

**FEDERAL RESERVE BANK
OF NEW YORK**

[Circular No. 9386
October 22, 1982]

DEPOSITORY INSTITUTIONS DEREGULATION COMMITTEE

Money Market Deposit Account

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

The Depository Institutions Deregulation Committee (DIDC) has invited public comment on a proposal to establish a new federally insured money market deposit account. The following is quoted from the text of a statement issued by the DIDC in this matter:

The Garn-St Germain Depository Institutions Act of 1982 directs the DIDC to authorize a new federally insured account to be offered by commercial banks, savings and loan associations and mutual savings banks that is directly competitive with money market mutual funds.

The Garn-St Germain Act requires that this account: (1) have no limitation on the maximum rate of interest payable; (2) be in effect no later than 60 days from enactment of the Garn-St Germain Act; (3) not be subject to transaction account reserve requirements (as defined by the Board of Governors of the Federal Reserve System, as of August 1, 1982) even though no minimum maturity is required, and even though up to three preauthorized or automatic transfers plus three third-party transfers are permitted per month; and (4) be "directly equivalent to and competitive with money market mutual funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940."

The Committee is requesting comments on features not specifically set forth in the Garn-St Germain Act; e.g., minimum initial denomination, maintenance balance, denomination of withdrawals, whether institutions should be required to reserve the right to require seven days' notice of withdrawal, and whether loans should be permitted to meet the minimum denomination requirement.

Enclosed is a copy of the text of the Notice submitted by the DIDC for publication in the *Federal Register* of October 19, 1982. Comments on the proposal must be submitted by November 3, 1982, and may be sent to our Consumer Affairs and Bank Regulations Department.

ANTHONY M. SOLOMON,
President.

DEPOSITORY INSTITUTIONS DEREGULATION COMMITTEE

12 CFR Part 1204

[Docket No. D-0026]

Money Market Deposit Account

AGENCY: Depository Institutions Deregulation Committee.

ACTION: Proposed rulemaking.

SUMMARY: The Depository Institutions Deregulation Committee ("Committee") is required by the Garn-St Germain Depository Institutions Act of 1982 ("Garn-St Germain Act") to authorize a new insured deposit account, available to all depositors, to compete with money market mutual funds. The Garn-St Germain Act requires that this account: (1) have no limitation on the maximum rate of interest payable; (2) be in effect no later than 60 days from enactment of the Garn-St Germain Act; (3) not be subject to transaction account reserve requirements (as defined by the Board of Governors of the Federal Reserve System, as of August 1, 1982) even though no minimum maturity is required, and even though up to three preauthorized or automatic transfers plus three third-party transfers are permitted per month; and (4) be "directly equivalent to and competitive with money market mutual funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940." No minimum denomination was set forth in the Garn-St Germain Act, although the Conference Report suggested it be no more than \$5000. The Committee is requesting comments on features not specifically set forth in

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the Garn-St Germain Act; e.g., minimum initial denomination, maintenance balance, denomination of withdrawals, whether institutions should be required to reserve the right to require seven days' notice of withdrawal, and whether loans should be permitted to meet the minimum denomination requirement.

DATE: Comments must be received by (15 days from the date of publication).

ADDRESS: Interested parties are invited to submit written data, views, or arguments concerning the proposed rules to Gordon Eastburn, Acting Executive Secretary, Depository Institutions Deregulation Committee, Room 1058, Department of the Treasury, 15th Street and Pennsylvania Avenue, N.W., Washington, D.C. 20220. All material submitted should include the Docket Number D-0026 and will be available for inspection and copying upon request, except as provided in § 1202.5 of the Committee's Rules Regarding Availability of Information (12 CFR § 1202.5).

FOR FURTHER INFORMATION CONTACT: Alan Priest, Attorney, Office of the Comptroller of the Currency (202/447-1880); Joseph DiNuzzo, Attorney, Federal Deposit Insurance Corporation (202/389-4147); Rebecca Laird, Senior Associate General Counsel, Federal Home Loan Bank Board (202/377-6446); Paul S. Pilecki, Senior Attorney, Board of Governors of the Federal Reserve System (202/452-3281); or Elaine Boutilier, Attorney-Adviser, Treasury Department (202/566-8737).

LIST OF SUBJECTS IN 12 CFR Part 1204: Banks, banking.

SUPPLEMENTARY INFORMATION: The Depository Institutions Deregulation Act of 1980 (Title II of P.L. 96-221; 12 U.S.C. §§ 3501 et seq.) ("DIDA") was enacted to provide for the orderly phaseout

and ultimate elimination of the limitations on the maximum rates of interest and dividends that may be paid on deposit accounts by depository institutions as rapidly as economic conditions warrant. Under DIDA, the Committee is authorized to phase out interest rate ceilings by any one of a number of methods including the creation of new account categories not subject to interest rate limitations or with interest rate ceilings set at market rates of interest.

Section 327 of the Garn-St Germain Act specifically requires the Committee to authorize a new insured deposit account, which "shall be directly equivalent to and competitive with money market funds." The Garn-St Germain Act prohibits any limitation on the maximum rate of interest payable on the new account. The Garn-St Germain Act also states that the account shall not be subject to reserve requirements on transaction accounts even though no minimum maturity is required and even though up to three preauthorized or automatic transfers and three transfers to third parties are permitted.

The Committee has solicited public comment on short-term deposits previously. After the June 25, 1981 meeting, the Committee requested comments on the desirability of authorizing a new deposit instrument with characteristics similar to money market mutual funds, although the Committee did not put forth a specific proposal at that time. 46 Fed. Reg. 36712 (July 15, 1981). After the September 22, 1981 meeting, the Committee requested comments on three specific proposals for short-term time deposits. 46 Fed. Reg. 50804 (October 15, 1981).

