



## **FEDERAL RESERVE SYSTEM**

### **12 CFR Part 204**

**Docket No. R-1684; RIN 7100-AF 64**

### **Regulation D: 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 1.55 percent and IOER is 1.55 percent, a 0.25 percentage point decrease 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:** *Effective date:* The amendments to part 204 (Regulation D) are effective [INSERT DATE OF PUBLICATION IN THE Federal Register].

*Applicability date:* The IORR and IOER rate changes are applicable beginning October 31, 2019.

**FOR FURTHER INFORMATION CONTACT:** Sophia H. Allison, Senior Special Counsel (202-452-3565), or Justyna Bolter, Senior Attorney (202-452-2686), Legal Division, or Francis Martinez, Senior Financial Institution & Policy Analyst (202-245-4217), or Laura Lipscomb, Assistant Director (202-912-7964), 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.<sup>1</sup> 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>2</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 each quarter, at a rate or rates not to exceed the general level of short-

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<sup>1</sup> 12 U.S.C. 461(b).

<sup>2</sup> 12 CFR 204.5(a)(1).

term interest rates.<sup>3</sup> Institutions that are eligible to receive earnings on their balances held at Reserve Banks (“eligible institutions”) include depository institutions and certain other institutions.<sup>4</sup> Section 19 also provides that the Board may prescribe regulations concerning the payment of earnings on balances at a Reserve Bank.<sup>5</sup> Prior to these amendments, Regulation D specified a rate of 1.80 percent for both IORR and IOER.<sup>6</sup>

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

The Board is amending § 204.10(b)(5) of Regulation D to specify that IORR is 1.55 percent and IOER is 1.55 percent. This 0.25 percentage point decrease in each rate was associated with a decrease in the target range for the federal funds rate, from a target range of 1-3/4 to 2 percent to a target range of 1-1/2 to 1-3/4 percent, announced by the FOMC on October 30, 2019, with an effective date of October 31, 2019. The FOMC’s press release on the same day as the announcement noted that:

Information received since the Federal Open Market Committee met in September indicates that the labor market remains strong and that economic activity has been rising at a moderate rate. Job gains have been solid, on average, in recent months, and the unemployment rate has remained low. Although household spending has been rising at a strong pace, business fixed investment and exports remain weak. On a 12-

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<sup>3</sup> 12 U.S.C. 461(b)(1)(A) & (b)(12)(A).

<sup>4</sup> See 12 U.S.C. 461(b)(1)(A) & (b)(12)(C); see also 12 CFR 204.2(y).

<sup>5</sup> See 12 U.S.C. 461(b)(12)(B).

<sup>6</sup> See 12 CFR 204.10(b)(5).

month basis, overall inflation and inflation for items other than food and energy are running below 2 percent. Market-based measures of inflation compensation remain low; survey-based measures of longer-term inflation expectations are little changed.

Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. In light of the implications of global developments for the economic outlook as well as muted inflation pressures, the Committee decided to lower the target range for the federal funds rate to 1-1/2 to 1-3/4 percent. This action supports the Committee's view that sustained expansion of economic activity, strong labor market conditions, and inflation near the Committee's symmetric 2 percent objective are the most likely outcomes, but uncertainties about this outlook remain. The Committee will continue to monitor the implications of incoming information for the economic outlook as it assesses the appropriate path of the target range for the federal funds rate.

A Federal Reserve Implementation note released simultaneously with the announcement stated:

The Board of Governors of the Federal Reserve System voted unanimously to lower the interest rate paid on required and excess reserve balances to 1.55 percent, effective October 31, 2019.

As a result, the Board is amending § 204.10(b)(5) of Regulation D to change IORR to 1.55 percent and IOER to 1.55 percent.

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

In general, the Administrative Procedure Act ("APA")<sup>7</sup> imposes three principal requirements when an agency promulgates legislative rules (rules made

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<sup>7</sup> 5 U.S.C. 551 *et seq.*

pursuant to Congressionally-delegated authority): (1) publication with adequate notice of a proposed rule; (2) followed by a meaningful opportunity for the public to comment on the rule’s content; and (3) publication of the final rule not less than 30 days before its effective date. The APA provides that notice and comment procedures do not apply if the agency for good cause finds them to be “unnecessary, impracticable, or contrary to the public interest.”<sup>8</sup> Section 553(d) of the APA also provides that publication at least 30 days prior to a rule’s effective date is not required for (1) a substantive rule which grants or recognizes an exemption or relieves a restriction; (2) interpretive rules and statements of policy; or (3) a rule for which the agency finds good cause for shortened notice and publishes its reasoning with the rule.<sup>9</sup>

The Board has determined that good cause exists for finding that the notice, public comment, and delayed effective date provisions of the APA are unnecessary, impracticable, or contrary to the public interest with respect to these final amendments to Regulation D. The rate changes for IORR and IOER that are reflected in the final amendments to Regulation D were made with a view towards accommodating commerce and business and with regard to their bearing upon the general credit situation of the country. Notice and public comment would prevent the Board’s action from being effective as promptly as necessary in the public

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<sup>8</sup> 5 U.S.C. 553(b)(3)(A).

<sup>9</sup> 5 U.S.C. 553(d).

interest and would not otherwise serve any useful purpose. Notice, public comment, and a delayed effective date would create uncertainty about the finality and effectiveness of the Board's action and undermine the effectiveness of that action. Accordingly, the Board has determined that good cause exists to dispense with the notice, public comment, and delayed effective date procedures of the APA with respect to these final amendments to Regulation 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>10</sup> As noted previously, the Board has determined that it is unnecessary and contrary to the 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,<sup>11</sup> 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.

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<sup>10</sup> 5 U.S.C. 603, 604.

<sup>11</sup> 44 U.S.C. 3506; see 5 CFR part 1320 appendix A.1.

**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), 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:

TABLE 1 TO PARAGRAPH (b)(5)

	<b>Rate</b>
<b>IORR</b>	1.55 percent
<b>IOER</b>	1.55 percent

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By order of the Board of Governors of the Federal Reserve System, November 1, 2019.

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Michele Taylor Fennell,  
*Assistant Secretary of the Board.*

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