

**FEDERAL RESERVE BANK
OF NEW YORK**

[Circular No. **9994**
January 24, 1986]

PROPOSED CHANGES IN REGULATION Q

Advertising of Interest on Deposits

Comments Requested by March 6, 1986

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

The following is quoted from the text of a statement issued by the Board of Governors of the Federal Reserve System:

The Federal Reserve Board has proposed for comment revisions of Regulation Q that would update and simplify the requirements for advertising of interest on deposits by member banks.

Comment is requested by March 6, 1986.

The Board has proposed three options:

1. Continue the present requirement that member banks state the annual rate of simple interest; or
2. Require that member banks state the annual percentage yield (APY) rather than the annual rate of simple interest; or
3. Require that both the APY and the annual rate of simple interest be stated.

The proposal would also require member banks to state in any advertisement whether service charges are imposed on an account.

Printed on the following pages is the text of the proposed changes in Regulation Q, which has been reprinted from the *Federal Register* of January 13, 1986. Comments thereon should be submitted by March 6, 1986, and may be sent to our Compliance Examinations Department.

E. GERALD CORRIGAN,
President.

FEDERAL RESERVE SYSTEM

12 CFR Part 217

[Reg. Q; Docket No. R-0514]

Interest on Deposits; Advertising of Interest on Deposits

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Proposed rulemaking.

SUMMARY: The Board is proposing to revise § 217.6 of its Regulation Q—Interest on Deposits (12 CFR Part 217), governing the advertising of interest on deposits by member banks. Currently, the Board's rules concerning advertising appear in the regulation, Board interpretations and policy statements, and various staff opinions. The proposed regulation updates, clarifies and simplifies the Board's advertising rules, as well as removing some current restrictions on member bank advertising for deposits. The Board is proposing three alternatives concerning what interest rate(s) must be stated in advertisements of interest on deposits: (1) Continue the requirement that banks state the annual rate of simple interest for the deposit; (2) require banks to state the annual percentage yield for the deposit; or (3) require banks to state both the annual rate of simple interest and the annual percentage yield in advertisements of interest on deposits.

DATE: Comments must be received by March 6, 1986.

ADDRESS: Interested parties are invited to submit written data, views, or arguments concerning the proposal to William W. Wiles, Secretary, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue, NW., Washington, DC 20551, or such comments may be delivered to room B-2223 between 8:45 a.m. and 5:15 p.m. Comments should refer to Docket No. R-0514. Comments may be inspected in room B-1112 between 8:45 a.m. and 5:15 p.m. on business days, except as provided in § 261.6(a) of the Board's Rules Regarding Availability of Information (12 CFR 261.6(a)).

FOR FURTHER INFORMATION CONTACT: Daniel L. Rhoads, Senior Attorney (202/452-3711) or John Harry Jorgenson, Senior Attorney (202/452-3778), Legal Division, Board of Governors of the Federal Reserve System, Washington, DC 20551.

SUPPLEMENTARY INFORMATION: Section 19(j) of the Federal Reserve Act (12 U.S.C. 371b) authorizes the Board to prescribe rules governing the

advertisement of interest on deposits by member banks. The current rule is codified in Regulation Q at 12 CFR 217.6—*Advertising of Interest on Deposits*. Additional advertising requirements are set forth in other sections in Regulation Q, in various Board interpretations and policy statements, and in staff opinions and rulings. The Federal Deposit Insurance Corporation and the Federal Home Loan Bank Board have virtually identical rules for institutions subject to their respective jurisdictions. Section 19(j) requires that the Board consult with these agencies if it intends to issue rules pursuant to the section, and the views of these agencies are being solicited.

The Board's current regulations on advertising were adopted in 1969; the only significant regulatory change since 1969 has been to require advertisements to disclose the presence of an early withdrawal penalty. Other advertising requirements have largely come through Board interpretations and policy statements. The Board believes that revision of these rules is warranted in view of the deregulation of interest rate ceilings resulting from actions of the Depository Institutions Deregulation Committee ("DIDC") pursuant to the Depository Institutions Deregulation Act of 1980 (Title II of Pub. L. 96-221). The Board is concerned that current rules, promulgated when deposit accounts were heavily regulated, may be inappropriate in a deregulated environment or may be inadequate to insure that depositors receive accurate and adequate information in advertisements for deposit accounts. The Board also believes that simplification of these rules would assist member banks. Current Board rulings and staff opinions in conflict with any amendments adopted by the Board would be rescinded, and remaining interpretations and opinions would be consolidated and keyed to regulatory provisions to further simplify Regulation Q. Regulation D and related Regulation Q issues arising from deregulation have been addressed previously by the Board. 51 FR 27 (Jan. 2, 1986).