One of the short-term accounts proposed in the October 15, 1981 notice was a \$5000-minimum denomination NOW account, which is similar in concept to the account set forth in the Garn-St Germain Act. Consequently, the Committee has received comments on an instrument that possesses essentially all of the features of the congressionally-mandated account. Certain features are mandated by the Garn-St Germain Act and cannot be changed. However, some features were left by Congress to the Committee's discretion. Accordingly, comment is requested only on features not specified in the Act. Public comment is being requested in view of the interest expressed by competitors of depository institutions for an opportunity to comment on the features the Committee may designate.

The new account proposed by the Committee would have the following features as required by the Garn-St Germain Act and its legislative history: (1) no minimum maturity; (2) no interest rate ceiling; (3) an initial minimum denomination no greater than \$5000; (4) allow up to three preauthorized or automatic transfers and three other third-party payments (including drafts) per month without being subject to transaction account reserve requirements; (5) available to all depositors; and (6) insured by the FDIC or FSLIC. The Committee is considering whether or not to impose a minimum initial denomination and/or maintenance balance of less than \$5000 and requests comments on this feature. In connection with the minimum balance, the Committee may impose an interest rate limitation (such as the NOW-account rate) on accounts which fall below the minimum maintenance balance, and prohibit loans to meet the

minimum initial denomination. The account will permit limited withdrawals to be made, and certain requirements are being considered by the Committee in regard to these withdrawals, e.g. (1) a minimum denomination on drafts; (2) unlimited withdrawals by the depositor by mail, telephone, messenger or in person, except that telephone transfers to third parties or another deposit account of the depositor would be regarded as preauthorized transfers; (3) require an institution to monitor on an ex post basis to determine compliance with the withdrawal limitations; and (4) require an institution to reserve the right to require seven days' notice prior to withdrawal. Although the maximum rate of interest paid on the account may not be limited, the Committee is concerned that institutions will circumvent the requirements on other time deposits by guaranteeing a rate of interest for a substantial time period, therefore the Committee is considering a limitation on the time period for which an institution may guarantee an interest rate. The Committee also may restrict overdraft credit arrangements offered in connection with this new account.

The Committee requests comments on the new account as proposed above, and particularly requests comments on the following issues:

(a) What should be the minimum initial denomination?

(The Conference Report suggests that it be no more than \$5000, and interest has been expressed in a \$2500 minimum denomination.)

(b) Should the maintenance balance differ from the initial denomination? If so, what should it be?

What would be the possible consequences of having no maintenance balance? Would it be operationally easier to have the maintenance balance the same as the minimum initial denomination?

- (c) Should an institution be required to pay a lower rate of interest, such as the NOW-account rate, for accounts which fall below the maintenance balance?
- (d) Should a minimum denomination be set for drafts? If so, should it be \$100, \$500, or some other amount?
- (e) Should depository institutions be required to reserve the right to require seven days' (or some other time span) notice prior to withdrawal?
- (f) Should loans be permitted to meet the minimum initial denomination?
- (g) Should any restrictions be placed on additional deposits? Should sweeps from other accounts be permitted?
- (h) Should the time period for which an institution can guarantee an interest rate be limited? If so, what should it be? Or should the account have a maximum maturity?
- (i) How should the limitation on the number of withdrawals per month be enforced? For example, should the institution be required to monitor accounts on an ex post basis to determine compliance? How should "month" be defined for purposes of this limitation? Should the date of payment by the institution or the

date written on the draft control for purposes of compliance with the three drafts per month limitation?

(j) Should any restrictions be placed on overdraft credit arrangements offered in connection with this account?

(k) Should unlimited withdrawals by mail, telephone, messenger, or in person be permitted to the depositor?

(The staff believes that telephone transfers should be regarded as preauthorized transfers if the transfer is to a third person or to another deposit account of the same depositor.)

(l) Is thirty days (or some shorter or longer period) adequate lead time for depository institutions to implement operational changes for this account?

The issues set forth above are not intended to limit the area of comment. The Committee requests comments on those questions and on any other aspect of the account which the public wishes to address, particularly with respect to characteristics that would make this account "directly equivalent to and competitive with" money market funds.

The Committee has considered the potential effect on small entities of the proposal to establish a new deposit instrument, as required by the Regulatory Flexibility Act (5 U.S.C. § 603 et seq.). In this regard, the Committee's action, in and of itself, would not impose any new reporting or recordkeeping requirements. Consistent with the Committee's statutory mandate to eliminate deposit interest rate ceilings, this proposal would enable all

depository institutions to compete more effectively in the marketplace for short-term funds. Depositors generally should benefit from the Committee's proposal, since the new instrument would provide them with another investment alternative that pays a market rate of return. If low-yielding deposits shift into the new account, depository institutions might experience increased costs as a result of this action. However, their competitive position vis-a-vis nondepository competitors would be enhanced by their ability to offer a competitive short-term instrument at market rates. The new funds attracted by the new instrument (or the retention of deposits that might otherwise have left the institution) could be invested at a positive spread and would therefore at least partially offset the higher costs associated with the shifting of low-yielding accounts.

The Committee is asking for comments for a 15-day period. This short comment period is made necessary by the fact that the Garn-St Germain Act requires the new account to be available within 60 days of enactment. Because the Committee desires to give the depository institutions adequate time to prepare and market the account, time for comment must be limited to allow time for compilation and consideration of the comments, a Committee vote on the features and publication of the final rule. Therefore, comments on this account should be submitted promptly.

By Order of the Committee, October 15, 1982.

Gordon Eastburn

Gordon Eastburn
Acting Executive Secretary