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Minutes for December 26, 1963

To: Members of the Board
From: Office of the Secretary

Attached is a copy of the minutes of the Board of Governors of the Federal Reserve System on the above date.

It is not proposed to include a statement with respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act.

Should you have any question with regard to the minutes, it will be appreciated if you will advise the Secretary's Office. Otherwise, please initial below. If you were present at the meeting, your initials will indicate approval of the minutes. If you were not present, your initials will indicate only that you have seen the minutes.

Chm. Martin	<u>W</u>
Gov. Mills	<u>[Signature]</u>
Gov. Robertson	<u>[Signature]</u>
Gov. Balderston	<u>ccsB</u>
Gov. Shepardson	<u>[Signature]</u>
Gov. Mitchell	<u>[Signature]</u>
Gov. Daane	<u>[Signature]</u>

Minutes of a meeting of the available members of the Board of Governors of the Federal Reserve System on Thursday, December 26, 1963. The meeting was held in the Board Room at 2:00 p.m.

PRESENT: Mr. Robertson, Acting Chairman
Mr. Mitchell
Mr. Daane

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Molony, Assistant to the Board
Mr. Cardon, Legislative Counsel
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Noyes, Director, Division of Research
and Statistics
Mr. Farrell, Director, Division of Bank
Operations
Mr. Solomon, Director, Division of
Examinations
Mr. Hexter, Assistant General Counsel
Mr. Hooff, Assistant General Counsel

This meeting was held for the purpose of considering the issuance of a statement regarding an interpretation by the Comptroller of the Currency under date of December 19, 1963, to the effect that a national bank could accept savings accounts without regard to whether the funds deposited were to the credit of one or more individuals or of a corporation, association, or other organization, whether operated for profit or otherwise. The interpretation was published in the Federal Register on December 24, 1963, and advice from the Comptroller's Office concerning it was received at the Board this morning.

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After discussion, unanimous approval was given to the issuance of a press statement in the form attached as Item No. 1, with the understanding that copies would be sent by wire to the Federal Reserve Banks for their information and that other appropriate distribution would be made. This action was taken subject to ratification at the next meeting of the Board at which a quorum was present.

Reference also was made to certain other rulings that had been issued recently by the Comptroller, relating to loans to executive officers, capital debentures, and appraisals, and it was understood that such consideration as might seem necessary and appropriate would be given to those rulings at a subsequent Board meeting.

The meeting then adjourned.

Secretary's Notes: Pursuant to recommendations contained in memoranda dated December 18, 1963, from the Division of Research and Statistics, Governor Robertson, acting in the absence of Governor Shepardson, today approved on behalf of the Board the reappointment of the following persons as Consultants in that Division on a temporary contractual basis, effective as of January 1, 1964, and until December 31, 1964, with compensation for each at the rate indicated below for each day worked for the Board either in Washington or outside the city, and with the understanding that, in accordance with the Board's travel regulations, each would receive a per diem in lieu of subsistence in the amount of \$16 when in travel status in connection with official assignments, and transportation:

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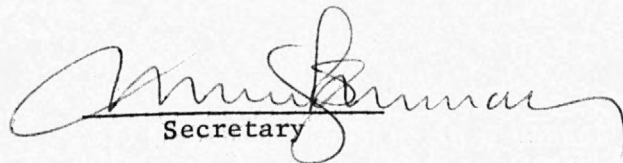
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Susan S. Burr	\$50 per day
Almarin Phillips	\$75 per day
Gertrude Weiss	\$65 per day

Governor Robertson noted today on behalf of the Board a memorandum from the Office of the Secretary advising that Lillie B. Brow, Assistant Supervisor, Subject Files, Records Section, had filed application for retirement, effective at the close of business December 30, 1963.

Pursuant to the procedure approved by the Board on October 12, 1960, relating to examinations of Edge Act and agreement corporations by examiners for the Federal Reserve Banks of New York and Philadelphia, acting as examiners for the Board of Governors, a letter was sent today to the Federal Reserve Bank of Cleveland authorizing a similar arrangement in that District for examination of Mellon International Finance Corporation, Pittsburgh, Pennsylvania.

The requirements contemplated by the Board's action on December 4, 1963, in approving the issuance of a preliminary permit to the International Bank of Detroit, Detroit, Michigan, having been completed, a letter was sent to that corporation on December 26, 1963, transmitting a final permit to commence business.


Secretary



FEDERAL RESERVE

press release

Item No. 1
12/26/63

4553

For immediate release

December 26, 1963.

The Board of Governors has received inquiries regarding an interpretation issued by the Comptroller of the Currency under date of December 19, 1963, to the effect that "a national bank may. . . accept savings accounts without regard to whether the funds deposited are to the credit of one or more individuals or of a corporation, association, or other organization, whether operated for profit or otherwise."

As members of the Federal Reserve System, national banks are subject to the provisions of section 19 of the Federal Reserve Act which prohibit member banks from paying interest, directly or indirectly, on any demand deposit and which require the Board of Governors to limit the rate of interest that may be paid by such banks on time and savings deposits. To this end, it is necessary to define the terms "demand deposits" and "savings deposits"; and the law expressly authorizes the Board of Governors to define such terms and to prescribe regulations to effectuate the purposes of the statute and prevent evasions.

The Board's Regulation Q defines a "savings deposit" in a manner that permits such deposits to be made only by individuals or by corporations, associations, and other organizations which are not operated for profit but for religious, philanthropic, charitable, educational, fraternal, or similar purposes. This definition has been in effect since 1936.

Accordingly, a deposit by a corporation operated for profit may not be classified by any member bank, including a national bank, as a savings

deposit. Unless such a deposit comes within the definition of a "time deposit" it would constitute a demand deposit under Regulation Q and payment of interest on such deposit by a national bank would violate the prohibition of the law against payment of interest on demand deposits.

Failure of a national bank to comply with provisions of the Federal Reserve Act constitutes grounds for instituting legal proceedings to close the bank. The law also provides that any director of a national bank participating in or assenting to a violation shall be personally liable for any damages that may be sustained by the bank, its shareholders, or any other persons in consequence of the violation.

In addition, Federal Reserve Regulation D, relating to reserves required to be maintained by member banks in the Federal Reserve System, contains a definition of savings deposits identical to that of Regulation Q. No deposit of a business corporation in a member bank may be classified as a savings deposit for reserve purposes and, unless it falls within the definition of a time deposit, a national bank must maintain against such a deposit the reserves applicable to demand deposits (16-1/2 per cent for reserve city banks and 12 per cent for other member banks), rather than those applicable to time and savings deposits (4 per cent for all member banks). Classification of such a deposit as a savings deposit would violate Regulation D and subject the member bank to a penalty for any resulting reserve deficiency.