Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, October 7, 1947. The Board met in the Board Room at 9:30 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Szymczak
Mr. Draper
Mr. Evans
Mr. Vardaman
Mr. Clayton

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Morrill, Special Adviser
Mr. Thurston, Assistant to the Chairman
Mr. Smead, Director of the Division of Bank Operations
Mr. Bethea, Director of the Division of Administrative Services
Mr. Thomas, Director of the Division of Research and Statistics
Mr. Vest, General Counsel
Mr. Leonard, Director of the Division of Examinations
Mr. Nelson, Director of the Division of Personnel Administration

Before this meeting the Presidents submitted a list of topics which had been discussed at their separate meeting on October 3 and 4 and which were to be reviewed with the Board at a joint meeting to be held at 2:30 this afternoon. The Board considered the topics listed and it was agreed that Chairman Eccles would state the views of the Board substantially as recorded in the minutes of the joint meeting.

At this point Messrs. Smead, Bethea, Thomas, Vest, Leonard, and Nelson withdrew and the action stated with respect to each of
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the matters hereinafter set forth was taken by the Board:

Minutes of actions taken by the Board of Governors of the
Federal Reserve System on October 6, 1947, were approved unanimously.

Letter to Mr. Heflin, Assistant to Counsel, Federal Reserve
Bank of Richmond, reading as follows:

"This refers to your letter of September 23, 1947, and its enclosures, relating to the question whether certain funds received by a member bank pursuant to a railroad equipment trust agreement may be classified as a 'time deposit' on which the bank may pay interest without violating the provisions of the Board's Regulation Q.

"It is understood that the member bank is trustee under the railroad equipment trust agreement and that the funds, consisting principally of proceeds of the sale of trust certificates, are received by it as trustee to be held in trust for the benefit of the certificate holders pending disbursement to the vendors of the railroad equipment which is to secure the certificates. The funds are to be disbursed by the trustee only when the vendors deliver the equipment to the trustee, or its agent, and furnish the trustee certain specified documents. Pending disbursement, the trustee apparently deposits the funds in its own commercial department.

"While the trust funds may not be disbursed until the happening of a specified contingency which may not occur for a considerable period after their receipt by the bank, it does not appear that they can be properly classified as a 'time deposit', within the meaning of the definition contained in Regulation Q, since under the terms of the trust agreement the disbursement of the funds technically may be required within less than thirty days after their receipt, and it does not appear that the bank has or legally can deposit the funds in its own commercial department under an agreement that they shall remain on deposit until a specified date not less than thirty days from the date of deposit or the expiration of not less than thirty days after written notice of intended withdrawal. Accordingly, the Board
agrees with the views expressed in your letter that such funds must be classified as a 'demand deposit' upon which no interest may be paid by the member bank.

"However, as suggested in your letter, there would appear to be no reason why such an equipment trust agreement could not contain provisions which would permit the funds to be classified as a 'time deposit'. For example, the trust agreement might provide that the bank, as trustee, should be authorized or required, in certain circumstances, to deposit the funds in its own commercial department subject to an agreement as to withdrawal conforming to the definition of 'time deposits' contained in Regulation Q and that the bank should be relieved from any obligation to disburse the funds prior to the authorized date of withdrawal under such deposit agreement. If this were done and the funds were so deposited, the bank might pay interest not exceeding the applicable maximum rate prescribed by Regulation Q."

Approved unanimously.

[Signature]

Secretary.

Approved:

[Signature]

Chairman.