

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9763
Reg. Q-27



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 15, 1936.

Dear Sir:


This refers to the Board's telegrams of December 28, 1935 (Trans. No. 2348) and January 27, 1936 (Trans. No. 2366) requesting the Federal Reserve Agent to advise all member banks in your district that the definition of interest contained in subsection (f) of section 1 of the revised Regulation Q would not be made effective until such date as should be fixed by further action of the Board. As the result of a careful study of this question during the current year, the Board of Governors has now fixed February 1, 1937, as the date on which such subsection shall become effective.

There is inclosed herewith a statement advising member banks of the action of the Board of Governors regarding this definition, and it is requested that you include this statement in a circular of your bank to be mailed to all member banks in your district on, but not before, December 21, 1936.

There is also inclosed herewith a copy of a statement regarding the effective date of the definition of interest in subsection (f) of section 1 of Regulation Q which the Board of Governors

will release to the press for publication on December 21, 1936. If you so desire, you may release the same statement to the press in your city for publication on such date. However, you are requested not to divulge to member banks or to others until December 21, 1936, the fact that the Board has taken action regarding the definition of interest.

Very truly yours,



Chester Morrill,
Secretary.

Papers attached.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

X-9763-a
Reg. Q-27

December 21, 1936.

Effective Date of Definition of Interest in
Subsection (f) of Section 1 of Regulation Q

To all Member Banks in the
_____ Federal Reserve District.

During the latter part of 1935, the Board of Governors of the Federal Reserve System revised its Regulation Q relating to the payment of interest on deposits, and the regulation in its revised form was made effective January 1, 1936. However, as you know, the definition of interest in subsection (f) of section 1 of such revision of Regulation Q was not made effective on January 1, 1936, but the date on which such subsection should become effective was deferred until further action of the Board of Governors.

During the current year the Board of Governors has given exhaustive consideration to this subject, and, as a result of such consideration, has taken action fixing February 1, 1937, as the date on which subsection (f) of section 1 of Regulation Q shall become effective.

This subsection which contains the definition of interest and which is quoted below will become effective on February 1, 1937, in the same form as that contained in the revision of Regulation Q sent to you in 1935, all of the other provisions of which became effective on January 1, 1936. The subsection reads as follows:

"The term 'interest' means a payment, credit, service or other thing of value which is made or furnished by a bank as consideration for the use of the funds constituting a deposit and which involves the payment or absorption by the bank of out-of-pocket expenses (i.e., expenses arising out of specific transactions for specific customers and definitely attributable to such transactions as distinguished from overhead and general operating expenses), regardless of whether such payment, credit, service or other thing of value varies with or bears a substantially direct relation to the amount of the depositor's balance.

"The term 'interest' includes the payment or absorption of exchange and collection charges which involve out-of-pocket expenses, but does not include the payment or absorption of taxes upon deposits whether levied against the bank or the depositor nor the payment or absorption of premiums on bonds securing deposits where such bonds are required by or under authority of law.

"Notwithstanding the foregoing, the payment or absorption of isolated items of out-of-pocket expense in trivial amounts and not of a regularly recurrent nature, where the charging of such items to customers would cause undue friction or misunderstanding, will not be deemed to be a payment of interest, provided that the bank acts in good faith and does not utilize the absorption of such items as a basis for soliciting accounts or obtaining an advantage over competitors and provided further that the bank maintains and makes available to the examiners authorized to examine the bank a record showing the amounts of such items paid or absorbed by it, the dates of such payment or absorption, and the names of the customers for whom such items were paid or absorbed."

If you should have any questions regarding the definition of interest, please address your inquiries directly to this bank rather than to the Board of Governors of the Federal Reserve System.

Very truly yours,

President.

COPY

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

For release in afternoon newspapers
Monday, December 21, 1936

December 21, 1936.

During the latter part of 1935, the Board of Governors of the Federal Reserve System revised its Regulation Q relating to the payment by member banks of interest on deposits, and the regulation in its revised form was made effective January 1, 1936. However, the definition of interest in subsection (f) of section 1 of such revision of Regulation Q was not made effective on January 1, 1936, but the date on which such subsection should become effective was deferred until further action of the Board of Governors.

During the current year the Board of Governors has given exhaustive consideration to this subject, and, as a result of such consideration, has taken action fixing February 1, 1937, as the date on which subsection (f) of section 1 of Regulation Q shall become effective. This subsection which contains the definition of interest and which is quoted below will become effective on February 1, 1937, in the same form as that contained in subsection (f) of section 1 of the revision of Regulation Q sent to the member banks in 1935, all of the other provisions of which became effective on January 1, 1936.

The subsection reads as follows:

"The term 'interest' means a payment, credit, service or other thing of value which is made or furnished by a bank as consideration for the use of the funds constituting a deposit and which involves the payment or absorption by the bank of out-of-pocket expenses (i.e., expenses arising out of specific transactions for specific customers and definitely attributable to such transactions as distinguished from overhead and general operating expenses), regardless of whether such payment, credit, service or other thing of value varies with or bears a substantially direct relation to the amount of the depositor's balance.

"The term 'interest' includes the payment or absorption of exchange and collection charges which involve out-of-pocket expenses, but does not include the payment or absorption of taxes upon deposits whether levied against the bank or the depositor nor the payment or absorption of premiums on bonds securing deposits where such bonds are required by or under authority of law.

"Notwithstanding the foregoing, the payment or absorption of isolated items of out-of-pocket expense in trivial amounts and not of a regularly recurrent nature, where the charging of such items to customers would cause undue friction or misunderstanding, will not be deemed to be a payment of interest, provided that the bank acts in good faith and does not utilize the absorption of such items as a basis for soliciting accounts or obtaining an advantage over competitors and provided further that the bank maintains and makes available to the examiners authorized to examine the bank a record showing the amounts of such items paid or absorbed by it, the dates of such payment or absorption, and the names of the customers for whom such items were paid or absorbed."