The proposed revisions to § 217.6—Advertising include both technical amendments reflecting present Board policy and substantive amendments, and supercede previous regulatory proposals on which the Board has not taken final action pending completion of the comprehensive review of Regulation Q.

1. *Accuracy of advertising.* Currently, section 217.6 (g)¹ prohibits member banks from making any advertisement,

announcement, or solicitation relating to the interest paid on deposits that is inaccurate or misleading or misrepresents its deposit contracts. The Board proposes to retain the substance of this provision and to amend it to clarify that advertisements relating to rates of interest, such as "we pay high rates," as well as those that state specific interest rates would be subject to the Board's general advertising regulations.

The provision would also be amended to clarify that "advertisement" includes all promotional material. There is concern, however, that application of all of the advertising provisions to all types of media may give consumers more information than they can absorb in a short period of time and may have an adverse effect on the ability of member banks to utilize certain media such as radio or television. Therefore, the Board requests comments on whether the requirements of the proposed advertising section should apply uniformly to all media or whether less stringent standards should be applied to advertisements over radio or television, and, if so, what those standards should be.

2. *Required provisions.* At present, the requirements for member bank advertisements are contained in separate regulatory sections and various Board policy statements and interpretations. The Board proposes to consolidate all provisions concerning required information into one subsection.

a. *Interest rate.* Member banks currently are required to state interest rates in terms of the annual rate of simple interest when they advertise any interest rates. The rate of simple interest may no longer be the principal rate used for comparing investment vehicles, however, and may not provide consumers an adequate basis on which they can make their investment decisions. For example, the return to depositors by institutions offering the same simple rate will vary depending on the frequency of compounding. Consequently, the Board believes that the requirement that member banks state the simple rate of interest on deposits should be reviewed.

Some mechanism for comparing the return on the deposits being advertised is desirable. Ideally, such a mechanism would take into consideration all of the characteristics associated with deposits, but the number of variables that affect the rate of return on deposits is large, especially for accounts that permit withdrawals and additional deposits. Consequently, development of a single formula or mechanism applicable to all

deposit categories does not appear to be feasible.

The Board is requesting comment on three alternatives with regard to the interest rate that would be required to be stated in advertisements. Under the first alternative, the current requirement that advertisements of interest on deposits be required to state the annual rate of simple interest for the deposit would be retained. In discussing this alternative, commenters are requested to address the applicability of the "simple interest" rule to variable rate deposits and multiple rate deposits. At present, the Board's policy statement of March 22, 1984 (§ 2-411.3, FRRS) states that advertisements for these deposits should contain details concerning the length of time for which each rate would apply and, where known, what each rate to be paid during the life of the deposit would be. The policy statement further states that advertisements for multiple rate deposits must include a statement of the average effective annual yield for the deposit which assumes compounding of interest at least annually.

The second alternative on which the Board requests comment is to require that any advertisement stating an interest rate must also state an annual percentage yield ("APY") for the deposit. Two of the most significant variables—the simple interest rate and the frequency of compounding—would be captured through use of an APY.² The APY would be calculated using formulas derived from the interest compounding formulas approved by the Board in 1971³ (12 CFR 217.151; § 2-412, FRRS). A bank would be free to state other interest rates in its advertisements in conjunction with the APY, but the APY would have to receive greater prominence.

The third alternative on which comment is requested represents a combination of alternatives one and two. Under this alternative, the advertising regulations would be amended to require banks to state both the APY and the annual rate of simple interest in advertisements of interest on deposits.

