

## **Part II**

### **Board of Governors of the Federal Reserve System**

#### **A. Overview**

Section 303 of the Riegle Community Development and Regulatory Improvement Act of 1994 (the CDRI Act, 12 U.S.C. 4803) requires each Federal banking agency, consistent with the principles of safety and soundness, statutory law and policy, and the public interest, to review its regulations and written policies with the purpose of streamlining and modifying them to improve efficiency, reduce unnecessary costs, remove inconsistencies, and eliminate outmoded and duplicative requirements.

Acting pursuant to Section 303, and in conjunction with the Board's ongoing Regulatory Planning and Review Program, the Board has reviewed each of its regulations and written policies. As a result of this effort, the Board has proposed or adopted significant changes in the way it regulates banks and bank holding companies. The review included subjects as disparate as securities credit regulation, bank holding company applications, regulation of foreign banks, restrictions on securities underwriting and dealing by affiliates of bank holding companies, and consumer disclosure regulations. The Board believes that, when completed, this review will yield benefits for all institutions affected by the Board's rules.

This section of the joint report summarizes the efforts of the Board of Governors of the Federal Reserve System to meet the requirements and spirit of Section 303.

#### **B. Methodology**

To respond to the requirements of the CDRI Act, the Board assembled a staff team to conduct internal reviews of its regulations and policies (hereinafter referred to as regulations) under the general supervision of a member of the Board and a coordinating committee of senior staff. Depending upon the

complexity and significance of the regulation, the teams ranged in size from a few individuals in one staff area to interdivisional efforts involving groups of specialists.

In addition to regulations, staff examined all related statements of policy, formal and informal interpretations, supervisory letters, and other regulatory guidance associated with any of the Board's regulations to determine whether they may have become obsolete or inconsistent with current policies or might otherwise be improved.

Following the preliminary reviews, the Board issued in an October 1995 press release and Federal Register notice an anticipated timetable for conducting comprehensive reviews, so that interested parties would know when to expect a request for public comments in their areas of interest. In its initial press release, the Board noted that some substantive reviews had already begun, and it also invited interested parties to submit preliminary comments on any of its regulations, interpretations, and procedures. All initial reviews for purposes of section 303(a)(1) are now complete and many proposals have already been implemented. In those cases where formal rulemaking was necessary, the rulemaking process is underway or has been completed.

To meet the goals of the timetable, staff developed an internal schedule which served as the main staff working document for tracking the internal review effort. Senior staff working on and coordinating the review effort met approximately monthly to monitor progress. Staff coordinated efforts internally at the highest levels, including division directors, with regular reports to Board members. The interagency uniformity aspect of Section 303(a)(2), discussed separately in this report, was on the agenda at the quarterly meetings of the Federal Financial Institutions Examination Council. The Council's standing Task Forces actively participated in the coordination process, especially the Task Force on Supervision, the Task Force on Consumer Compliance, and the Legal Advisory Group.

After completing the analysis of existing regulations, the Federal Reserve staff forwarded recommendations to the appropriate Committees of the Board for further discussion. This procedure will be followed until completion of the project. The Board is committed to the goals of Section 303, and its work will extend beyond the September 23, 1996 date for submission of this progress report.

Following Committee review and Board discussion at public meetings, the Board has proposed many regulatory revisions for public comment. In some cases, for example, deletion of obsolete supervisory letters of instruction, no public comment was necessary. In others, the complex nature of the proposal suggested the usefulness of a longer comment period or two comment periods -- one for preliminary views and the second for comments on a completed proposal. Based upon analysis of the comments and subsequent revisions to proposals, staff has brought revised proposals to the appropriate Board Committee for discussion and then to the Board for final review and approval.

The following pages contain a summary of the Federal Reserve's efforts in its CDRI Section 303 reviews. Section C highlights 12 of the most important areas, which are in various stages of completion, from initial review to final rule. A listing of all of the 51 staff projects in various stages of completion follows in Section D. Some of these projects have been incorporated into the 12 areas detailed in Section C.

## C. Significant Accomplishments

### 1. Regulation Y, Generally (Bank Holding Companies and Change in Bank Control, 12 CFR Part 225).

Regulation Y is the regulation the Board has adopted to implement the requirements of the Bank Holding Company Act (the "BHC Act"), the Change in Bank Control Act ("CIBC Act") and provisions of the Federal Deposit Insurance Act ("FDI Act"). Regulation Y is comprised primarily of procedures that bank holding companies and individuals must follow in seeking Board approval of proposed acquisitions under those Acts.

*Prior Review.* In 1983, the Board conducted a comprehensive revision of Regulation Y for the purpose of streamlining the regulation and reducing the burden associated with the procedures in the regulation. Since that time, the Board has on a number of occasions updated and revised the regulation to account for statutory changes and to eliminate unnecessary burden wherever possible. For example, in 1992 and 1994, the Board amended the regulation to shorten processing periods and establish several streamlined procedures for bank and nonbank acquisitions that significantly reduced regulatory burden.

*Current Review.* As required by section 303 of the Riegle Community Development and Regulatory Improvement Act of 1994, the Board has conducted another comprehensive review of Regulation Y to improve efficiency, reduce unnecessary costs, and eliminate unwarranted constraints on credit availability while faithfully implementing statutory requirements. The Board's review of Regulation Y included discussions with staff of the other Federal banking agencies regarding the implementation of common statutory provisions. The Board has completed and discussed its comprehensive review of Regulation Y and has proposed for public comment a number of revisions to eliminate unnecessary burden and paperwork of Regulation Y. The public comment period on the proposed revisions will extend until October 31, 1996. Among the revisions are proposals to amend Regulation Y to:

## Bank Acquisition Proposals

- Establish a streamlined 15-day notice procedure for proposed acquisitions by well-capitalized and well-managed bank holding companies with "satisfactory" or better CRA performance records to acquire banks (this procedure would be available to approximately 85 percent of the bank holding companies with assets over \$100 million and would apply to approximately 50 percent of the applications/notices submitted to the System);
- Eliminate the pre-acceptance period for all filings to acquire a bank (thereby expediting processing of bank acquisition proposals by as much as 28 days);
- Permit publication in a newspaper and the Federal Register regarding bank acquisition proposals to occur up to 30 days before a filing for approval of the transaction is made;
- Adhere strictly to the Board's policies governing acceptance of public comments to require all comments on bank acquisitions to be submitted during the public comment period; and
- Streamline the current waiver procedure for transactions that are in substance bank-to-bank mergers and expand the waiver procedure to apply to internal corporate reorganizations by registered bank holding companies.

