

# **FEDERAL RESERVE SYSTEM**

## **12 CFR Part 204**

**[Regulation D; Docket No. R-1527]**

**RIN 7100 AE-41**

### **Reserve Requirements of Depository Institutions**

**AGENCY:** Board of Governors of the Federal Reserve System.

**ACTION:** Final rule.

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**SUMMARY:** The Board of Governors of the Federal Reserve System (“Board”) is amending Regulation D (Reserve Requirements of Depository Institutions) to revise the rate of interest paid on balances maintained to satisfy reserve balance requirements (“IORR”) and the rate of interest paid on excess balances (“IOER”) maintained at Federal Reserve Banks by or on behalf of eligible institutions. The final amendments specify that IORR is 0.50 percent and IOER is 0.50 percent, a 0.25 percentage point increase from their prior levels. The amendments are intended to enhance the role of such rates of interest in moving the Federal funds rate into the target range established by the Federal Open Market Committee (“FOMC” or “Committee”).

**DATES:** The amendments to part 204 (Regulation D) are effective **[INSERT DATE OF PUBLICATION IN THE FEDERAL REGISTER]**. The IORR and

IOER rate changes were applicable on December 17, 2015, as specified in 12 CFR 204.10(b)(5), as amended.

**FOR FURTHER INFORMATION CONTACT:** Clinton N. Chen, Attorney (202-452-3952), or Stephanie Martin, Associate General Counsel (202-452-3198), Legal Division, or Thomas R. Keating, Financial Analyst (202-973-7401), or Laura Lipscomb, Section Chief (202-973-7964), Division of Monetary Affairs; for users of Telecommunications Device for the Deaf (TDD) only, contact (202-263-4869); Board of Governors of the Federal Reserve System, 20th and C Streets, NW, Washington, DC 20551.

**SUPPLEMENTARY INFORMATION:**

**I. Statutory and Regulatory Background**

For monetary policy purposes, section 19 of the Federal Reserve Act (“the Act”) imposes reserve requirements on certain types of deposits and other liabilities of depository institutions. Regulation D, which implements section 19 of the Act, requires that a depository institution meet reserve requirements by holding cash in its vault, or if vault cash is insufficient, by maintaining a balance in an account at a Federal Reserve Bank (“Reserve Bank”).<sup>1</sup> Section 19 also provides that balances maintained by or on behalf of certain institutions in an account at a Reserve Bank may receive earnings to be paid by the Reserve Bank at least once

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<sup>1</sup> 12 CFR 204.5(a)(1).

each quarter, at a rate or rates not to exceed the general level of short-term interest rates. Institutions that are eligible to receive earnings on their balances held at Reserve Banks (“eligible institutions”) include depository institutions and certain other institutions.<sup>2</sup> Section 19 also provides that the Board may prescribe regulations concerning the payment of earnings on balances at a Reserve Bank.<sup>3</sup> Prior to these amendments, Regulation D specified a rate of ¼ percent for both IORR and IOER.<sup>4</sup>

## **II. Amendments to IORR and IOER**

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<sup>2</sup> Section 19(b)(1)(A) defines “depository institution” as any insured bank as defined in section 3 of the Federal Deposit Insurance Act or any bank which is eligible to make application to become an insured bank under section 5 of such Act; any mutual savings bank as defined in section 3 of the Federal Deposit Insurance Act or any bank which is eligible to make application to become an insured bank under section 5 of such Act; any savings bank as defined in section 3 of the Federal Deposit Insurance Act or any bank which is eligible to make application to become an insured bank under section 5 of such Act; any insured credit union as defined in section 101 of the Federal Credit Union Act or any credit union which is eligible to make application to become an insured credit union pursuant to section 201 of such Act; any member as defined in section 2 of the Federal Home Loan Bank Act; [and] any savings association (as defined in section 3 of the Federal Deposit Insurance Act) which is an insured depository institution (as defined in such Act) or is eligible to apply to become an insured depository institution under the Federal Deposit Insurance Act. See 12 U.S.C. 461(b)(1)(A). Eligible institution also includes any trust company, corporation organized under section 25A or having an agreement with the Board under section 25, or any branch or agency of a foreign bank (as defined in section 1(b) of the International Banking Act of 1978). Federal Reserve Act section 19(b)(12)(C), 12 U.S.C. 461(b)(12)(C), see 12 CFR 204.2(y) (definition of “eligible institution”).

