FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 7729
October 9, 1975]

AMENDMENTS TO REGULATIONS D AND Q

Savings Deposits by Profitmaking Organizations

To All Member Banks, and Others Concerned,
in the Second Federal Reserve District:

Following is the text of a statement issued October 2 by the Board of Governors of the Federal Reserve System:

The Board of Governors of the Federal Reserve System today amended the definition of savings deposits in its Regulations D and Q, to permit corporations, partnerships and other profitmaking organizations to maintain savings accounts at member banks.

The amendments, effective November 10, 1975, place a ceiling on business savings deposits of $150,000.

The dollar ceiling is intended to make such accounts attractive chiefly to small businesses that do not have access to the money markets to earn interest on temporarily idle funds.

Savings accounts have not previously been available, in general, at member banks to profitmaking business organizations. They have been available at savings and loan associations and other thrift institutions. The regulatory amendments announced today will, therefore, enable member banks to compete more effectively with savings institutions.

The Board asked the banks to classify their business savings accounts as a separate item for reporting purposes.

In Massachusetts and New Hampshire, where the law permits financial institutions to offer deposits subject to negotiable orders of withdrawal (NOWs—check-like use of interest bearing deposits), such accounts will continue to be available only to individuals and other qualifying organizations. Businesses are not eligible to establish NOW accounts.

In submitting the amendments for publication in the *Federal Register,* the Board of Governors made the following additional statement:

On June 5, 1975 the Board invited public comments to be submitted by July 25, 1975 on proposed amendments to its Regulation D (Reserves of Member Banks) and Regulation Q (Interest on Deposits) that would permit member banks to classify funds of corporations, associations, and other organizations operated for profit as savings deposits (40 *Federal Register* 25031).

As proposed, the amendments would have permitted member banks to accept savings deposits from such organizations to the extent such funds do not exceed $100,000 per depositor at a member bank. The Board requested comments from the public concerning the appropriateness of such a limitation. After review and consideration of all comments received, the Board has decided to adopt the amendments in a slightly modified form to permit member banks to accept savings deposits from business organizations up to a maximum of $150,000 per depositor.

The amendments have been adopted in order to provide smaller business organizations, which do not ordinarily have access to short-term money market instruments, with a means of realizing a short-term return on their funds. These amendments will also enable member banks to compete more effectively with other financial institutions that are permitted to accept savings deposits from businesses. The Board adopted the $150,000 per depositor limitation in order to limit the concentration of any potentially volatile funds in savings deposits and to confine the effects of the proposed amendments primarily to small businesses. The limitation of $150,000 was adopted instead of the $100,000 originally proposed since it was determined that the higher level would more adequately accommodate the needs of smaller business enterprises.

The amendments will become effective November 10, 1975. Member banks should maintain savings deposits established by business organizations as a separate deposit classification for reporting purposes.

In those states where member banks are permitted by law to offer deposits subject to negotiable orders of withdrawal (NOWs), such accounts will continue to be available only to individuals and other qualifying organizations as provided for by section 217.1(e) of Regulation Q.

Enclosed are copies of the amendments. Any questions regarding this matter may be addressed to our Bank Regulations Department. Additional copies will be furnished upon request.

PAUL A. VOLCKER,
President.