The three alternatives differ only on the subject of what interest rate, or combination of rates, should be stated in advertisements of interest on deposits. Neither the APY nor simple interest rule method provides an adequate basis for comparing the returns from variable rate deposits and from deposits with different maturities. Two deposit accounts could have the same advertised APY or simple rates but yield different amounts. For example, the required APY for a variable rate deposit likely would not reflect the actual yield received for the term of the deposit since the APY would be based on the initial rate offered for the deposit which may change during the term of the deposit. Similarly, actual yields may differ for deposits with different maturities but identical APYs since the APY assumes renewal of the shorter-term deposit at its initial interest rate. Under all alternatives, the Board is proposing that maturity and interest rate variability also be stated in advertisements. Since the effect of service charges on the rate of return on a deposit is also not captured, the presence of such service charges would also be stated in advertisements.

b. *Multiple Rate Deposits.* The Board has issued various interpretations and policy statements with regard to advertising multiple rate and variable rate deposits. Generally, advertisements for multiple rate deposits must state the length of time for which the advertised rate and subsequent rates apply. Where

all rates are known in advance, advertisements should clearly state each rate in equal prominence with an equivalent of the APY which assumes compounding at least annually. Advertisements for variable rate deposits should indicate the basis on which future fluctuations in rates would occur.

Under alternative one, advertisements for deposits on which multiple fixed interest rates will be paid would continue to be required to state each rate to be paid throughout the life of the deposit, the length of time for which each rate would apply, and the average effective annual yield of the deposit which assumes compounding at least annually. Under alternative 2, advertisements for these deposits would be required to state only a composite APY based on the multiple rates if any rate is stated in the advertisement. The composite APY is equivalent to the average effective annual yield and would assume compounding of interest at least annually, as required at present. Alternative 3 would require the simple rates and composite APY to be stated.

With regard to advertisements of variable rate deposits, current requirements that the advertisements clearly state the time period for which the rates would apply, the method by which future changes in rates will be determined, and the frequency of adjustment of these rates would continue under all alternatives. In addition, advertisements for variable rate deposits would be required to state clearly that the advertised rate is subject to change.

c. *Deposits for Which Interest Is Not Compounded.* Alternative 1 would require only that advertisements for these deposits state the annual rate of simple interest. Alternative 2 would require that advertisements for multi-year deposits on which interest is not compounded state an APY that assumes annual compounding,⁴ thus enabling consumers to better compare yields for varying types of deposits since it parallels the treatment accorded other deposits under this alternative.

d. *Bonus Payments.* The Board proposes to simplify its policy concerning advertising of a bonus on an account (§ 2-460.1, FRRS) and to incorporate the policy into the regulation to require member banks to indicate clearly the conditions under which the bonus will be paid. At

²The Board also considered Dr. Richard Morse's idea of using cents of interest earned per \$100 per day (cents/\$100/day). The Board is concerned, however, that advertising the amount of interest earned per \$100 per day may result in greater confusion and not be of significant benefit to consumers. The actual numbers advertised under the Morse method for accounts with the same simple rate of interest would vary by fractions of pennies. It is unlikely that consumers would find such minute differences useful in distinguishing among accounts. More importantly, yield figures are common in the financial industry, and consumers are familiar with their use. Since the Morse concept would be a substantial change from this industry practice, the Board believes that this approach would impose additional burdens on depository institutions without commensurate benefit to consumers. The possibility of developing a hypothetical "typical" account which would capture additional factors was also reviewed. Such an approach, however, was deemed impracticable

because of difficulty in determining what a "typical" account should be since deposit and withdrawal patterns as well as use of particular services vary significantly among consumers.

³The APY for deposits other than those compounded continuously would typically be calculated by using the formula $APY = 100 [(1 + R/M)^N - 1]$ where "R" is the rate of simple interest, "M" is the number of compounding periods per year, and "N" is the number of periods per year for which interest is actually compounded. Where continuous compounding is used, the formula would be $APY = 100 (e^r - 1)$ where "e" is the Napierian logarithmic base (2.71828), "r" is the simple rate of interest, and "t" is the time expressed as a fraction in which the numerator is the number of periods for which interest is actually compounded and the denominator is either 360 or 365 based on the particular bank's accounting practices. The APY would be required to be accurate to one decimal point.

⁴The APY in such cases would be lower than the simple interest rate.

present, member banks must disclose the conditions under which a bonus will or will not be paid, including whether the bank retains complete discretion as to whether a bonus will be paid.

e. *Service Charges.* The Board is also proposing to amend the regulation to require that if recurring and ordinary charges will be imposed on an account, that fact should be disclosed in any advertisement. The Board previously addressed this issue with regard to NOW accounts under a Board policy statement of September 1980 (§2-411, FRRS). As service charges also affect other accounts, the Board believes this policy should apply to advertisements for all interest bearing deposits.

