FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. **9185**
November 13, 1981]

RULINGS ON ALL SAVERS CERTIFICATES AND MONEY MARKET CERTIFICATES

To All Depository Institutions, and Others Concerned,
in the Second Federal Reserve District:

Enclosed is a pamphlet containing recent rulings relating to all savers certificates (ASCs) and money market certificates (MMCs). The rulings consist of:

1. An announcement by the Federal Financial Institutions Examination Council that depository institutions will be required to submit periodic financial reports regarding outstanding ASCs, beginning with the end of this year.

2. A ruling by the Internal Revenue Service that ASCs issued on Sunday, October 4, 1981, qualify for tax exemption even if they originally carried the prior week's investment yield of 12.61 percent.

3. An announcement by the Depository Institutions Deregulation Committee (DIDC) regarding the calculation of interest payments on ASCs issued during the month of November 1981.

4. A ruling by the DIDC that clarifies that depository institutions may not round any interest rate to the next higher rate in connection with paying interest on 26-week MMCs.

Questions on these matters may be directed to the Regulations Division of this Bank (Tel. No. 212-791-5914).

ANTHONY M. SOLOMON,
President.

ASC and MMC Rulings

1. Collection of data on ASCs
2. IRS ruling on October 4 ASCs
3. Interest on ASCs issued in November
4. Calculation of interest rate on MMCs

[Enc. Cir. No. 9185]

Federal Financial Institutions **Examination Council**, Washington, D.C. 20219

Press Release

For immediate release November 6, 1981

J. Charles Partee, Chairman of the Federal Financial Institutions Examination Council, announced today that the Council approved collection of data on the amount of All Savers Certificates sold through the financial institutions supervised by the five agencies represented on the Council.

In a letter to R. T. McNamar, Deputy Secretary of the Treasury, Mr. Partee, who is a member of the Federal Reserve Board said that the Federal financial institutions' supervisory agencies plan to collect the data, beginning with the end of this year, through periodic financial reports submitted to the agencies. The Council's Task Force on Reports will assemble the data from the agencies into a national total.

Mr. Partee's letter to Mr. McNamar is attached.

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(OVER)

Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, Federal Home Loan Bank Board, National Credit Union Administration, Office of the Comptroller of the Currency

Federal Financial Institutions **Examination Council**, Washington, D.C. 20219

November 5, 1981

The Honorable R. T. McNamar
Deputy Secretary of the Treasury
Washington, DC 20220

Dear Mr. McNamar:

This is a follow-up to my October 13, 1981, letter regarding your request for the Examination Council's assistance in obtaining information on the All Savers Certificates from all institutions supervised by the five agencies represented on the Council. The Council's Staff Task Force on Reports, which I had asked to study the matter, has now completed its review. I am happy to report that there should be no substantial problems accommodating your request.

The five agencies represented on the Council have agreed to collect the amount of All Savers Certificates of deposit outstanding, beginning with the December 31, 1981, reporting date and continuing for an indeterminate time into the future, dependent on the continued existence of the program. These data will be collected by the agencies from their respective supervised institutions in conjunction with the agencies' regular periodic financial reporting requirements. In addition, the Council's Task Force on Reports has agreed to coordinate assembly of the data collected by the individual agencies into a single report on All Savers activity. The first report should be available late in the first quarter of 1982.

We believe that the reporting burden attributable to the reporting of these data by the covered institutions will be modest. Nevertheless, clearance for the data request must be obtained from the Office of Management and Budget, and the Office of the Comptroller of the Currency has been designated as the lead agency to expedite this process.

Sincerely,

(signed) J. Charles Partee

J. Charles Partee
Chairman

Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, Federal Home Loan Bank Board, National Credit Union Administration, Office of the Comptroller of the Currency

News Release

Department of the Treasury
Internal Revenue Service

Public Affairs Division
Washington, DC 20224

Media Contact: Tel. (202) 566-4024
Copies: Tel. (202) 566-4054

For Release: 10-29-81

IR-81-126

Washington, D.C.--The Internal Revenue Service today said that All-Savers' Certificates issued on Sunday, October 4, 1981, qualify for tax exemption even if they originally carried the prior week's investment yield of 12.61 percent, rather than the 12.14 percent rate that became effective on Sunday, October 4.