## Nonbanking Activities and Acquisitions Proposals

- Establish a streamlined 15-day notice procedure for proposals by well-capitalized and well-managed bank holding companies to engage de novo in permissible nonbanking activities and to acquire smaller nonbanking companies engaged in any activity permitted by regulation or permitted for that bank holding company by order;

- Revise and reorganize the list of permissible nonbanking activities into fourteen categories of functionally related activities and permit bank holding companies to obtain approval at one time to engage in all activities on the list or within the same functional category;
- Broaden the scope and description of activities, including in particular, derivatives trading and investment activities, investment advisory activities, and management consulting activities;
- Expand data processing and management consulting activities to include, as an incidental activity, deriving up to 30 percent of total revenue from nonfinancial data processing and management consulting activities;
- Add to the regulatory list of permissible nonbanking activities several nonbanking activities previously approved by the Board by order, including private placement of securities, acting as riskless principal in the sale of securities, acting as a futures commission merchant in the sale of nonfinancial futures and options on futures, providing career counseling services to employees in the financial industry, and providing asset management services;
- Remove from the regulation restrictions on the conduct of permissible nonbanking activities that have been superseded by Board order, are unnecessary, or would not normally apply to the conduct by an insured bank of the same activity, including: restrictions on the conduct of leasing activities, private placement and riskless principal activities, derivatives investment and advisory activities, futures clearing and execution activities, foreign exchange activities, the sale of payment instruments, tax planning and preparation activities, and consumer counseling activities;
- Eliminate the one-year time limit on Federal Reserve System approvals to engage de novo in permissible nonbanking activities for bank holding companies that maintain adequate capital and satisfactory

examination ratings (this would allow a bank holding company to seek a single approval to engage in all permissible nonbanking activities);

- Establish a streamlined procedure outside the application process for bank holding companies and others to obtain an advisory opinion from the Board about the scope of permissible activities;
- Revise the Board's policy statement governing the investment advisory activities of bank holding companies to remove several restrictions that currently apply to bank holding companies that advise mutual funds;<sup>1</sup> and
- Permit publication of Federal Register notices regarding nonbanking proposals up to 30 days before a filing for Board approval is made.

#### Bank Holding Company Formations

- Reduce the threshold qualifications and information requirements for the existing abbreviated procedure for bank holding company formations by current shareholders of a bank.

#### Change in Bank Control Act Filings

- Eliminate the current requirement that a person that has already received Board approval under the Change in Bank Control Act (CIBC Act) obtain additional approvals to acquire additional shares of the same bank or bank holding company;

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<sup>1</sup> The Board has taken final action amending this policy statement to permit a bank holding company to purchase, as fiduciary, shares of an investment company advised by the holding company where the purchase of shares is permitted by the fiduciary agreement, relevant state law, or court order. The Board has also rescinded a letter issued in 1986 (the "Sovran letter") that governs the manner in which a bank holding company may act as broker in the sale of mutual fund shares to bank customers.

- Add a definition of the term "acting in concert" and establish presumptions to resolve questions about when a group is "acting in concert;"
- Allow after-the-fact filings when a CIBC Act filing requirement is triggered by the action of an unrelated third party; and
- Permit public notice of CIBC Act filings to be published 30 days in advance of filing notice with the System.

### Other Changes

- Modify requirements for filing prior notice of changes in directors and senior executive officers of state member banks and bank holding companies and clarify the appeals process for rejected notices;
- Establish a regulatory presumption that exempts testamentary trusts from the definition of "company" in the BHC Act;
- Reduce from 30 to 15 the number of days prior notice required before a large stock redemption by a bank holding company, permit bank holding companies to take account of intervening new issues of stock in computing when a stock redemption notice must be filed, and allow small bank holding companies to make stock redemptions without notice if the holding company meets certain leverage and capital requirements applicable to small bank holding companies;
- Update and revise the Board's existing policy statement on small one-bank holding companies to reduce burden in the approval process for proposals to form small bank holding companies and by small bank holding companies to acquire additional banks; and
- Implement current Board decisions defining the terms "class of voting securities" and "immediate family."

The Board also has invited the public to suggest other ways in which Regulation Y can be amended to eliminate unnecessary burden. The Board anticipates that changes to Regulation Y will be adopted by year-end 1996.

## **2. Regulation Y, Tie-in Arrangements, 12 CFR 225.7.**

Section 106(b) of the Bank Holding Company Act Amendments of 1970 (12 U.S.C. 1972) applies five special antitrust restrictions to banks: two prohibit tying arrangements (requiring a customer to purchase one product from the bank or an affiliate in order to obtain another product from the bank); two prohibit reciprocity arrangements (requiring a customer to provide one product to the bank or an affiliate in order to obtain another product from the bank); and one prohibits exclusive dealing arrangements (requiring a customer to refrain from dealing with a competitor in order to obtain a product from the bank). Although section 106 applies only when a bank offers the tying product, the Board in 1971 extended the same restrictions to bank holding companies and their nonbank subsidiaries. See 12 CFR 225.7(a).

Section 106 contains an explicit exception (the "statutory traditional bank product exception") that permits a bank to tie a product or service to a loan, discount, deposit, or trust service offered by that bank. Section 106 also authorizes the Board to grant exceptions to its restrictions by regulation or order.

*Prior Review.* Since 1992, the Board has granted a series of exceptions to section 106 and its own regulatory extension of section 106 to bank holding companies. Most notably, the Board has allowed a bank or any of its affiliates to vary the consideration for a traditional bank product on condition that the customer obtain another traditional bank product from an affiliate (the "regulatory traditional bank product exception");<sup>2</sup> permitted a bank holding company or its nonbank subsidiary to offer a discount on its product or service on condition that a customer obtain another product or service from that

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<sup>2</sup> See 12 CFR 225.7(b)(2).

company or from any of its nonbank affiliates;<sup>3</sup> and established a regulatory "safe harbor" to permit any bank or nonbank subsidiary of a bank holding company to offer a "combined-balance discount" based on a customer's maintaining a combined minimum balance in any product or package of products specified by the company, so long as deposits count toward the minimum balance.<sup>4</sup>

*Current Review.* After a comprehensive review of the tying regulation, the Board on August 23, 1996 proposed four amendments to the regulation that would significantly reduce the burden imposed by the regulation and allow bank holding companies to package their products in order better to serve their customers. First, the Board proposed to rescind its regulatory extension of the anti-tying rules to bank holding companies and their nonbank subsidiaries. The Board's experience has shown that these nonbanking companies do not possess special market power by virtue of their affiliation with banks, and generally operate in markets that are notable for their competitive vitality. Accordingly, the proposed revisions eliminate the Board's regulatory extension of the anti-tying statute, leaving restriction of anti-competitive behavior by bank holding companies and their nonbank subsidiaries to the same general antitrust laws that govern their competitors.

Second, the Board is proposing to broaden the statutory traditional bank product exception by applying it between affiliates. The statutory exception is limited to traditional banking relationships within one bank, and the proposed regulatory exception would extend it to apply to relationships that involve more than one bank or other affiliate.

Third, in a related change, the Board is proposing to broaden the types of arrangements to which the traditional bank product exception applies. As noted above, section 106 prohibits not only tying arrangements (conditioning the availability of one product on the purchase of another) but also reciprocity

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<sup>3</sup> 59 Federal Register 65,473 (1994), 12 CFR 225.7(b)(3).

<sup>4</sup> 60 Federal Register 20,186 (1995).

arrangements (conditioning the availability of one product on the providing of another by the customer). Although the prohibition on reciprocity arrangements contains an exception intended to preserve traditional banking relationships, this exception to the reciprocity prohibition does not apply to inter-affiliate transactions. The Board's proposal would apply the exception in such cases.

Finally, the Board is seeking comment on whether to clarify the extent to which section 106 applies to foreign transactions. The Board is seeking comment on whether to establish a safe harbor for certain foreign transactions and how best to define "foreign transactions."

*Conclusion:* Following review of the public comments the Board is expected to take further action in early 1997.

