPs with maturities of less than 89 days exempt from interest rate ceilings.

Because this action is necessary to place member banks in a competitive position similar to other depository institutions with respect to short-term instruments, the Board believes that good cause exists for not adhering to the notice and public participation provisions of 5 U.S.C. § 553(b) and for making this action effective immediately.

List of Subjects in 12 CFR Part 217

Advertising; Banks, banking; Federal Reserve System; Foreign banking.

Pursuant to its authority under section 19(a) of the Federal Reserve Act (12 U.S.C. § 461(a)) to define the term "deposit," the Board amends, effective August 23, 1982, Regulation Q (12 CFR Part 217) by revising section 217.1(f)(2) to read as follows:

§ 217.1--DEFINITIONS

* * * * *

(f) * * *

(1) * * *

(2) Evidences an indebtedness arising from a transfer of direct obligations of, or obligations that are fully guaranteed as to principal and interest by, the United States or any agency thereof that the bank is obligated to repurchase;

* * * * *

By order of the Board of Governors, August 24, 1982.

(Signed) William W. Wiles

William W. Wiles
Secretary of the Board

[SEAL]

FEDERAL RESERVE SYSTEM

REGULATIONS D AND Q

[12 CFR Parts 204 and 217]

(Docket No. R-0420)

RESERVE REQUIREMENTS OF DEPOSITORY INSTITUTIONS
INTEREST ON DEPOSITS

Savings Deposits

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Request for public comment.

SUMMARY: The Board of Governors is requesting public comment on a proposal to amend Regulation Q--Interest on Deposits (12 CFR Part 217) to increase the maximum size limitation on business savings accounts at member banks to \$250,000. Currently, member banks are not permitted to accept savings deposits in excess of \$150,000 per depositor from organizations operated for profit. Additionally, the Board invites comment on the possibility of eliminating this limitation completely.

EFFECTIVE DATE: Comments must be received by October 1, 1982.

ADDRESS: Interested parties are invited to submit written data, views, or arguments concerning the proposed rule to William W. Wiles, Secretary, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue, N. W., Washington, D. C. 20551, or should be delivered to room B-2223 between 8:45 a.m. and 5:15 p.m. Comments may be inspected in room B-1122 between 8:45 a.m. and 5:15 p.m. except as provided in section 261.6(a) of the Board's Rules Regarding Availability of Information (12 CFR 261.6(a)).

FOR FURTHER INFORMATION CONTACT: Gilbert T. Schwartz, Associate General Counsel (202/452-3625), Paul S. Pilecki, Senior Attorney (202/452-3281), or Beverly A. Belcamino, Legal Assistant (202/452-3623), Legal Division, Board of Governors of the Federal Reserve System, Washington, D. C. 20551.

SUPPLEMENTARY INFORMATION: The Board is requesting public comment on a proposal to amend Regulation Q (12 CFR Part 217) and Regulation D (12 CFR Part 204) to increase the maximum size limitation on business savings accounts at member banks to \$250,000. The Board also requests comments on the possibility of eliminating this limitation.

The current regulations concerning business savings deposits were established in November 1975. At that time, changes to Regulation D and Regulation Q were adopted permitting member banks to accept savings deposits from an organization operated for profit, but the balance in such an account could not exceed \$150,000.^{1/} Similar rules were implemented by the FDIC that applied to Federally-insured nonmember commercial banks.

Business savings accounts at member banks were authorized to provide small businesses, which lack direct access to the money market, with a cash management tool that would allow these firms to realize an explicit return on their temporarily idle cash balances. Also, member banks were permitted to offer savings accounts to businesses to enable the banks to compete more effectively with thrift institutions, which could accept savings deposits from businesses.

Even though savings deposits at thrift institutions were not subject to a size limitation, the \$150,000 maximum was placed on business savings at banks in order (1) "to limit the concentration of any potentially volatile funds in savings deposits;" and (2) "to confine the use of business savings primarily to smaller businesses." (40 Fed. Reg. 46301 (October 7, 1975)).