The proposed amendment would require that the presence of recurring or ordinary service charges be disclosed in advertisements by a general statement such as "This account is subject to service charges." Recurring or ordinary service charges would include such charges as account maintenance fees, per check fees, fees imposed if the balance in an account falls below some minimum, and fees for account balance inquiries. The actual fees need not be stated in an advertisement. The Board requests comment on the types of fees that should be regarded as ordinary or recurring and whose presence should be disclosed in advertisement.

f. *Additional Provisions.* The present regulatory requirements that advertisements disclose the applicability of any early withdrawal penalty would be retained as would the requirement that any time or amount requirements for an advertised rate be clearly stated. These provisions would be simplified. The proposed regulation would also continue to require member banks to insure that any person or organization that solicits deposits for them complies with the terms of the regulation.

3. *Prohibited terms.* The proposed regulation would prohibit member banks from referring to Individual Retirement Account ("IRA") or Keogh (H.R. 10) plan deposits as tax-exempt or tax-free. In its policy statement of March 1984, the Board stated that the use of these terms when referring to IRA or Keogh (H.R. 10) plan deposits is misleading and inaccurate since contributions to, and earnings on, IRAs are deferred from federal income taxes rather than exempt from taxes.

Another provision in the proposed regulation prohibits member banks from using the term "profit" in referring to interest paid on deposits. This provision was included in the 1966 policy statement on advertising and was part

of the 1969 regulation. Public comment is sought on whether "profit" should continue to be prohibited term.

4. *Current regulatory provisions modified.* In order to simplify the advertising requirements and reduce advertising restrictions on member banks, the amended regulations would permit depository institutions to advertise rates not now permitted under the current regulations. At present, member banks are prohibited from advertising a total percentage yield, compounded or simple, based on a period in excess of a year. (12 CFR 217.6(e)) Member banks are also prohibited from advertising an average annual percentage yield achieved by compounding during a period in excess of a year.

The proposed regulations under alternatives one or two do not contain these prohibitions. However, under alternative one, member banks would continue to be required to state the simple rate in greater prominence than any other rate, while under alternative two member banks would be required to state the APY in greater prominence than any other rate. The Board requests commenters to discuss whether the requirements are adequate to ensure that consumers are not misled by these advertisements stating yields based on periods greater than a year. Commenters are also asked to discuss the benefits and disadvantages of removing these prohibitions under any of the options.

The remaining changes to the current regulatory provisions concerning advertising consist of restructuring the regulation to simplify it and rewriting several sections to provide greater clarity. Regulatory language reflecting alternative two appears in brackets.

Regulatory Flexibility Analysis

The Regulatory Flexibility Act (5 U.S.C. 601 *et seq.*) requires the Board to consider the impact of this proposal on small entities.

The proposed revisions to the advertising section of Regulation Q do not appear to impose significant new requirements on covered institutions. Most of the changes involve formally incorporating existing Board policy statements into the regulation. However the Board is seeking public comment on three alternatives concerning what interest rate(s) should be required to be stated in advertisements of interest on deposits. Since adoption of alternative two could involve the most significant change from current bank operating procedures it will be discussed first. Under existing rules, if an institution includes the annual percentage yield in

an advertisement of a deposit account, it must also state the associated simple interest rate. Alternative two of the proposed rule would no longer require that the simple interest rate be included in advertisements which state the APY, but would require the APY be included in advertisements that show the simple rate. By accounting for the conversion into principal of the interest earned during the year, the APY provides the consumer with a measure of the actual rate of interest on an account. If no compounding is present, then the APY is equal to the simple rate of interest for accounts with a maturity of one year or less. The greater the frequency of compounding, the higher will be the calculated APY. For simple interest accounts with maturities greater than one year, however, the APY computation assumes annual compounding. This assumption is necessary to prevent the APY advertising requirements from being misleading when comparing returns on simple interest accounts with those on accounts where interest is compounded.

Currently, deposit account advertisements frequently report both the simple interest rate and the associated annual percentage yield. It is anticipated that adoption of alternative two would result in a simplification of deposit account advertisements since many institutions would probably choose to state only the APY in such advertisements. Adoption of this alternative may benefit consumers to the extent that it reduces confusion caused by the presence of two stated interest rates for the same deposit in the same advertisement. Moreover, this rule may reduce the potential for advertising to mislead consumers when some advertisements state only a simple rate of interest while others contain both the simple rate and the annual yield.