### **3. Regulation Y, Orders Concerning Limitations on Bank-Ineligible Activities of Subsidiaries of Bank Holding Companies, Orders under 12 CFR 225.25.**

In 1987, the Board authorized bank holding companies to establish nonbank subsidiaries to underwrite and deal in securities. In order to ensure compliance with Section 20 of the Glass-Steagall Act, which prohibits a member bank from being affiliated with a company that is "engaged principally" in underwriting and dealing in securities that a member bank may not underwrite or deal in ("ineligible securities"), the Board limited the revenue that each of these so-called Section 20 subsidiaries could derive from underwriting and dealing activities in ineligible securities to 10 percent of its total revenue. In order to ensure compliance with the safety and soundness and conflict of interest standards of the Bank Holding Company Act, the Board also established a series of prudential limitations on the structure, capitalization, and operations of the Section 20 subsidiaries. Better known as "firewalls," these restrictions attempt to insulate insured depository institutions from the underwriting and dealing risks of their affiliates.

*Past Revisions.* In 1989, when the Board expanded the types of securities that a Section 20 subsidiary could underwrite and deal in, the Board also expanded the firewalls applicable to subsidiaries engaged in those expanded activities. No changes were made to the revenue test in subsequent orders until, in January 1993, the Board allowed Section 20 subsidiaries to use an alternative revenue test that was indexed to account for changes in interest rates since 1989. The Board found that historically unusual changes in the level and structure of interest rates had distorted the revenue test as a measure of the relative importance of ineligible securities activity in a manner that was not anticipated when the 10 percent limit was adopted in 1989.

*Current Revisions.* On July 31, 1996, the Board announced that it was seeking comment on three proposed amendments to its Section 20 orders that would: (1) raise from 10 percent to 25 percent the limitation on underwriting and dealing revenue as a percentage of total revenue; (2) clarify that, in administering the revenue test, the Board will not consider interest income earned on securities that a member bank could hold for its own account as underwriting or dealing revenue in determining whether a Section 20 subsidiary is "engaged principally" in underwriting or dealing in ineligible securities; and (3) amend or eliminate three of the firewalls established by the Board: A) the prohibition on director, officer and employee interlocks between a Section 20 subsidiary and its affiliated banks or thrifts (the interlocks restriction); B) the restriction on a bank or thrift acting as agent for, or engaging in marketing activities on behalf of, an affiliated Section 20 subsidiary (the cross-marketing restriction); and C) the restriction on the purchase and sale of financial assets between a Section 20 subsidiary and its affiliated bank or thrift (the financial assets restriction).

In proposing its changes to the revenue limit, the Board was interpreting the restriction in Section 20 of the Glass-Steagall Act on a bank's being affiliated with a company "engaged principally" in underwriting and dealing in ineligible securities. The Board stated its belief that the changes were consistent with its experience supervising the operations of the Section 20 subsidiaries and market developments that occurred since the Board first

adopted the revenue test in 1987. The Board also stated its belief that the changes would be consistent with safety and soundness.

The Board also proposed three changes to its firewalls. First, the interlocks restriction currently imposes considerable costs on bank holding companies operating a Section 20 subsidiary and serves as a barrier to entry for those considering doing so. This cost may be prohibitive for some smaller bank holding companies that cannot afford to pay separate staffs to perform similar functions. Accordingly, the Board proposed to replace the blanket prohibition on interlocks with a more narrowly tailored set of restrictions.

With respect to directors, the Board proposed to prohibit: (1) a majority of the board of directors of a Section 20 subsidiary from being composed of directors, officers, or employees of affiliated banks or thrifts; and (2) a majority of the board of directors of a bank or thrift from being composed of directors, officers, or employees of an affiliated Section 20 subsidiary. The Board also proposed to eliminate the prohibition on officer and employee interlocks or, alternatively, to limit it to only the senior executive officer or senior executive officers (as defined in 12 CFR 225.71, or elsewhere) of the Section 20 subsidiary.

The Board also sought comment on whether to eliminate the cross-marketing restriction. The Board believes that the disclosure requirements contained in the Section 20 Orders and the Interagency Statement on Retail Sales of Nondeposit Investment Products may be a more narrowly tailored and less burdensome method of protecting against customer confusion as to whether the customer is dealing with a Section 20 subsidiary or an affiliated bank or thrift.

Finally, the Board sought comment on the financial assets restriction, which generally prohibits a bank or thrift from purchasing financial assets from, or selling such assets to, an affiliated Section 20 subsidiary. An existing exception to this restriction allows the purchase or sale of U.S. Treasury securities or direct obligations of the Canadian Federal government at market terms, provided that they are not subject to repurchase or reverse repurchase

agreements between the underwriting subsidiary and its bank or thrift affiliates. The Board sought comment on whether it should expand this exception to include the purchase or sale of any assets with a sufficiently broad and liquid market to ensure that the transaction is on market terms and that the bank is not incurring credit or liquidity risk through the purchase of assets.

*Conclusion:* The Board adopted the proposed clarification to the revenue test on September 11, 1996. The Board is expected to take further action before the end of 1996.

#### **4. Examination Process Streamlining - Risk-focused Examinations**

Over the last several years, the Federal Reserve has taken a number of steps to sharpen the focus of Federal Reserve System examinations on the processes in place at financial institutions to manage and control risk. These steps include:

- Establishment of formal supervisory ratings for risk management processes, including internal controls, that are assigned as part of every examination and inspection;
- Development of guidance on the evaluation of the key risks and management practices associated with trading and derivatives activities; and
- Enhancement of off-site planning practices so that examination efforts can be targeted to significant risk areas once on-site.

The Federal Reserve's heightened emphasis on risk management responds to both the expanding range and complexity of financial activities and recent improvements in management processes at banking organizations. It also facilitates the completion of comprehensive examinations that minimize supervisory burdens by better focusing transaction testing activities.

Risk-focused examinations emphasize effective planning so that examinations can be tailored to suit the size and activities of financial institutions and to concentrate examiner resources on areas that expose institutions to the greatest degree of risk. In addition, under a risk-focused approach, the examiner resources directed to assessing a banking organization's management processes for identifying, measuring, monitoring, and controlling its risks are increased. The degree of transaction testing that is conducted by examiners is then adjusted depending on the quality of management practices and the materiality of the activities being reviewed. Thus, when a financial institution's risk management processes are determined to be sound, the level of transaction testing conducted by examiners may be reduced and supervisory burdens on the organization lessened.

In 1995, the Federal Reserve established a committee of senior officials from the Reserve Banks and the Board to develop recommendations to improve further the effectiveness and efficiency of the examination process. The committee's work built upon prior Federal Reserve System efforts, included interviews with senior executives from nearly 100 financial institutions, and culminated in a number of recommendations that are expected to contribute to a further reduction in burden on financial institutions. The committee's recommendations were finalized in May of this year and are as follows:

- Continue and, where appropriate, accelerate the shift to a more risk-focused examination process;
- Place greater emphasis on planning examinations to concentrate on principal risk areas;
- Customize examinations to fit the size, activities, and risks of institutions;
- Coordinate and adapt existing legal entity examinations within a framework of more functional or business line analysis;
- Conduct a greater portion of the examination off-site;

- Improve communications with examined institutions;
- Cooperate more closely with internal auditors and outside accountants;
- Supplement the goals of the supervisory process through greater emphasis on market discipline and through the use of positive incentives to encourage prudent management oversight;
- Improve, upgrade, and standardize Reserve Bank technology supporting supervision;
- Promote greater specialization among examiners;
- Expand the System's existing training curriculum to include instruction on the key aspects of a more risk-focused examination process; and,
- Coordinate more closely with other supervisory authorities.

Efforts are already under way to implement these recommendations. In order to promote consistency and uniformity among the Reserve Banks in implementing the committee's recommendations, these efforts involve staff from both the Board and Reserve Banks.