Certificates that continue to carry (or restore) the original 12.61 percent yield will also qualify, the IRS said. Certificates originally issued on Sunday, October 4, at the 12.14 percent rate must continue to carry that rate in order to qualify.

The Economic Recovery Tax Act of 1981 excludes from income up to $1,000 of interest -- $2,000 on a joint return -- from qualifying All-Savers' Certificates issued during the period October 1, 1981, through December 31, 1982. In addition to other rules, certificates must have an investment yield equal to 70 percent of the yield on 52-week Treasury bills sold at the last Treasury auction preceding the calendar week in which the certificates are issued. Auctions of 52-week Treasury bills normally take place every fourth Thursday.

All-Savers' Certificate rates are announced by the Depository Institutions Deregulation Committee (DIDC). In a September 3, 1981, news release announcing the issuance of All-Savers' regulations, the DIDC said that certificate rates become effective on Monday of the week following the Treasury bill auctions.

(MORE)

The rate for the first week's certificates -- a short week beginning Thursday, October 1 -- was 12.61 percent and was based on the bill auction held Thursday, September 3, 1981. The DIDC announced on October 1, 1981, that the All-Savers' rate for the second week based on the auction held Thursday, October 1, 1981, would be 12.14 percent and that the new rate would be effective on Sunday, October 4, 1981.

Because of the apparent conflict in instructions as to the effective date of the new rate, some financial institutions sold certificates on Sunday, October 4, at the higher (12.61 percent) rate. In view of these facts, the IRS announced that certificates originally issued at the higher 12.61 percent rate on Sunday, October 4, could continue to carry (or restore) that higher rate without loss of tax exempt status.

This relief is made under Internal Revenue Code section 7805(b) which gives the Commissioner of Internal Revenue authority to limit the retroactive effect of IRS rulings and regulations.

The IRS emphasized that it concurs with the DIDC position that Sunday is the first day of the calendar week for purposes of setting All-Savers' rates. Therefore, the rate determined at the Thursday, October 29 Treasury auction of 52-week Treasury bills will apply to certificates issued on Sunday, November 1.

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DEPOSITORY INSTITUTIONS DEREGULATION COMMITTEE
Washington, D.C. 20220

PRESS RELEASE October 29, 1981

All-Savers Certificates -- Payment and Compounding of Interest

The 52-week Treasury Bills auctioned on Thursday, October 29, 1981, sold with an annual investment yield of 15.39%. This results in an annual investment yield for All-Savers Certificates (ASC) of 10.77% per annum effective Sunday, November 1, 1981.

For a depositor who receives interest at maturity, the amount of interest received will be $107.70 per $1,000 of deposit.

For depositors who choose to withdraw interest earned from an ASC periodically, and for institutions that choose to compound interest kept on deposit, the DIDC regulations require that specific formulas be used in calculating the corresponding nominal rate and the amount of interest to be paid or credited per dollar on deposit.

For the ASC annual investment yield, the formulas provide the following results:

COMPOUNDING AND PAYOUT SCHEDULE	NOMINAL RATE	PAYOUT PER $1,000 DEPOSIT	TOTAL INTEREST PAY-OUT OVER 12 MONTHS
CONTINUOUS	10.229%	---	---
DAILY	10.230%	$ .2803	$102.300
MONTHLY	10.272%	$ 8.5602	$102.723
QUARTERLY	10.360%	$ 25.9012	$103.605
SEMIANNUALLY	10.495%	$ 52.4733	$104.947
ANNUALLY	10.77%	$107.7000	$107.700

(Numbers may vary due to rounding).

The next Treasury auction of 52-week bills will be held on Wednesday, November 25, 1981 because Thursday, November 26 is a Federal holiday.

For further information, depository institutions should contact their regulators. Press inquiries should be directed to Mr. Robert Don Levine (202)566-2041.

DEPOSITORY INSTITUTIONS DEREGULATION COMMITTEE

12 CFR PART 1204

[Docket No. D-0021]

Ceiling Rates for 26-Week Money Market Certificates

AGENCY: Depository Institutions Deregulation Committee

ACTION: Technical amendment to final rule.

