

FEDERAL RESERVE SYSTEM

12 CFR Part 204

Regulation D

Docket No. R-1733; RIN 7100-AG 03

Reserve Requirements of Depository Institutions

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Final rule.

SUMMARY: The Board is amending Regulation D, Reserve Requirements of Depository Institutions, to reflect the annual indexing of the reserve requirement exemption amount and the low reserve tranche for 2021. The annual indexation of these amounts is required notwithstanding the Board's action in March 2020 setting all reserve requirement ratios to zero. The Regulation D amendments set the reserve requirement exemption amount for 2021 at \$21.1 million of reservable liabilities (up from 16.9 million in 2020). The Regulation D amendments also set the amount of net transaction accounts at each depository institution (over the reserve requirement exemption amount) that could be subject to a reserve requirement ratio of not more than 3 percent (and which may be zero) in 2021 at \$182.9 million (up from \$127.5 million in 2020). This amount is known as the low reserve tranche. The adjustments to both of these amounts are derived using statutory formulas specified in the Federal Reserve Act (the "Act"). The annual indexation of the reserve requirement exemption amount and low reserve tranche, though required by statute, will not affect depository institutions' reserve requirements, which

will remain zero. The Board is also announcing changes in two other amounts, the nonexempt deposit cutoff level and the reduced reporting limit, that are used to determine the frequency at which depository institutions must submit deposit reports.

DATES: *Effective date:* [INSERT DATE 30 DAYS AFTER PUBLICATION IN FEDERAL REGISTER].

Compliance dates: The new low reserve tranche and reserve requirement exemption amount will apply to the fourteen-day reserve maintenance period that begins January 14, 2021. For depository institutions that report deposit data weekly, this maintenance period corresponds to the fourteen-day computation period that begins December 15, 2020. For depository institutions that report deposit data quarterly, this maintenance period corresponds to the seven-day computation period that begins December 15, 2020. The new values of the nonexempt deposit cutoff level, the reserve requirement exemption amount, and the reduced reporting limit will be used to determine the frequency at which a depository institution submits deposit reports effective in either June or September 2021.

FOR FURTHER INFORMATION CONTACT: Sophia H. Allison, Senior Special Counsel (202-452-3565), or Justyna Bolter, Senior Attorney (202/452-2686), Legal Division, or Kristen Payne, Senior Financial Institution and Policy Analyst (202-452-2872), or Francis A. Martinez, Lead Financial Institution and Policy Analyst (202-245-4217), 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, N.W., Washington, DC 20551.

SUPPLEMENTARY INFORMATION: 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 and nonpersonal time deposits, as prescribed by Board regulations, for the purpose of implementing monetary policy. Section 11(a)(2) of the Act (12 U.S.C. 248(a)(2)) authorizes the Board to require reports of liabilities and assets from depository institutions to enable the Board to conduct monetary policy. The Board's actions with respect to each of these provisions are discussed in turn below.

I. Reserve Requirements

Section 19(b) of the Act authorizes different ranges of reserve requirement ratios depending on the amount of transaction account balances at a depository institution. Section 19(b)(11)(A) of the Act (12 U.S.C. 461(b)(11)(A)) provides that a zero percent reserve requirement ratio 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)(11)(B) provides that, before December 31 of each year, the Board shall issue a regulation adjusting the reserve requirement exemption amount for the next calendar year if total reservable liabilities held at all depository institutions increase from one year to the next. No adjustment is made to the reserve requirement exemption amount if total reservable liabilities held at all depository institutions should decrease during the applicable time period. The Act requires the percentage increase in the reserve requirement exemption amount to be 80 percent of the

increase in total reservable liabilities of all depository institutions over the one-year period that ends on the June 30 prior to the adjustment.

Total reservable liabilities of all depository institutions increased by 31.0 percent, from \$8,321 billion to \$10,902 billion, between June 30, 2019, and June 30, 2020.

Accordingly, the Board is amending Regulation D to set the reserve requirement exemption amount for 2021 at \$21.1 million, an increase of \$4.2 million from its level in 2020.¹

Pursuant to Section 19(b)(2) of the Act (12 U.S.C. 461(b)(2)), 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, may be subject to a reserve requirement ratio of not more than 3 percent (and which may be zero). Transaction account balances over the low reserve tranche may be subject to a reserve requirement ratio of not more than 14 percent (and which may be zero).

Section 19(b)(2) also provides that, before December 31 of each year, the Board shall issue a regulation adjusting the low reserve tranche for the next calendar year. The Act requires the adjustment in the low reserve tranche to be 80 percent of the percentage increase or decrease in total transaction accounts of all depository institutions over the one-year period that ends on the June 30 prior to the adjustment.

¹ Consistent with Board practice, the low reserve tranche and reserve requirement exemption amounts have been rounded to the nearest \$0.1 million.

Net transaction accounts of all depository institutions increased 54.3 percent, from \$2,505 billion to \$3,866 billion, between June 30, 2019, and June 30, 2020. Accordingly, the Board is amending Regulation D to set the low reserve tranche for net transaction accounts for 2021 at \$182.9 million, an increase of \$55.4 million from 2020.

The new low reserve tranche and reserve requirement exemption amount will be effective for all depository institutions for the fourteen-day reserve maintenance period beginning January 14, 2021. For depository institutions that report deposit data weekly, this maintenance period corresponds to the fourteen-day computation period that begins December 15, 2020. For depository institutions that report deposit data quarterly, this maintenance period corresponds to the seven-day computation period that begins December 15, 2020.