## **5. Regulation E (Electronic Fund Transfers, 12 CFR Part 205).**

*Overview.* The Electronic Fund Transfer Act (EFTA) provides a basic framework establishing the rights, liabilities, and responsibilities of participants in electronic fund transfer (EFT) systems.<sup>5</sup> The Board's Regulation E implements the act; an official staff commentary interprets the regulation.<sup>6</sup> Transfers covered by the act and regulation include transfers initiated through an automated teller machine (ATM), a point-of-sale (POS)

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<sup>5</sup> 15 U.S.C. 1693-1693r.

<sup>6</sup> 12 CFR 205.

terminal, an automated clearinghouse, a telephone bill-payment system, or a home banking program. The EFTA and Regulation E establish restrictions on the unsolicited issuance of ATM cards and other access devices; require disclosure of terms and conditions of an EFT service; call for documentation of EFT's through terminal receipts and periodic account statements; provide limitations on consumer liability for unauthorized transfers; and establish procedures for error resolution.

*Prior Review.* The EFTA was enacted in 1978. Regulation E became effective in two stages; provisions relating to issuance and unauthorized liability became effective in 1979, all other provisions in 1980. The regulation has been amended from time to time to ease rules concerning intra-institutional transfers and certain periodic statement requirements (1980); to permit institutions to offer overdraft credit plans linked to mandatory EFT payments (1981); to exempt small institutions from rules concerning preauthorized transfers (1982); to provide for rules relating to POS transactions (1984); to address regulatory responsibilities between service providers and institutions holding the consumer's account (1987); and to apply special rules in the case of electronic benefit transfer (EBT) programs such as social security, food stamps, and Aid to Families with Dependent Children (1994).<sup>7</sup>

*Current Review.* In March 1996 the Board completed its first comprehensive review of the regulation. Regulation E was revised to simplify the text, update the regulation, and make technical changes that are beneficial both to consumers and to financial institutions. The revised regulation is shorter than the former Regulation E by about 15 percent. In addition, the staff commentary interpreting the regulation has been reformatted and significantly improved to facilitate compliance and ensure that the consumer protections of the Electronic Fund Transfer Act are met.

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<sup>7</sup> The Personal Responsibility, Work Opportunity, and Medicaid Restructuring Act of 1996 amends the EFTA to exempt from the act's coverage state-administered, "needs-tested" EBT programs.

As the statutory requirements are quite detailed, opportunities for major substantive changes were limited; certain revisions expand the scope of exemptions from coverage to help reduce compliance burden. For example, the asset-size cutoff for a "small institution" exemption -- established in 1982 -- has been increased from \$25 million to \$100 million. The exemption will reduce compliance burden for small institutions that do not offer any other EFT services besides preauthorized transfers. In addition, the Board broadened the regulatory exemption for securities transactions to apply to transfers made through regulated brokers or dealers (or futures commission merchants) even if the security or commodity itself is not regulated (as in the case of municipal securities). As part of its review, the Board also examined the potential impact of the regulation on new uses of EFT's. Following this analysis, the Board issued a proposal for modifications in the regulatory requirements. The proposal addresses services that offer consumers' electronic access to funds through stored-value cards. (These cards maintain, typically in a computer chip or magnetic stripe, a "stored value" of funds available to the consumer. Some require on-line authorization similar to traditional debit cards; others do not.) The proposal also addresses the use of electronic communications for providing disclosures and other documentation in home-banking services and error resolution requirements for new accounts. Publication of the final rule is expected in early 1997.

*Conclusion.* Following a comprehensive review of Regulation E, in April 1996 the Board issued a final rule that simplifies and updates the regulation, together with a revised staff commentary. As an outgrowth of the review, the Board issued a proposed rule to address technological advances in EFT services to consumers; the proposal seeks comment on modified rules affecting EFT's, electronic communications, and regulatory coverage of stored-value cards and other new payment products. A final rule is anticipated in early 1997.

**6. Regulation K** (International Banking Operations, 12 CFR Part 211).

Regulation K governs the international operations of U.S. banking organizations and the U.S. operations of foreign banks.

*Subparts A and C* of Regulation K establish the Board's rules governing the international activities of U.S. banking organizations under the authority of the Federal Reserve Act (12 U.S.C. 221 et seq.) and the Bank Holding Company Act of 1956 (12 U.S.C. 1841 et seq.).

*Prior review.* Subpart A was last reviewed in its entirety in 1991 at which time additional activities were added to the list of permissible activities and certain application requirements were removed; restrictions on the conduct of securities activities were reduced; and the authority to make investments without prior Board review was expanded. Subpart C, governing investments in export trading companies, also was reviewed and substantially revised in 1991.

*Current Review.* A comprehensive proposal for revisions to Regulation K will be published for comment in 1996. In 1995, the Board reviewed the investment provisions of Subpart A of Regulation K to determine whether they could be further liberalized without jeopardizing the Board's ability to carry out its supervisory responsibilities. After publication for comment, the Board in December 1995 adopted a provision significantly expanding the general consent authority (that is, the authority to make investments without any prior review by the Board) for de novo foreign investments by U.S. banking organizations that are strongly capitalized and well-managed. This provision rewards strong, well-run organizations by reducing the burden associated with the regulatory process. In addition, in September 1995, the Board adopted internal rules designed to streamline the application process for all applications and notices reviewed under Regulation K. These rules shortened the time periods for Board review of these matters.

It is expected that the proposals published will build on the measures the Board adopted in 1995 to streamline the application process and to reduce the need for prior Board review of other investments, especially for those banking organizations that are strongly capitalized and well-managed. The Board expects to review the regulation's notice procedures, the dollar limits applicable to certain activities, and whether there are additional activities that may be added to the list of permissible activities.

*Conclusion.* The Board has within the last year substantially reduced the burden associated with regulatory filings under Subpart A. The comprehensive proposed revision of Regulation K is expected to focus on other areas for streamlining process and making U.S. banking organizations more competitive internationally.

*Subpart B* of Regulation K implements provisions of the International Banking Act of 1978 (12 U.S.C. 3101 et seq.) governing the establishment by foreign banks of branches and agencies in the United States, the interstate operations of foreign banks through branches and agencies, and permissible U.S. activities of foreign banks.

*Prior Review.* Subpart B of Regulation K was reviewed in its entirety in April 1991. The adoption of the Foreign Bank Supervision Enhancement Act in December 1991 and the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (the "Interstate Act") necessitated substantial additional regulations with respect to foreign banking operations in the United States. These included rulemakings in 1992 and 1993 with respect to the applications process for branches and agencies; in 1993 and 1996 with respect to representative offices; in 1994 and 1996 with respect to criteria applicable to foreign banks without consolidated supervision; and in 1996 with respect to shell branches. In addition, the Board adopted internal rules in 1993 to streamline the application process for branches and agencies.

With respect to interstate branching rules for foreign banks, the IBA was enacted in 1978 and was amended by the Interstate Act in 1994. The Board originally adopted interstate rules in 1980, which were reviewed in their

entirety in 1985 and 1991, although no substantial changes were made at those times.

*Current Review.* All of Subpart B is being revisited as part of the comprehensive proposed revision of Regulation K. The focus of the proposal will be on whether the application process can be streamlined through delegations and general consent authority; whether the standards for a "qualifying foreign banking organization" (that is, a foreign banking organization that qualifies for certain exemptions under the BHC Act) should be amended; and implementation of the Interstate Act. In this regard, in May 1996 the Board adopted certain amendments to the interstate rules in response to the liberalizing changes made by the Interstate Act. New provisions were implemented and outdated provisions deleted. Comment was requested on all other aspects of the Interstate Act as applied to foreign banks.