SUMMARY: This technical amendment clarifies that depository institutions may not round any interest rate to the next higher rate in connection with paying interest on 26-week money market certificates ("MMCs"). Additionally, this technical amendment clarifies that interest may not be compounded on MMCs during the term of the deposit and that the optional ceiling rate is determined on the basis of the average of the four bill rates (auction average on a discount basis) for U.S. Treasury bills with maturities of 26 weeks established and announced at the four auctions held immediately prior to the date of the MMC deposit.

EFFECTIVE DATE: November 1, 1981.

FOR FURTHER INFORMATION CONTACT: Allan Schott, Attorney-Advisor, Treasury Department (202/566-6798); John Harry Jorgenson, Senior Attorney, Board of Governors of the Federal Reserve System (202/452-3778); F. Douglas Birdzell, Counsel, Federal Deposit Insurance Corporation (202/389-4324); Rebecca Laird, Senior Associate General Counsel, Federal Home Loan Bank Board (202/377-6446); or David Ansell, Attorney, Office of the Comptroller of the Currency (202/447-1880).

SUPPLEMENTARY INFORMATION: On September 22, 1981, the Committee adopted a final rule, effective November 1, 1981, concerning the maximum interest payable on MMCs. The rule provides that depository institutions may pay interest on any nonnegotiable time deposit of $10,000 or more with a maturity of 26 weeks at a fixed interest rate ceiling indexed to the higher of either (a) the rate for 26-week United States Treasury bills auctioned immediately prior to the date of deposit, or (b) a moving average of the discount rate based on the four auction average rates (discount basis) for 26-week U.S. Treasury bills established and announced at the four auctions held immediately prior to the date of deposit. The Committee adopted this rule to provide an alternative method of calculating MMC rate ceilings to enable depository institutions to be more competitive with money market mutual funds and other market instruments, especially during a period of declining rates.

This amendment is intended to clarify the intent of the Committee that the other rules concerning MMCs remain in effect. Consequently, depository institutions may not round any interest rate to the next higher rate, and the prohibition on compounding interest on MMCs during the term of the deposit also continues. These provisions were omitted inadvertently in the Federal Register document previously published on this matter. Finally, the rule is amended to make clear that the optional ceiling rate provided to depository institutions is based on the average of the four most recent Treasury bill rates and not on an average of the four most recent MMC ceiling rates established under this section.

Because this is a technical amendment that clarifies the Committee's earlier action, the Committee 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 November 1, 1981.

Pursuant to its authority under Title II of Public Law 96-221, 94 Stat. 142 (12 U.S.C. §§ 3501 et seq.), to prescribe rules governing the payment of interest and dividends on deposits of federally insured commerical banks, savings and loan associations and mutual savings banks, effective November 1, 1981, the Committee amends section 1204.104 of 12 CFR Part 1204 to read as follows:

PART 1204—INTEREST ON DEPOSITS

§ 1204.104—26-Week Money Market Time Deposits of Less than $100,000.

Commercial banks, mutual savings banks, and savings and loan associations may pay interest on any nonnegotiable time deposit of $10,000 or more, with a maturity of 26 weeks, at a rate not to exceed the ceiling rates set forth below. The ceiling rate shall be based on the higher of either (1) the rate established and announced (auction average on a discount basis) for U.S. Treasury bills with maturities of 26 weeks at the auction held immediately prior to the date of deposit ("Bill Rate"), or (2) the average of the four rates established and announced (auction average on a discount basis) for U.S. Treasury bills with maturities of 26 weeks at the four auctions held immediately prior to the date of deposit ("Four-Week Average Bill Rate"). Rounding any rate to the next higher rate is not permitted, and interest may not be compounded during the term of this deposit.

Bill Rate or Four-Week Average Bill Rate	Interest Rate Ceiling
Commercial Banks	
7.50 per cent or below	7.75 per cent
Above 7.50 per cent	One-quarter of one percentage point plus the higher of the Bill Rate or Four-Week Average Bill Rate
Mutual Savings Banks and Savings and Loan Associations	
7.25 per cent or below	7.75 per cent
Above 7.25 per cent, but below 8.50 per cent	One-half of one percentage plus the higher of the Bill Rate or Four-Week Average Bill Rate
8.50 per cent or above, but below 8.75 per cent	9 per cent
8.75 per cent or above	One-quarter of one per centage point plus the higher of the Bill Rate or Four-Week Average Bill Rate

By order of the Committee, October 30, 1981.

Steven L. Skancke

Steven L. Skancke
Executive Secretary