The precise impact of alternative two on member banks advertising expenses is unknown. On the one hand, some banks currently include in advertisements the simple interest rate and references to the frequency of compounding, if applicable, but do not explicitly state and APY. The new rule would require these institutions to modify their current advertisements to include the APY, although they no longer need to mention the simple interest rate. On the other hand, many institutions currently include both the simple interest rate (and sometimes the compounding frequency) and the APY in advertisements. Under the proposed rule, these institutions can simplify their advertisements by eliminating the former items.

Aside from seeking public comment on the proposal that banks be required to state any APY in their deposit account advertisements but not be required to state a simple rate, the Board is seeking comment on two possible alternatives to this rule. This first alternative would be to maintain the current regulatory requirements which mandate the disclosure of the simple rate of interest in all advertisements which refer to a specific rate of interest. The second alternative would require deposit account advertisements to state both the simple rate of interest and the APY in equally prominent type set.

Alternative one, to maintain the current advertising requirements with respect to the mandatory statement of the simple rate of interest in advertisements, would not impose any new costs on member banks. However, it may not address consumers' need to have a rate which they can readily use for shopping among deposit account alternatives that have various compounding features. On the other hand, requiring disclosure of both the simple rate and the APY (alternative three) would increase aggregate bank advertising expenses somewhat since not all institutions currently state the APY in all advertisements. Like alternative two, this alternative would give consumers a rate they can use in shopping among various deposit account alternatives.

Some banks' advertising expenses will be affected by the new requirement that interest-bearing deposit accounts subject to recurring service charges contain a warning statement to that effect. The Board currently has a policy statement that encourages banks to give such a disclosure for NOW accounts. The proposed rule, however, covers all types of interest-bearing deposit accounts subject to recurring fees. The

Board believes that the proliferation of nontransaction types of deposit accounts, such as savings accounts that are subject to service fees warrants the increased scope of the coverage. For example, between 1981 and 1984 the percentage of banks that assessed a fee against savings accounts that failed to maintain a specified minimum balance increased from 11 percent to 43 percent.⁵

Regulation Q advertising rules apply equally to all member banks. Since most of the proposed revisions to Regulation Q codify existing interpretations or policy statements, it is unlikely that small banks will be differentially impacted by the proposed rule.

Regulation Q provisions do not extend to institutions supervised by the Federal Deposit Insurance Corporation, the Federal Home Loan Bank Board, or the National Credit Union Administration. Consequently, coordination among the agencies is important in order for consumers to receive maximum benefits from the proposed rule changes. Different rules for depository institutions under different supervision would be both confusing to consumers and unfair to institutions facing the more restrictive rules. Board staff has initiated contact and will work with the staffs of the other banking agencies in order to achieve a uniform set of advertising rules. At this time, it is unclear whether uniformity among the agencies will be achieved, leaving the possibility that member banks will operate under different rules than other depository institutions.

List of Subjects in 12 CFR Part 217

Advertising, Banks, banking; Federal Reserve System; Foreign banking.

Regulatory language reflecting alternative two appears in brackets.

PART 217—[AMENDED]

Pursuant to its authority under section 19(j) of the Federal Reserve Act (12 U.S.C. 371b) the Board proposes to

amend Regulation Q (12 CFR Part 217) by redesignating § 217.6 to be § 217.4 and revising the newly redesignated § 217.4 to read as follows:

§ 217.4 Advertising of interest on deposits.

(a) *Accuracy of advertising.* No member bank shall make any advertisement relating to interest on deposits that is inaccurate or misleading or that misrepresents its deposit contracts. As used in this section, "advertisement" includes any announcement, solicitation or other promotional material concerning deposits.

(b) *Required information.* Member bank advertisements relating to interest on deposits shall comply with the following requirements:

(1) *Annual rate of simple interest.* Any advertisement for deposits stating interest rates shall state the annual rate of simple interest for the deposit in greater prominence than any other stated rate. Advertisements for deposits maturing in less than one year shall contain a statement that the interest rate may change at renewal.