*Conclusion.* All aspects of foreign bank regulation are being reviewed in 1996. The Board will consider further streamlining and burden reduction measures, as well as further liberalizations, especially as provided in the Interstate Act.

*Subpart D* of Regulation K implements provisions of the International Lending Supervision Act of 1983 (12 U.S.C. 3901 et seq.) and establishes rules for certain international loans by and lending practices of U.S. banking organizations. Each of the Federal banking agencies has adopted uniform rules governing this area, which are currently being reviewed on an interagency basis.

**7. Regulation T** (Credit by Brokers and Dealers, 12 CFR Part 220).

Regulation T implements the requirement in Section 7 of the Securities Exchange Act of 1934 that the Board prescribe rules with respect to the amount of credit that may be extended on any security. Regulation T covers extensions of credit by and to broker-dealers and imposes initial margin requirements and payment rules on securities transactions.

*Prior Review.* Regulation T was adopted as required by Congress in 1934. It was comprehensively reviewed and revised in the early 1980's. The most recent substantive amendments were adopted in 1990 to accommodate the settlement and clearance of transactions in foreign securities and to permit marginability of foreign securities at broker-dealers.

*Current Review.* The current review of Regulation T began in 1992, with the issuance of an Advance Notice of Proposed Rulemaking and Request for Public Comment (57 Federal Register 37,109 (1992)). The Board received over 35 comment letters from all areas of the industry, including trade associations, stock exchanges and broker-dealers. Review of the comments revealed the following trends: 1) the erosion of barriers between broker-dealers and other lenders such as banks and foreign lenders, 2) the increasing internationalization of the securities markets, 3) the expanding role played by institutional investors, 4) the expansion of the fixed income securities market, and 5) the growth of the derivatives markets in the United States and abroad.

In light of the securities industry's imminent move to shorten the standard settlement period from five days to three days (T+3), the Board in 1994 proposed shortening the payment period in Regulation T by two days and tying it explicitly to SEC rules in this area. At the same time, in effect the Board proposed to exempt transactions in government securities from Regulation T (59 Federal Register 33,923 (1994)). After a review of public comments, the amendments were adopted in substantially the same form as proposed (59 Federal Register 53,565 (1994)).

In June 1995 the Board proposed a revised version of Regulation T for public comment, based in part on comments received in response to the Advance Notice of Proposed Rulemaking. The proposal featured an increased reliance on the rules of the Securities and Exchange Commission and self-regulatory organizations such as the New York Stock Exchange. The proposal also included several amendments to increase the consistency between Regulation T and Regulations G and U, the regulations covering securities credit by lenders other than broker-dealers.

The Board received over 45 comment letters in response to the proposed revision of Regulation T. Review of the comments led to modifications of the proposal to further reduce burden and increase consistency with other Board margin regulations.

In April 1996 the Board adopted amendments to Regulation T that constitute some of the most significant reductions of regulatory burden on broker-dealers since the adoption of Regulation T in 1934. The final rule: 1) eliminates restrictions on the ability of broker-dealers to arrange for credit, 2) increases the type and number of domestic and foreign securities that may be bought on margin and increases the loan value of some securities that were already marginable, 3) deletes Board rules regarding options transactions (effective June 1, 1997) in favor of the rules of the options exchanges, and 4) reduces restrictions on transactions involving foreign persons, foreign securities, and foreign currency.

Along with adoption of the final rule, the Board proposed additional amendments that go beyond the scope of changes proposed in 1995. The proposed amendments would: 1) allow broker-dealers to extend good faith credit on any non-equity security rather than only those currently permitted in the Board's rules, 2) allow transactions involving non-equity securities to be effected in an account not subject to the restrictions of Regulation T's margin account, 3) remove restrictions on the ability of broker-dealers to calculate required margin for non-equity securities on a "portfolio" basis, 4) relax the Board's collateral requirements for the borrowing and lending of securities, and 5) exempt from Regulation T any credit extended abroad by a U.S. broker-dealer on foreign securities to foreign persons. Comment is still being received on this proposal. The Board expects to take action on these proposals by year-end 1996.

*Conclusion.* The Board has substantially reduced the regulatory burden associated with Regulation T and is currently studying public comments to implement further reforms.

## **8. Regulation M (Consumer Leasing, 12 CFR Part 213).**

*Overview.* The Consumer Leasing Act (CLA) provides for the disclosure of the cost and other lease terms for consumer leases.<sup>8</sup> The Board's Regulation M implements the Act; an official staff commentary interprets the regulation.<sup>9</sup> The CLA and Regulation M require lessors of personal property to provide consumers with 15 to 20 uniform cost and other disclosures before a consumer becomes obligated on a lease, including the amount of initial charges to be paid and the liability for terminating a lease early. The law also governs certain aspects of advertisements for consumer leases. Finally, the law regulates balloon payments -- in leases known as "open-end" leases -- by limiting a consumer's liability at the end of a lease term to no more than three times the monthly payment.

*Prior Review.* The CLA was enacted in 1976 as chapter 5 of the Truth in Lending Act, and its rules were initially contained in the Board's Regulation Z. The Board established a separate Regulation M for consumer lease disclosure rules as a part of implementing the Truth in Lending Simplification and Reform Act of 1980, in recognition of the inherent differences between consumer lease and consumer credit transactions. Neither Regulation M nor the staff commentary has been substantially revised or reviewed since its adoption.

*Current Review.* As implemented in 1976, the regulation mostly paralleled the statutory language, elaborating where necessary to state the requirements more clearly. Most of the regulatory additions made by the Board related to definitions, general disclosures, and advertising. The additions generally provided flexibility for lessor compliance with the CLA.

As of September 1996, the Board is completing a comprehensive review of the regulation under its Regulatory Planning and Review Program. The review

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<sup>8</sup> 15 U.S.C. 1667-1667e.

<sup>9</sup> 12 CFR Part 213.

began in November 1993 with the publication of an advance notice of rulemaking. Based on the comments received and its own analyses, in September 1995 the Board published a revised Regulation M and revised staff commentary for public comment. The Board is expected to issue a final rule in mid-September 1996. The new rule will clarify and simplify regulatory language and will place special emphasis on motor vehicle leasing, an area that has seen vast growth and increasing complexity and that represents the most common type of consumer lease. The Board is expected to add new disclosure requirements, to better effectuate the CLA's purpose of ensuring the meaningful disclosure of important leasing terms to consumers. Many of the provisions proposed by the Board received strong support from commenters representing both consumer interests as well as large segments of the automobile leasing industry.

*Conclusion.* The Board's comprehensive review of Regulation M has been completed. The revisions will provide consumers with a better understanding of lease terms to enable informed shopping, and will facilitate lessors' compliance efforts. The Board approved its final rule on September 18, 1996.

**9. Regulation H** (Membership of State Banking Institutions in the Federal Reserve System, 12 CFR Part 208).

Regulation H implements section 9 of the Federal Reserve Act (FRA) by establishing the conditions applicable to state chartered banks that become members of the Federal Reserve System. These conditions are derived from a variety of statutory sources including the FRA, other banking laws, such as the Federal Deposit Insurance Act, and Federal securities laws. Regulation H is set out in five subparts. Subpart A establishes the general conditions of Federal Reserve membership, Subpart B sets out the process for pursuing prompt corrective action against a state member bank, Subpart C establishes real estate lending standards, Subpart D sets out the safety and soundness standards for state member banks, and Subpart E sets forth Board and staff interpretations of Regulation H.