<sup>3</sup> See Federal Reserve Act section 19(b)(12), 12 U.S.C. 461(b)(12).

<sup>4</sup> See § 204.10(b)(5) of Regulation D, 12 CFR 204.10(b)(5).

The Board is amending § 204.10(b)(5) of Regulation D to specify that IORR is 0.50 percent and IOER is 0.50 percent. This 0.25 percentage point increase in the IORR and IOER was associated with an increase in the target range for the federal funds rate, from a target range of 0 to  $\frac{1}{4}$  percent to a target range of  $\frac{1}{4}$  to  $\frac{1}{2}$  percent, announced by the FOMC on December 16, 2015 with an effective date of December 17, 2015. A press release on the same day as the announcement noted that:

The Committee judges that there has been considerable improvement in labor market conditions this year, and it is reasonably confident that inflation will rise, over the medium term, to its 2 percent objective. Given the economic outlook, and recognizing the time it takes for policy actions to affect future economic outcomes, the Committee decided to raise the target range for the federal funds rate to  $\frac{1}{4}$  to  $\frac{1}{2}$  percent. The stance of monetary policy remains accommodative after this increase, thereby supporting further improvement in labor market conditions and a return to 2 percent inflation.

A Federal Reserve Implementation note released simultaneously with the announcement indicated that:

The Board of Governors of the Federal Reserve System voted unanimously to raise the interest rate paid on required and excess reserve balances to 0.50 percent, effective December 17, 2015.

As a result, section 204.10(b)(5) of Regulation D has been amended to change IORR to 0.50 percent and IOER to 0.50 percent.

### **III. Administrative Procedure Act**

The Board has determined that delaying implementation of the changes in the rates of interest to be paid in order to allow notice and public comment would be unnecessary and contrary to the public interest. Therefore, the Board has found good cause to not follow the provisions of 5 U.S.C. 553(b) relating to notice and public participation. The Board's revisions to these rates were taken with a view to accommodating commerce and business and with regard to their bearing upon the general credit situation of the country. Notice and public participation would prevent the Board's action from being effective as promptly as necessary in the public interest. A delay would permit speculators or others to reap unfair profits and could provoke other consequences contrary to the public interest. Seeking notice and comment on the rate changes would not aid the persons affected and would otherwise serve no useful purpose. For these same reasons, the Board also has found good cause not to provide 30 days prior notice of the effective date of the rule under 5 U.S.C. 553(d).

### **IV. Regulatory Flexibility Analysis**

The Regulatory Flexibility Act ("RFA") does not apply to a rulemaking where a general notice of proposed rulemaking is not required.<sup>5</sup> As noted previously, the Board has determined that it is unnecessary and contrary to the

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<sup>5</sup> 5 U.S.C. 603 and 604.

public interest to publish a general notice of proposed rulemaking for this final rule. Accordingly, the RFA's requirements relating to an initial and final regulatory flexibility analysis do not apply.

## **V. Paperwork Reduction Act**

In accordance with the Paperwork Reduction Act ("PRA") of 1995 (44 U.S.C. 3506; 5 CFR part 1320 Appendix A.1), the Board reviewed the final rule under the authority delegated to the Board by the Office of Management and Budget. The final rule contains no requirements subject to the PRA.

### **List of Subjects in 12 CFR Part 204**

Banks, Banking, Reporting and recordkeeping requirements.

For the reasons set forth in the preamble, the Board amends 12 CFR part 204 as follows:

### **PART 204—RESERVE REQUIREMENTS OF DEPOSITORY INSTITUTIONS (REGULATION D)**

1. The authority citation for part 204 continues to read as follows:

Authority: 12 U.S.C. 248(a), 248(c), 371a, 461, 601, 611, and 3105.

2. Section 204.10 is amended by revising paragraph (b)(5) to read as follows:

**§ 204.10 Payment of interest on balances.**

\* \* \* \* \*

(b) \* \* \*

(5) The rates for IORR and IOER are:

	<b>Rate</b>	<b>Effective</b>
<b>IORR</b>	0.50 percent	12/17/2015
<b>IOER</b>	0.50 percent	12/17/2015

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By order of the Board of Governors of the Federal Reserve System, December 17, 2015.

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Robert deV. Frierson,  
Secretary of the Board.

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