[(1) *Annual percentage yield.* Any advertisement for deposits stating interest rates shall state and annual percentage yield (APY), labeled as such, for the deposit in greater prominence than any other stated rate.¹

¹ The annual percentage yield shall be calculated using the following formulas—

$APY = 100 [1 + R/M^N - 1]$ where "R" is the rate of simple interest, "M" is the number of compounding periods per year, and "N" is the number of periods for which interest is actually compounded.

Where continuous compounding is used, the formula would be $APY = 100 (e^r - 1)$ where "e" is the Naperian Logarithmic base (2.71820), "r" is the rate of simple interest, and "t" is the time which may be expressed as a fraction in which the numerator is the number of periods for which interest is actually compounded and the denominator is either 360 or 365 based on the particular bank's accounting practices.

APYs shall be accurate to one decimal point.

⁵ SOURCE: Sheshunoff and Company Inc., *Pricing Bank Services and Loans*, 1981 and 1984 reports.

Advertisements for deposits maturing in less than one year shall contain a statement that the APY may change at renewal.]

(2) Multiple fixed rate deposits.

Advertisements stating an interest rate for deposits on which more than one rate will be paid during the life of the

deposit shall state each rate and the length of time for which each rate is effective, and the average effective annual yield for the deposit which assumes compounding of at least annually.²

[(2) Multiple fixed rate deposits.

Advertisements stating an interest rate for deposits on which more than one rate may be paid during the life of the deposit shall state a composite APY based on the multiple rates. The composite annual percentage yield shall be calculated using the formula

$$APY = 100 \left[\left(\sqrt[q_b]{\left(1 + \frac{R_1}{M}\right)^{q_1} \left(1 + \frac{R_2}{M}\right)^{q_2 - q_1} \dots \left(1 + \frac{R_b}{M}\right)^{q_b - q_{b-1}}}\right)^N - 1 \right]$$

where:

R₁ = rate of simple interest paid from period 1 through q₁

R₂ = rate of simple interest paid from period q₁ + 1 through q₂

* * * * *

R_b = rate of simple interest paid from period q_{b-1} + 1 through q_b

b = number of different interest rates

M = number of compounding periods per year

q_b = M times maturity in terms of years

N = number of periods for which interest is actually compounded

APYs shall be accurate to one decimal point.]

(3) Variable rate deposits.

Advertisements for variable rate deposits shall clearly state:

(i) That the rate is subject to change;

(ii) The time period for which the rate will apply, the method by which future changes in rates will be determined, and the frequency of adjustments of those rates.

[(4) Deposits for which interest is not compounded. Advertisements stating a rate of interest for deposits where interest is not compounded shall state an APY which assumes compounding of interest at least annually. The annual percentage yield for deposits where interest is not compounded shall be calculated using the formula:

$$APY = 100 \left[\sqrt{1 + yR} - 1 \right]$$

where:

R = the rate of simple interest and y = the number of years to maturity APYs shall be accurate to one decimal point.]

(4) [(5)] Time or amount requirements.

Any time or amount requirements for advertised rates shall be clearly stated, together with any lower rates that apply if the deposit is withdrawn at an earlier maturity or prior to maturity.

(5) [(6)] Service charges.

Advertisements for deposits on which recurring or ordinary service charges are imposed shall state that the deposit is subject to such charges.³ Such a statement may be expressed in the following manner: "This account is subject to service charges."

(6) [(7)] Bonus payments.

Advertisements of a bonus on a deposit shall indicate the conditions under which the bonus will be paid.

²The average effective annual yield is the equivalent of a composite annual percentage yield and may be calculated using the formula in footnote 1.

³Recurring or ordinary service charges include such charges as account maintenance fees, per check fees, deposit or withdrawal fees and charges imposed if the accounts goes below a minimum balance.

(7) [(8)] Penalty for early withdrawal.

Advertisements for deposits subject to an early withdrawal penalty shall include a clear and conspicuous statement to that effect.

(c) Prohibited terms.—(1) IRA/ KEOGH Plan deposits. Advertisements for Individual Retirement Account or Keogh (HR 10) plan deposits shall not state or imply that these deposits are tax-free or tax-exempt.

(2) "Profit". The term "profit" shall not be used in referring to interest paid on deposits.

(d) Solicitation of deposits for banks. A member bank shall ensure that any person or organization soliciting deposits on behalf of the member bank complies with the rules contained in this section.

By order of the Board of Governors of the Federal Reserve System, January 3, 1986.

William W. Wiles,
Secretary of the Board.