*Prior Review.* Regulation H has been revised numerous times. Most recently the requirements for maintaining flood insurance (which are included in Part A of the regulation) and the procedures for prompt corrective action were modified. In addition, the Board has liberalized the branching and investment powers of state member banks. The Board issued an interpretation of Regulation H which stated that loan production offices are not branches. Staff also has issued several no-action letters concerning state member bank investments in limited liability companies and other entities that engage in activities which state member banks could engage in directly. Nevertheless, over the years, as the various statutory provisions applicable to state member banks have been adopted, Regulation H has become a collection of various requirements applicable to state member banks.

*Current Review.* Board staff is currently in the process of completing its initial review of Regulation H and developing a reorganized, simplified, and updated Regulation H to be published for comment.

In particular, the staff is revising Subpart A of Regulation H in order to eliminate out-dated requirements and conditions that are not absolutely necessary for membership, to amend regulatory language so that it is easier to understand, to reorganize its contents so that its provisions are more easily referenced, to incorporate the requirements of Regulation P, Minimum Security Devices and Procedures for Federal Reserve Banks and State Member Banks, and to amend the language of those provisions jointly administered by the Board and other Federal agencies for consistency. In addition, the staff is proposing revisions to Subpart E of Regulation H in order to eliminate unnecessary or outdated interpretations and to incorporate certain interpretations, where appropriate, into the regulatory language of Subpart A of Regulation H.

Subpart B, Prompt Corrective Action, Subpart C, Real Estate Lending Standards, and Subpart D, Standards for Safety and Soundness, were all recently adopted. Accordingly, staff does not believe further revisions to those sections are necessary at this time.

In addition, staff will propose to the Board changes that would: 1) modify the rules for establishing branches to reflect the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 and simplify the process of applying for branches; 2) establish a uniform definition of capital and surplus for the various purposes for which that term is used in Regulation H, including for purposes of admission to, and continued membership in, the Federal Reserve System and for purposes of limits on investments in bank premises; and 3) streamline the requirements for clearing agencies, transfer agents and municipal securities dealers by incorporating by reference the requirements of the Security Exchange Commission's rules.

*Conclusion.* Staff expects to present to the Board a proposed revised Regulation H for public comment this fall.

## **10. Regulation Z (Truth in Lending, 12 CFR Part 226).**

*Overview.* The purpose of the Truth in Lending Act (TILA) is to promote the informed use of credit by consumers.<sup>10</sup> The Board's Regulation Z implements the act; an official staff commentary interprets the regulation.<sup>11</sup> The TILA and Regulation Z require creditors to disclose uniformly the terms and cost of credit, which allows consumers to compare credit terms more knowledgeably. The cost of credit is primarily disclosed as a dollar amount (the "finance charge") and as an annual percentage rate (the "APR"). The TILA rules govern disclosures at all stages of the credit-shopping process, although the level of detail about the potential costs varies -- from limited disclosures for advertisements to transaction-specific disclosures before consumers become obligated for the debt. Disclosure rules also differ depending upon whether the creditor is offering open-end credit, such as credit cards or home-equity lines, or closed-end credit, such as car loans or mortgages.

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<sup>10</sup> 15 U.S.C. 1601-1666j; The Competitive Equality Banking Act, 12 U.S.C. 3806.

<sup>11</sup> 12 CFR 226.

In certain transactions secured by a consumer's principal dwelling, consumers may rescind the loan within three business days following consummation, or for up to three years if the consumer did not receive the required disclosures. The TILA also contains special rules for issuing credit cards, imposing liability on cardholders, and preserving claims when a cardholder has a dispute about credit card purchases. It addresses rules and procedures for resolving errors in an open-end account.

*Prior Review.* The TILA was enacted in 1968; amendments were enacted in 1970 and 1974 addressing unauthorized credit card use, unsolicited card issuance, and error resolution for cardholders. The TILA was substantially revised in 1980 by the Truth in Lending Simplification and Reform Act, to ease creditor compliance, limit creditor liability for technical errors, and provide consumers with clearer and more useful information. Regulation Z was revised and reorganized to implement the new law, effective in 1982. Along with those regulatory revisions, the Board eased compliance burdens by adopting an official staff commentary to supersede more than 50 official Board interpretations and more than 1500 staff interpretive letters. The commentary is updated annually, and provides a single, publicly-available source for interpretive guidance. Good-faith compliance with the commentary affords protection from civil liability under the Act.

Regulation Z has not been the subject of a comprehensive review since the implementation of the Truth in Lending Simplification and Reform Act. Some parts of the regulation have been reviewed as a part of individual rulemakings. The Board adopted rules relating to adjustable rate mortgages in 1987. The Board further revised Regulation Z to implement statutory amendments pertaining to: the maximum rates that can be charged for adjustable rate mortgages (1988); credit card solicitations and home equity lines of credit (1989); certain closed-end, home-secured loans that bear rates or fees above a certain amount (1995); and finance charge and APR rules pertaining to mortgage loans (1996).

*Current Review.* The Board is scheduled to initiate rulemaking in connection with its comprehensive review of Regulation Z during 1997, as a part of its

Regulatory Planning and Review process. This undertaking will complement reviews of the regulation carried out in connection with TILA rulemakings between 1982 and 1995. These rulemakings often provided an opportunity to address changes in the consumer credit marketplace that affect existing rules. Most recently, the Board adopted amendments that clarify and simplify the rules pertaining to debt cancellation agreements. Similarly, a review is now underway that will seek to adapt current rules to the way electronic disclosures may be provided and retained, responding to technological developments in the way credit transactions are conducted via electronic means. Annual updates to the official staff commentary clarify issues and streamline compliance on an ongoing basis.

Since 1995, the Board has also reviewed substantial portions of the TILA and Regulation Z in response to Congressional requests for reports on the rules relating to rescission, credit advertising, finance charges, home equity lines of credit, and adjustable rate mortgages (ARMs). Reports submitted to the Congress concerning rescission and credit advertising recommended some statutory changes and noted regulatory changes within the statutory framework would be considered when the Board conducts its comprehensive review of Regulation Z. Upcoming reports will address home equity lines of credit and ARMs disclosures.

The Board will further review the rules affecting home equity loans in connection with public hearings mandated by the Home Ownership and Equity Protection Act of 1994. The hearings will examine the home equity loan market and the adequacy of existing law in protecting the interest of consumers, and low-income consumers in particular. The first hearings will be held before September 1997, and regularly thereafter.

*Conclusion.* The Board conducted reviews of Regulation Z in connection with individual rulemakings between 1982 and 1995. In response to requests by the Congress, the Board also reviewed rescission and advertising rules during 1995. In 1996 and 1997, the Board will complete limited reviews of substantial portions of the TILA and Regulation Z in regard to home equity loans, ARM disclosures, home equity lines of credit, and the finance charge.

The Board is scheduled to initiate rulemaking as a part of its comprehensive review of Regulation Z in 1997.

**11. Reorganize, Simplify, Delete Unnecessary Parts and/or Regulations:**

**a. Regulation D (Reserve Requirements of Depository Institutions, 12 CFR Part 204).**

*Overview.* Regulation D implements section 19 of the Federal Reserve Act regarding reserve requirements of depository institutions.

