

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, March 28, 1944, at 10:15 a.m.

PRESENT: Mr. Eccles, Chairman  
Mr. Szymczak  
Mr. McKee  
Mr. Draper

Mr. Morrill, Secretary  
Mr. Bethea, Assistant Secretary  
Mr. Carpenter, Assistant Secretary  
Mr. Clayton, Assistant to the Chairman

The action stated with respect to each of the matters herein-after referred to was taken by the Board:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on March 27, 1944, were approved unanimously.

Memorandum dated March 27, 1944, from Mr. Goldenweiser, Director of the Division of Research and Statistics, submitting the resignation of Mrs. Jane W. Barco as a clerk in that Division, to become effective as of the close of business on March 31, 1944, and recommending that the resignation be accepted as of that date.

The resignation was accepted.

Memorandum dated March 28, 1944, from Mr. Morrill, submitting the resignation of Mrs. Geraldine May as a charwoman in the Secretary's Office, to become effective as of the close of business on April 4, 1944, and recommending that the resignation be accepted as of that date.

The resignation was accepted.

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Telegram to Mr. Sienkiewicz, Vice President of the Federal Reserve Bank of Philadelphia, reading as follows:

"This refers to your letter of March 25 to Mr. Dreibelbis enclosing copies of a letter from the President of the Provident Trust Company with regard to the absorption of exchange charges.

"From the information presented in this case it is understood that the bank has no agreement or understanding, tacit or otherwise, with any depositor with regard to the absorption of any exchange or collection charges; and that such charges are absorbed only in order to avoid additional expense where the amount of the clerical or other expense that would be involved in collecting the charges from the bank's depositors exceeds the amount of the charges.

"Under the Board's Regulation Q, interest is defined as 'any payment to or for the account of any depositor as compensation for the use of funds constituting a deposit'. As pointed out in the Board's ruling published in the September 1943 Federal Reserve Bulletin at page 817, two questions arise under this definition: First, whether the absorption of the charges by the bank constitutes a payment; and, second, whether such payment is made as compensation for the use of funds constituting a deposit. Since in practically every case the absorption of the charge results in a payment, it may be pointed out that most cases will turn upon a determination of whether the charges are absorbed as compensation for the use of the funds on deposit. In this case it appears that charges are absorbed solely as a matter of operating efficiency where the cost of passing them back would exceed the amount of the charges. There is no evidence that the bank in soliciting new accounts or in maintaining existing accounts offers to absorb such charges as an inducement to the maintenance of balances. It seems evident, therefore, that the charges are not absorbed as compensation for the use of funds on deposit but as a means of avoiding expense to the bank.

"In the opinion of the Board, therefore, the absorption of the charges in the circumstances above indicated is not a payment to or for the account of any depositor as compensation for the use of funds and, accordingly, is not a violation of the provisions of section 19 of the Federal Reserve

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"Act relating to the payment of interest on deposits. It may be added, however, that if it appears from any understanding or agreement between a bank and a depositor or from other evidence, such as the solicitation of deposits upon the basis of a willingness to absorb such exchange charges, that it is the intention to absorb the charges as compensation for the use of the depositor's funds, then it would seem clear that such a bank is violating the provisions of section 19 aforesaid, notwithstanding the fact that the cost of passing back the charges might exceed the cost of absorbing them."

Approved unanimously, together with letters to the Presidents of all the Federal Reserve Banks and the Comptroller of the Currency transmitting copies of the above telegram for their information.

Thereupon the meeting adjourned.

Chester Morie  
Secretary.

Approved:

W. C. C. C.  
Chairman.