Effective March 26, 2020, the Board reduced reserve requirement ratios on all net transaction accounts to zero percent, eliminating reserve requirements for all depository institutions. The annual indexation of the reserve requirement exemption amount and the low reserve tranche for 2021 is required by statute but will not affect depository institutions' reserve requirements, which will remain zero.

II. Deposit Reports

Section 11(b)(2) of the Act authorizes the Board to require depository institutions to file reports of their liabilities and assets as the Board may determine to be necessary or desirable to enable it to discharge its responsibility to monitor and control the monetary and credit aggregates. The Board screens depository institutions each year and assigns

them to one of four deposit reporting panels (weekly reporters, quarterly reporters, annual reporters, or nonreporters). The panel assignment for annual reporters is effective in June of the screening year; the panel assignment for weekly and quarterly reporters is effective in September of the screening year.

In order to ease reporting burden, the Board permits smaller depository institutions to submit deposit reports less frequently than larger depository institutions. The Board permits depository institutions with net transaction accounts above the reserve requirement exemption amount but total transaction accounts, savings deposits, and small time deposits below a specified level (the “nonexempt deposit cutoff”) to report deposit data quarterly. Depository institutions with net transaction accounts above the reserve requirement exemption amount and with total transaction accounts, savings deposits, and small time deposits greater than or equal to the nonexempt deposit cutoff are required to report deposit data weekly. The Board requires certain large depository institutions to report weekly regardless of the level of their net transaction accounts if the depository institution’s total transaction accounts, savings deposits, and small time deposits exceeds or is equal to a specified level (the “reduced reporting limit”). The nonexempt deposit cutoff level and the reduced reporting limit are adjusted annually, by an amount equal to 80 percent of the increase, if any, in total transaction accounts, savings deposits, and small time deposits of all depository institutions over the one-year period that ends on the June 30 prior to the adjustment.

From June 30, 2019, to June 30, 2020, total transaction accounts, savings deposits, and small time deposits at all depository institutions increased 24.0 percent, from \$13,053 billion to \$16,191 billion. Accordingly, the Board is increasing the nonexempt deposit cutoff level by \$203.5 million to \$1.262 billion for 2021 (up from \$1.058 billion in 2020). The Board is also increasing the reduced reporting limit by \$424.6 million to \$2.633 billion for 2021 (up from \$2.208 billion in 2020).²

Beginning in 2021, the boundaries of the four deposit reporting panels will be defined as follows. Those depository institutions with net transaction accounts over \$21.1 million (the reserve requirement exemption amount) or with total transaction accounts, savings deposits, and small time deposits greater than or equal to \$2.633 billion (the reduced reporting limit) are subject to detailed reporting, and must file a Report of Transaction Accounts, Other Deposits and Vault Cash (FR 2900 report) either weekly or quarterly. Of this group, those with total transaction accounts, savings deposits, and small time deposits greater than or equal to \$1.262 billion (the nonexempt deposit cutoff level) are required to file the FR 2900 report each week, while those with total transaction accounts, savings deposits, and small time deposits less than \$1.262 billion are required to file the FR 2900 report each quarter. Those depository institutions with net transaction accounts less than or equal to \$21.1 million (the reserve requirement exemption amount) and with total transaction accounts, savings deposits, and small time deposits less than

² Consistent with Board practice, the nonexempt deposit cutoff level and the reduced reporting limit have been rounded to the nearest \$1 million.

\$2.633 billion (the reduced reporting limit) are eligible for reduced reporting, and must either file a deposit report annually or not at all. Of this group, those with total deposits greater than \$21.1 million (but with total transaction accounts, savings deposits, and small time deposits less than \$2.633 billion) are required to file the Annual Report of Deposits and Reservable Liabilities (FR 2910a) report annually, while those with total deposits less than or equal to \$21.1 million are not required to file a deposit report. A depository institution that adjusts reported values on its FR 2910a report in order to qualify for reduced reporting will be shifted to an FR 2900 reporting panel.

III. Regulatory Analysis

Administrative Procedure Act

The provisions of 5 U.S.C. 553(b) relating to notice of proposed rulemaking have not been followed in connection with the adoption of these amendments. The amendments involve expected, ministerial adjustments prescribed by statute and by the Board's policy concerning reporting practices. The adjustments in the reserve requirement exemption amount, the low reserve tranche, the nonexempt deposit cutoff level, and the reduced reporting limit serve to reduce regulatory burdens on depository institutions. Accordingly, the Board finds good cause for determining, and so determines, that notice in accordance with 5 U.S.C. 553(b) is unnecessary.

Regulatory Flexibility Act

The Regulatory Flexibility Act (RFA) does not apply to a rulemaking where a

general notice of proposed rulemaking is not required.³ As noted previously, the Board has determined that it is unnecessary 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 of 1995,⁴ the Board reviewed this final rule. No collections of information pursuant to the Paperwork Reduction Act are contained in the final rule.

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), 461, 601, 611, and 3105.

2. Section 204.4 is amended by revising paragraph (f) to read as follows:

³ 5 U.S.C. 603 and 604.

⁴ 44 U.S.C. 3506; 5 CFR 1320.

§ 204.4 Computation of required reserves.

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(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 (\$21.1 million)	0 percent of amount.
Over reserve requirement exemption amount (\$21.1 million) and up to low reserve tranche (\$182.9 million)	0 percent of amount.
Over low reserve tranche (\$182.9 million)	\$0 plus 0 percent of amount over \$182.9 million.
Nonpersonal time deposits	0 percent.
Eurocurrency liabilities	0 percent.

By order of the Board of Governors of the Federal Reserve System, acting through the Director of the Division of Monetary Affairs under delegated authority.

Ann Misback,
Secretary of the Board.