*Prior Review.* Regulation D is amended annually to implement the low reserve tranche and reservable liabilities exemption adjustments, and to increase the deposit cutoff levels used in determining the weekly, annual or quarterly reporting cutoffs. Other than these amendments, Regulation D was last reviewed and amended in 1990 in order to simplify it by, for example, eliminating distinctions between transfer limitations applicable to different kinds of savings accounts, and to close a number of loopholes.

*Current Review.* Based upon a review of the existing regulation, the Board determined that Regulation D should be updated and simplified. Accordingly, the Board issued for comment a notice of proposed rulemaking on June 17, 1996 (61 Federal Register 30,545 (1996)) excising provisions no longer relevant or otherwise unnecessary. In particular, the Board proposed to delete transition rules related to the extension of reserve requirements from member banks to all depository institutions, to dissimilar mergers, and to de novo banks. The Board also proposed to delete the requirement for 30-days interest penalty on time deposits reported as long term deposits but redeemed during the first 1 1/2 years, to reflect a change in Form 2900 that eliminated the reporting distinction. The comment period ended August 16, 1996.

*Conclusion.* The Board expects to review the comments and publish a final rule in calendar 1996.

**b. Regulation R (Relations with Dealers in Securities Under Section 32 of the Banking Act of 1933, 12 CFR 218).**

The Board's Regulation R implements Section 32 of the Glass-Steagall Act. Section 32 prohibits officer, director and employee interlocks between member banks and firms "primarily engaged" in underwriting and dealing in securities, and authorizes the Board to exempt from this prohibition, under limited circumstances, certain interlocks by regulation. Currently, Regulation R restates the statutory language of Section 32, and sets forth the only exemption adopted by the Board since passage of the Glass-Steagall Act. The Board also has codified in the CFR a series of 14 interpretations of the substantive provisions of Section 32 and the regulation.

*Prior Review.* Since 1933, the Board has adopted one exemption in Regulation R. In 1969, the Board adopted an exemption permitting interlocks between member banks and securities firms whose securities underwriting and dealing activities are limited to underwriting and dealing in only securities that a member bank would be authorized to underwrite and deal in. In addition, the Board and staff have issued a number of interpretations of Section 32.

*Current Review.* After a comprehensive review of Regulation R, the Board on July 3, 1996 proposed to remove Regulation R from the Code of Federal Regulations, and to remove a Board interpretation that applies the prohibitions of Section 32 to bank holding companies. With respect to removing Regulation R, the Board determined that the existing exemption in the regulation was no longer necessary in view of interpretations of the Glass-Steagall Act that have been developed since 1969.<sup>12</sup> Because the exemption is no longer necessary, and it is not necessary to have a substantive regulation solely to restate a statutory provision, the Board proposed to rescind Regulation R.

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<sup>12</sup> To avoid any confusion on this matter, the Board proposed inserting an additional interpretation into the CFR to clarify that the prohibitions of section 32 do not apply to interlocks that would fall within the current exemption.

The Board proposed removing the interpretation extending the prohibitions of Section 32 to bank holding companies because, by their terms, the prohibitions of Section 32 apply only to member banks. The Board stated that it believed that it could rescind this interpretation and give some measure of regulatory burden relief to bank holding companies in a manner consistent with Section 32, and without frustrating the Congressional purpose underlying the section. The Board noted that the potential that removal of the interpretation could frustrate Congressional purpose in enacting Section 32 is mitigated by the fact that the prohibitions of section 32 would continue to apply to member banks.

*Conclusion.* The Board expects to take final action on the proposal before the end of 1996.

- c. **Regulation S** (Reimbursement to Financial Institutions for Assembling or Providing Financial Records, 12 CFR Part 219).

*Overview.* Regulation S consists of two subparts: 1) Subpart A implements the requirement of the Right to Financial Privacy Act (RFPA) that the Board establish the rates and conditions under which payment is made by a government authority to a financial institution for providing records pursuant to a request under the RFPA; 2) Subpart B implements the requirements of the Annunzio-Wylie Anti-Money Laundering Act of 1992 (12 U.S.C. 4611 et seq.) that the Board and Treasury prescribe record keeping regulations regarding domestic and international funds transfers.

*Prior Review.* Subpart A was originally adopted in 1979, and had not been changed since that time. Subpart B is new and became effective on May 28, 1996.

*Current Review.* Based upon a review of the existing regulation, the Board determined that Subpart A should be revised and updated. Accordingly, the Board issued proposed amendments for comment on December 20, 1995 (60 Federal Register 65,599 (1995)). These proposed amendments eliminated

unnecessary provisions and updated the fee structure and the exceptions required by the RFPA. The Board received 21 comments, all of which supported updating and streamlining the Subpart. Several comments, however, requested further changes in the proposed fee structure. In response to these comments, the Board made further changes to the fee structure and adopted the Subpart in final form, effective on July 12, 1996 (61 Federal Register 29,638 (1996)).

Subpart B of Regulation S became effective on May 28, 1996 and was issued jointly by the Board and the Treasury Department. Accordingly, the Board has determined that no further action is necessary at this time.

*Conclusion.* The Board has updated and streamlined Subpart A of Regulation S to the extent possible under the terms of the RFPA. Subpart B of Regulation S just went into effect on May 28, 1996, accordingly, no further action is necessary at this time. Because Subpart B is a new regulation, the Board and Treasury have pledged to monitor experience under those provisions over the next three years to assess its usefulness to law enforcement in fighting money laundering, and its effect on the cost and efficiency on the payments system.

**d. Regulation V** (Loan Guarantees for Defense Production, 12 CFR Part 222).

*Overview.* The Board promulgated Regulation V pursuant to Title III of the Defense Production Act of 1950, as amended (12 U.S.C. 2061, "the Act"), and Executive Order 10,789 (1958, as amended) and Executive Order 12,919 (1994) implementing the Act, which authorized the Board to promulgate regulations governing procedures, forms, rates of interests and fees "to facilitate the financing of contracts or other operations deemed necessary to national defense production."

*Prior Review.* Regulation V was last reviewed in 1979 to consolidate related rules into the regulation and to revise the applicable interest rates and guarantee fee structures.

*Current Review.* The Board has reviewed Regulation V and has determined that the regulation should be repealed as obsolete. The loan guarantee provisions of the Act were intended to permit defense agencies to enter into defense-related contracts without regard to whether appropriations had been made for the underlying projects. However, in 1975, the Act was amended to make the guarantee provisions unnecessary for most practical purposes. Notwithstanding these amendments, the loan guarantee provisions of the Act were not deleted. No loan guarantees are currently outstanding and no applications for loan guarantees have been filed for several years. Although the 1975 amendments to the Act make it unlikely that a loan guarantee application will be filed, the Board and the Federal Reserve Banks would be able to perform their fiscal agency and application coordination responsibilities under the Act if such an application were filed using fiscal agency procedures already in place in other contexts and on a case-by-case basis. The Board requested public comment on the abolition of Regulation V. The comment period closed on July 24, 1996. All five comments that were received expressed support for abolishing Regulation V. In addition, the Board has solicited and continues to receive the views of the guaranteeing departments and agencies (as defined in the Act) on this proposed change concerning Regulation V, as required by Executive Orders 10,789 and 12,919.

*Conclusion.* The Board will consider a proposal for final repeal of Regulation V this fall.

- e. **Regulation CC** (Availability of Funds and Collection of Checks, 12 CFR Part 229).

