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FEDERAL RESERVE SYSTEM

12 CFR Part 204

Docket No. R-1702; RIN 7100-AF 76

Regulation D: Reserve Requirements of Depository Institutions

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Interim final rule, request for public comment.

SUMMARY: The Board of Governors of the Federal Reserve System ("Board") is amending its Regulation D (Reserve Requirements of Depository Institutions, 12 CFR Part 204) to lower reserve ratios on transaction accounts maintained at depository institutions to zero percent.

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

Applicability date: The changes to reserve requirement ratios are applicable on March 26, 2020.

COMMENTS: Comments must be received on or before [INSERT DATE 60 AFTER PUBLICATION IN THE FEDERAL REGISTER].

ADDRESSES: You may submit comments, identified by Docket Number R-1702; RIN 7100-AF 76, by any of the following methods:

- Agency Web site: http://www.federalreserve.gov. Follow the instructions for submitting comments at http://www.federalreserve.gov/generalinfo/foia/ProposedRegs.cfm.
- E-mail: regs.comments@federalreserve.gov. Include the docket number and RIN in the subject line of the message.

- Fax: (202) 452-3819 or (202) 452-3102.
- Mail: Ann E. Misback, Secretary, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue, NW, Washington, DC 20551.

All public comments are available from the Board's website at http://www.federalreserve.gov/generalinfo/foia/ProposedRegs.cfm as submitted, unless modified for technical reasons or to remove personally identifiable information at the commenter's request. Accordingly, comments will not be edited to remove any identifying or contact information. Public comments may also be viewed electronically or in paper in Room 146, 1709 New York Avenue NW, Washington, DC 20006, between 9 a.m. and 5 p.m. on weekdays.

FOR FURTHER INFORMATION CONTACT: Sophia H. Allison, Senior Special Counsel, (202-452-3565), Legal Division, or Matthew Malloy (202-452-2416), Division of Monetary Affairs, or Heather Wiggins (202-452-3674), 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

Section 19 of the Federal Reserve Act (the "Act") imposes reserve requirements on certain types of deposits and other liabilities of depository institutions. Specifically, section 19(b)(2) of the Act (12 U.S.C. 461(b)(2)) requires each depository institution to maintain reserves against its transaction accounts, nonpersonal time deposits, and Eurocurrency liabilities, as prescribed by Board regulations, for the purpose of implementing monetary policy. Reserve requirements for nonpersonal time deposits and Eurocurrency liabilities have been set at zero percent since 1990.

Depository institutions satisfy reserve requirements by maintaining cash in their vault or, if vault cash is insufficient, by maintaining a balance in an account at a Federal Reserve Bank. The amount that a depository institution must maintain is known as the depository institution's reserve requirement. See 12 CFR 204.4 (computation of reserve requirements). The amount that a depository institution must maintain in an account at a Reserve Bank over and above the amount of its vault cash is known as the depository institution's reserve balance requirement. 12 CFR 204.2(ee) (definition of "reserve balance requirement"). Currently, over 2,500 depository institutions maintain, in aggregate, $150 billion in account balances to satisfy reserve balance requirements.

Transaction account balances maintained at each depository institution are subject to reserve requirement ratios of zero, three, or ten percent. Section 19(b)(11)(A) of the Act (12 U.S.C. 461(b)(11)(A)) provides that a zero percent reserve requirement shall apply at each depository institution to total reservable liabilities that do not exceed a certain amount, known as the reserve requirement exemption amount. Section 19(b)(2) of the Act (12 U.S.C. 461(b)(2)) provides that transaction account balances maintained at each depository institution over the reserve requirement exemption amount and up to a certain amount, known as the low reserve tranche, are subject to a three percent reserve requirement. Transaction account balances over the low reserve tranche are subject to a ten percent reserve requirement. The reserve requirement exemption amount and the low reserve tranche are adjusted annually pursuant to formulas set forth in the Act.

The reserve requirement ratios implemented by the Board pursuant to Section 19 of the Act are set forth in Section 204.4(f) of Regulation D. Currently, the reserve requirement exemption amount is $16.9 million, and the low reserve tranche amount is $127.5 million.