There are a number of reasons supporting an increase in the size limitation on business savings. Since the limitation was first established, inflation and the growth in demand for liquid assets have reduced its effective size. If \$150,000 was appropriate in 1975, a higher limit may now be needed to provide businesses with comparable flexibility to manage their cash positions. In addition, there are no restrictions on the size of business savings accounts at thrifts. The increase in the size limitation for commercial banks would enable them to compete more effectively with thrifts for business savings, and, if interest rates on savings deposits were to become sufficiently attractive, with money market mutual funds.

On the other hand, a higher size limitation, or eliminating the limitation, on business savings could increase the potential for the development of problems in interpreting the monetary aggregates, since business savings accounts might attract funds from demand deposits and other liquid assets. If market interest rates approach the present ceilings on savings deposits, or when such ceilings are removed (which is scheduled to occur under current law by March 31, 1986), business savings deposits could become a vehicle for effectively paying interest on transaction funds to customers ineligible for NOW accounts. It should

^{1/} The size limitation on savings accounts also applies to nonprofit organizations not operated primarily for religious, philanthropic, charitable, educational, fraternal, or other similar purposes. Governmental units are permitted to have savings accounts without limitation.

be noted that if more than three telephone or preauthorized transfers per month were permitted on these savings deposits, the account would be subject to transaction account reserve requirements under Regulation D.

The proposal's effect on small entities has been considered in accordance with section 604 of the Regulatory Flexibility Act (5 U.S.C. § 604; Pub. L. 96-354). Small banks would benefit from either a liberalization or elimination of the limit on business savings deposits because this change would allow these institutions to compete more effectively with thrift institutions, which currently are subject to no such limitation. Further, small businesses should be aided by the opportunity to place larger cash balances in interest-bearing accounts.

To aid in consideration of this matter by the Board, interested persons are invited to submit relevant data, views, comment or argument. In particular, the Board requests views with respect to the following issues:

- a) whether \$250,000 or some other limitation should be adopted;
- b) the extent to which an increase in the ceiling or elimination of the limit on business savings deposits might lead to circumvention of the prohibition against payment of interest on demand deposits; and
- c) the potential for volatile swings in deposit flows associated with this proposal, as banks have more scope to compete for funds that can be essentially withdrawn on demand in response to changing rate relationships and market conditions.

All material should be submitted in writing to the Secretary, Board of Governors of the Federal Reserve System, Washington, D. C. 20551 to be received by October 1, 1982. All material submitted should include the Docket No. R-0420. Such material will be made available for inspection and copying upon request except as provided in section 261.6(a) of the Board's Rules Regarding Availability of Information (12 CFR 261.6(a)).

List of Subjects in 12 CFR Part 204

Banks, banking; Currency; Federal Reserve System; Penalties; Reporting requirements.

List of Subjects in 12 CFR Part 217

Advertising; Banks, banking; Federal Reserve System; Foreign banking.

Pursuant to its authority under section 19(a) of the Federal Reserve Act (12 U.S.C. § 461(a)) to define deposits, the Board proposes to amend Regulation D (12 CFR Part 204) and Regulation Q (12 CFR Part 217), as follows:

1. In section 204.2, by amending paragraph (d) to read as follows:

SECTION 204.2--DEFINITIONS

* * * * *

(d) (1) * * *

(2) For depository institutions subject to 12 CFR part 217 or 12 CFR part 329, funds deposited to the credit of, or in which any beneficial interest is held by, a corporation, association, partnership or other organization operated for profit may be classified as a savings deposit if such funds do not exceed \$250,000 per depositor at the depository institution.

* * * * *

2. In section 217.1, by amending paragraph (e) to read as follows:

SECTION 217.1--DEFINITIONS

* * * * *

(e) Savings deposits. The term "savings deposit" means a deposit--

(1) That consists of funds deposited to the credit of or in which the entire beneficial interest is held by 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;^{2/} or that 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 that 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 \$250,000 per such depositor at a member bank; and

* * * * *

2/ 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 also be classified as savings to the extent such deposits do not exceed \$250,000 per partnership at a member bank.

By order of the Board of Governors, August 24, 1982.

(signed) William W. Wiles

William W. Wiles
Secretary of the Board

[SEAL]