



FEDERAL RESERVE SYSTEM

12 CFR Part 204

Docket No. R-1701; RIN 7100-AF 75

Regulation D: Reserve Requirements of Depository Institutions

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Final rule.

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 0.10 percent and IOER is 0.10 percent, a 1.00 percentage point decrease from their prior levels. The amendments are intended to enhance the role of IORR and IOER in maintaining the Federal funds rate in 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 on March 16, 2020.

FOR FURTHER INFORMATION CONTACT: Sophia H. Allison, Senior Special Counsel (202-452-3565), 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 (“Act”) imposes reserve requirements on certain types of deposits and other liabilities of depository institutions.¹ 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”).² 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-term interest rates.³ Institutions that are eligible to receive earnings on their balances held at Reserve Banks (“eligible institutions”) include depository institutions and certain other institutions.⁴ Section 19 also provides that the Board may prescribe regulations concerning the payment of earnings on balances at a Reserve Bank.⁵ Prior to these amendments, Regulation D specified a rate of 1.10 percent for both IORR and IOER.⁶

¹ 12 U.S.C. 461(b).

² 12 CFR 204.5(a)(1).

³ 12 U.S.C. 461(b)(1)(A) & (b)(12)(A).

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

⁵ See 12 U.S.C. 461(b)(12)(B).

⁶ See 12 CFR 204.10(b)(5).

II. Amendments to IORR and IOER

The Board is amending § 204.10(b)(5) of Regulation D to specify that IORR is 0.10 percent and IOER is 0.10 percent. The amendments represent a 1.00 percentage point decrease in IORR and IOER. The amendments to each rate were associated with a decrease in the target range for the federal funds rate, from a target range of 1 to 1-1/4 percent to a target range of 0 to 1/4 percent, announced by the FOMC on March 15, 2020 with an effective date of March 16, 2020. The FOMC's press release on the same day as the announcement noted that:

The coronavirus outbreak has harmed communities and disrupted economic activity in many countries, including the United States. Global financial conditions have also been significantly affected. Available economic data show that the U.S. economy came into this challenging period on a strong footing. Information received since the Federal Open Market Committee met in January indicates that the labor market remained strong through February and economic activity rose at a moderate rate. Job gains have been solid, on average, in recent months, and the unemployment rate has remained low. Although household spending rose at a moderate pace, business fixed investment and exports remained weak. More recently, the energy sector has come under stress. On a 12- month basis, overall inflation and inflation for items other than food and energy are running below 2 percent. Market-based measures of inflation compensation have declined; 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. The effects of the coronavirus will weigh on economic activity in the near term and pose risks to the economic outlook. In light of these developments, the Committee decided to lower the target range for the federal funds rate to 0 to 1/4 percent. The Committee expects to maintain this target range until it is confident that the economy has weathered recent events and is on track to achieve its maximum employment and price stability goals. This action will help support economic activity, strong labor market conditions, and inflation returning to the Committee's symmetric 2 percent objective.

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

The Board of Governors of the Federal Reserve System voted unanimously to set the interest rate paid on required and excess reserve balances at 0.10 percent, effective March 16, 2020.

As a result, the Board is amending § 204.10(b)(5) of Regulation D to change IORR to 0.10 percent and IOER to 0.10 percent.

III. Administrative Procedure Act

In general, the Administrative Procedure Act (“APA”)⁷ imposes three principal requirements when an agency promulgates legislative rules (rules made 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

⁷ 5 U.S.C. 551 *et seq.*

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.”⁸ 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.⁹

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 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.

⁸ 5 U.S.C. 553(b)(3)(A).

⁹ 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.¹⁰ 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 1995,¹¹ 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.

Authority and Issuance

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.

¹⁰ 5 U.S.C. 603, 604.

¹¹ 44 U.S.C. 3506; see 5 CFR part 1320 Appendix A.1.

* * * * *

(b) * * *

(5) The rates for IORR and IOER are:

Table 1 to Paragraph (b)(5)

	Rate
IORR	0.10 percent
IOER	0.10 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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