II. Discussion

A. Recent Developments

For many years, reserve requirements played a central role in the implementation of monetary policy by creating a stable demand for reserves. In January 2019, the FOMC announced its intention to implement monetary policy in an ample reserves regime. Reserve requirements do not play a significant role in this operating framework. In light of the shift to an ample reserves regime, the Board has determined to reduce the reserve requirement ratios to zero percent effective March 26, 2020. This action eliminates reserve requirements for thousands of depository institutions and will help to support lending to households and businesses.

III. Request for Comment

The Board seeks comment on all aspects of this interim final rule.

IV. Administrative Procedure Act

In accordance with the Administrative Procedure Act ("APA") section 553(b) (5 U.S.C. 553(b)), the Board finds, for good cause, that providing notice and an opportunity for public comment before the effective date of this rule would be contrary to the public interest. In addition, pursuant to APA section 553(d) (5 U.S.C. 553(d)), the Board finds good cause for making this amendment effective without 30 days advance publication. By improving the liquidity position of depository institutions subject to reserve requirements, implementation of the rule without 30 days advance publication could help alleviate pressures in short-term funding markets as well as support depository institutions' ability to provide financing to households and businesses. The Board believes that any delay in implementing the rule would prove contrary to the public interest. The Board is requesting comment on all aspects of the rule and will make any changes that it considers appropriate or necessary after review of any comments received.

V. Regulatory Flexibility Act

The Regulatory Flexibility Act requires an agency that is issuing a final rule to prepare and make available a regulatory flexibility analysis that describes the impact of the final rule on small entities. 5 U.S.C. 603(a). The Regulatory Flexibility Act provides that an agency is not required to prepare and publish a regulatory flexibility analysis if the agency certifies that the final rule will not have a significant economic impact on a substantial number of small entities. 5 U.S.C. 605(b).

Pursuant to section 605(b), the Board certifies that this interim final rule will not have a significant economic impact on a substantial number of small entities. The interim final rule reduces reserve requirement ratios for all depository institutions to zero percent. All depository institutions, including small depository institutions, will benefit from the elimination of reserve requirements. There are no new reporting, recordkeeping, or other compliance requirements associated with the interim final rule.

VI. Paperwork Reduction Act

In accordance with the Paperwork Reduction Act (44 U.S.C. 3506; 5 CFR 1320 Appendix A.1), the Board has reviewed the interim final rule under authority delegated to the Board by the Office of Management and Budget. The rule contains no collections of information pursuant to the Paperwork Reduction Act.

VII. Plain Language

Section 772 of the Gramm-Leach-Bliley Act requires the Board to use "plain language" in all proposed and final rules. In light of this requirement, the Board has sought to present the interim final rule in a simple and straightforward manner. The Board invites comment on whether the Board could take additional steps to make the rule easier to understand.

List of Subjects in 12 CFR Part 204

Banks, banking, Reporting and recordkeeping requirements

Authority and Issuance

For the reasons set forth in the preamble, the Board is amending 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. In § 204.4, paragraph (f) is revised to read as follows:

§ 204.4 Computation of required reserves.

* * * * *

(f) For all depository institutions, Edge and Agreement corporations, and United States branches and agencies of foreign banks, required reserves are computed by applying the reserve requirement ratios in table 1 to this paragraph (f) to net transaction accounts, nonpersonal time deposits, and Eurocurrency liabilities of the institution during the computation period.

Table 1 to Paragraph (f)

Reservable liability	Reserve requirement
Net Transaction Accounts:	
$0 to reserve requirement exemption amount ($16.9 million)	0 percent of amount.
Over reserve requirement exemption amount ($16.9 million) and up to low reserve tranche ($127.5 million)	0 percent of amount.
Over low reserve tranche ($127.5 million)	0 percent of amount.
Nonpersonal time deposits	0 percent.
Eurocurrency liabilities	0 percent.

By order of the Board of Governors of the Federal Reserve System, March 16, 2020.

Ann Misback,
Secretary of the Board.

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