

**FEDERAL RESERVE SYSTEM****12 CFR Part 201****[Docket No. R-1674]****RIN 7100-AF 57****Regulation A: Extensions of Credit by Federal Reserve Banks****AGENCY:** Board of Governors of the Federal Reserve System.**ACTION:** Final rule.

**SUMMARY:** The Board of Governors of the Federal Reserve System (“Board”) has adopted final amendments to its Regulation A to reflect the Board’s approval of a decrease in the rate for primary credit at each Federal Reserve Bank. The secondary credit rate at each Reserve Bank automatically decreased by formula as a result of the Board’s primary credit rate action.

**DATES:**

*Effective date:* The amendments to part 201 (Regulation A) are effective October 3, 2019.

*Applicability date:* The rate changes for primary and secondary credit were applicable on September 19, 2019.

**FOR FURTHER INFORMATION CONTACT:**

Sophia H. Allison, Senior Special Counsel (202-452-3565), Legal Division, or Lyle Kumasaka, Lead Financial Institution & Policy Analyst (202-452-2382), 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:** The Federal Reserve Banks make primary and secondary credit available to depository institutions as a backup source of funding on a short-term basis, usually overnight. The primary and secondary credit rates are the interest rates that the twelve Federal Reserve Banks charge for extensions of credit under these programs. In accordance with the Federal Reserve Act, the primary and secondary credit rates are established by the boards of directors of the Federal Reserve Banks, subject to the review and determination of the Board.

On September 18, 2019, the Board voted to approve a ¼ percentage point decrease in the primary credit rate in effect at each of the twelve Federal Reserve Banks, thereby decreasing from 2.75 percent to 2.50 percent the rate that each Reserve Bank charges for extensions of primary credit. In addition, the Board had previously

approved the renewal of the secondary credit rate formula, the primary credit rate plus 50 basis points. Under the formula, the secondary credit rate in effect at each of the twelve Federal Reserve Banks decreased by ¼ percentage point as a result of the Board’s primary credit rate action, thereby decreasing from 3.25 percent to 3.00 percent the rate that each Reserve Bank charges for extensions of secondary credit. The amendments to Regulation A reflect these rate changes.

The ¼ percentage point decrease in the primary credit rate was associated with a decrease in the target range for the federal funds rate (from a target range of 2 to 2¼ percent to a target range of 1¾ to 2 percent) announced by the Federal Open Market Committee on September 18, 2019, as described in the Board’s amendment of its Regulation D published elsewhere in today’s **Federal Register**.

**Administrative Procedure Act**

In general, the Administrative Procedure Act (“APA”) <sup>1</sup> 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 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>2</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>3</sup> The APA further provides that the notice, public comment, and delayed effective date requirements of 5 U.S.C. 553 do not apply “to the extent that there is involved . . . a matter relating to agency management or personnel or to public property, *loans*, grants, benefits, or contracts.” <sup>4</sup>

Regulation A establishes the interest rates that the twelve Reserve Banks charge for extensions of primary credit

and secondary credit. The Board has determined that the notice, public comment, and delayed effective date requirements of the APA do not apply to these final amendments to Regulation A. The amendments involve a matter relating to loans and are therefore exempt under the terms of the APA. Furthermore, because delay would undermine the Board’s action in responding to economic data and conditions, the Board has determined that “good cause” exists within the meaning of the APA to dispense with the notice, public comment, and delayed effective date procedures of the APA with respect to the final amendments to Regulation A.

**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, a general notice of proposed rulemaking is not required if the final rule involves a matter relating to loans. Furthermore, 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.

**Paperwork Reduction Act**

In accordance with the Paperwork Reduction Act (“PRA”) of 1995, <sup>6</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.

**12 CFR Chapter II****List of Subjects in 12 CFR Part 201**

Banks, Banking, Federal Reserve System, Reporting and recordkeeping.

**Authority and Issuance**

For the reasons set forth in the preamble, the Board is amending 12 CFR chapter II to read as follows:

**PART 201—EXTENSIONS OF CREDIT BY FEDERAL RESERVE BANKS (REGULATION A)**

■ 1. The authority citation for part 201 continues to read as follows:

**Authority:** 12 U.S.C. 248(i)–(j), 343 *et seq.*, 347a, 347b, 347c, 348 *et seq.*, 357, 374, 374a, and 461.

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

<sup>6</sup> 44 U.S.C. 3506; see 5 CFR part 1320, appendix A.1.

<sup>1</sup> 5 U.S.C. 551 *et seq.*

<sup>2</sup> 5 U.S.C. 553(b)(3)(A).

<sup>3</sup> 5 U.S.C. 553(d).

<sup>4</sup> 5 U.S.C. 553(a)(2) (emphasis added).

■ 2. In § 201.51, paragraphs (a) and (b) are revised to read as follows:

**§ 201.51 Interest rates applicable to credit extended by a Federal Reserve Bank.<sup>3</sup>**

(a) *Primary credit.* The interest rate at each Federal Reserve Bank for primary credit provided to depository institutions under § 201.4(a) is 2.50 percent.

(b) *Secondary credit.* The interest rate at each Federal Reserve Bank for secondary credit provided to depository institutions under § 201.4(b) is 3.00 percent.

\* \* \* \* \*

By order of the Board of Governors of the Federal Reserve System, September 25, 2019.

**Ann Misback,**

*Secretary of the Board.*

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## FEDERAL RESERVE SYSTEM

### 12 CFR Part 204

[Docket No. R-1675]

RIN 7100-AF 58

#### 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 1.80 percent and IOER is 1.80 percent, a 0.30 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 October 3, 2019.

<sup>3</sup> The primary, secondary, and seasonal credit rates described in this section apply to both advances and discounts made under the primary, secondary, and seasonal credit programs, respectively.

*Applicability date:* The IORR and IOER rate changes were applicable on September 19, 2019.

**FOR FURTHER INFORMATION CONTACT:**

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**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-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 2.10 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 1.80 percent and IOER is 1.80 percent. This 0.30 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 2 to 2¼ percent to a target range of 1¾ to 2 percent, announced by the FOMC on September 18, 2019, with an effective

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

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

<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).

date of September 19, 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 July 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 have weakened. 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 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 1¾ to 2 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. As the Committee contemplates the future path of the target range for the federal funds rate, it will continue to monitor the implications of incoming information for the economic outlook and will act as appropriate to sustain the expansion, with a strong labor market and inflation near its 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 lower the interest rate paid on required and excess reserve balances to 1.80 percent, effective September 19, 2019. Setting the interest rate paid on required and excess reserve balances 20 basis points below the top of the target range for the federal funds rate is intended to foster trading in the federal funds market at rates well within the FOMC’s target range.

As a result, the Board is amending § 204.10(b)(5) of Regulation D to change IORR to 1.80 percent and IOER to 1.80 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 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)

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