*Overview.* Regulation CC, which implements the Expedited Funds Availability Act, prescribes limits on the length of time that banks may place holds on funds deposited into transaction accounts and requires banks to disclose their funds availability policies to customers. The regulation also provides rules designed to expedite the interbank check collection and return process. These rules cover the manner in which checks must be returned to the bank of first deposit; notification of nonpayment by the paying bank; check endorsement, presentment and settlement; and related matters. The

Board has provided an extensive Commentary in an appendix to Regulation CC.

*Prior Review.* The Board adopted Regulation CC effective as of September 1, 1988, the effective date of the Expedited Funds Availability Act. The Board has amended the regulation on numerous occasions since 1988. Certain amendments were mandated by a court decision on the regulation's definition of "paying bank" (1988 and 1989) and statutory amendments regarding deposits to nonproprietary ATM's and exceptions to the hold limits (1990, 1991, and 1992). The Board also adopted several sets of amendments designed to clarify the regulation for banks and depositors and to make technical changes (1989, 1990, and 1993). In 1992, the Board adopted a major amendment to Regulation CC that requires banks to pay for checks on the same day that the checks are presented, provided the presentment meets certain conditions.

*Current Review.* The Board has completed a comprehensive review of Regulation CC. As a result of this review, the Board identified a set of amendments that could be implemented immediately and would not require public comment. These amendments, published in October 1995, made minor corrections and deleted obsolete portions of the regulation and Commentary (60 Federal Register 51,669 (1995)).

In addition, the Board published a set of proposed amendments for public comment in June 1996 (61 Federal Register 27,802 (1996)). These proposed amendments are clarifying and technical in nature and do not represent any major policy changes. The proposed amendments address a variety of issues, including the treatment of deposits received at a "contractual" branch (a bank that accepts a deposit on behalf of another bank). Many of the proposed amendments are designed to reduce the burden on depository institutions of complying with the regulation. For example, the proposed amendments would provide more flexibility for banks giving hold notices under emergency conditions, clarify the various media by which banks may give written notices, and delete certain notice content requirements.

Proposed amendments to subpart C, governing collection of checks, would make various clarifications of the interaction between Regulation CC and the Uniform Commercial Code, set forth rules for checks drawn on banks in Guam, American Samoa, and the Northern Mariana Islands, and address other check collection matters. The Board specifically requested comment on the time required for a bank to qualify a returned check for automated processing, the provisions regarding the extension of the midnight deadline, and the extent of a presenting bank's preferred claim against a closed paying bank.

*Conclusion.* The most burdensome provisions of Regulation CC (the availability schedules and disclosure requirements) are required by statute. The Board's amendments of October 1995 streamline the regulation and its Commentary and the June 1996 proposals would moderately reduce the regulatory burden for banks under certain circumstances. The Board expects to take final action on the June 1996 proposals by January 1997.

## **12. Supervisory and Regulatory (SR) Letters.**

During 1995 and 1996, as part of the CDRI Act Section 303 review, the Board's Division of Banking Supervision and Regulation initiated a review of all supervisory and regulatory (SR) letters from the Division to the Reserve Banks to determine if the guidance contained in the SR letters was still appropriate. An SR letter is the mechanism by which the Board staff communicates supervisory policy and guidance to the Reserve Banks. In turn, the Reserve Banks are responsible for conveying the policy statements and guidance in the SR letters to regulated institutions in their districts. The Division also maintains an electronic data base of all letters which Board and Reserve Bank staffs may access to obtain copies of letters.

*Current Review.* The staff initially reviewed approximately 570 SR letters to determine whether the letters qualified for the Section 303 review and, if a letter qualified, to identify the responsible Board staff to conduct the review. It was determined that 180 of the letters concerned internal administrative matters and fell outside the scope of the CDRI review. Of the remaining 390 letters, 145 letters were believed to be inactive upon preliminary review and

were distributed to staff for confirmation. The other 245 letters were assigned to staff with a request to determine the status of the letter. The review included: assessing whether the SR letter's policy statement or guidance was still applicable to regulated institutions, determining that the letter had been incorporated into the appropriate examination manuals or the Federal Reserve Regulatory Service, and identifying any subsequent SR letters which might supersede the letter under review.

Overall, Board staff expects that approximately 175 letters will be found to be inactive and that approximately 215 will remain in active status. To confirm status of particular letters, the staff of the Federal Reserve Banks will be asked for concurrence with the Board staff's preliminary determinations, after which inactive letters will be rescinded.

Following completion of the rescissions, Board staff will maintain an archive of inactive letters, both an electronic data base on paper, for research and historical purposes. Board staff has instituted a program to review SR letters every four years after the date of issuance to determine the appropriateness of the letter. After a review, if the letter is determined to be inactive, it will be placed in the archive.

## **D. Summary Status Reports**

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**Title:**           **Regulation A** (Extensions of Credit by Federal Reserve Banks, 12 CFR Part 201).

**Subject Matter:** This regulation implements various sections of the Federal Reserve Act by establishing rules under which Federal Reserve Banks may extend credit to depository institutions and others. It outlines the conditions under which Federal Reserve Banks will grant adjustment, seasonal, and extended credit to depository institutions and emergency credit to individuals, partnerships, and corporations that are not depository institutions.

**Action/Status:** Review completed January 1996. Regulation had been recently reviewed. No revisions to the regulation recommended; obsolete interpretation amended.

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**Title:**           **Regulation B** (Equal Credit Opportunity, 12 CFR Part 202).

**Subject Matter:** This regulation prohibits creditor practices that discriminate against credit applicants on the basis of race, color, religion, national origin, sex, marital status, or age (provided the applicant has the capacity to contract), the fact that all or part of the applicant's income derives from a public assistance program, or because the applicant has exercised any right under the Consumer Credit Protection Act.

**Action/Status:** Following completion of an ongoing internal review, staff anticipates initiating rulemaking in 1997.

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**Title:**           **Regulation C** (Home Mortgage Disclosure, 12 CFR Part 203).

**Subject Matter:** This regulation implements the Home Mortgage Disclosure Act, which is intended to provide the public with loan data that can be used: i) to help determine whether financial institutions are serving the housing needs of their communities, ii) to assist public officials in distributing public-sector investments so as to attract private investment to areas where it is needed, and iii) to assist in identifying possible discriminatory lending patterns and enforcing anti-discrimination statutes.

**Action/Status:** Following completion of an ongoing internal review, staff anticipates initiating rulemaking in 1997.

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**Title:**           **Regulation D** (Reserve Requirements of Depository Institutions, 12 CFR Part 204).

**Subject Matter:** This regulation concerns reserves that depository institutions are required to maintain for the purpose of facilitating the implementation of monetary policy by the Federal Reserve System.

**Action/Status:** Discussed above, item number 11 in Section C.

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**Title:**           **Regulation E** (Electronic Fund Transfers, 12 CFR Part 205).

**Subject Matter:** This regulation implements the Electronic Fund Transfer Act and establishes the basic rights, liabilities, and responsibilities of consumers who use electronic money transfer services and of financial institutions that offer these services.

**Action/Status:** Discussed above, item number 5 in Section C.

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**Title:**           **Regulation F** (Limitations on Interbank Liabilities, 12 CFR Part 206).

**Subject Matter:** This regulation implements Section 308 of the Federal Deposit Insurance Corporation Improvement Act of 1991. The purpose of the regulation is to limit the risks that the failure of a depository institution would pose to insured depository institutions.

**Action/Status:** Relatively new regulation structured in a manner that minimizes the burden associated with the rule. No revisions to the regulation recommended.

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**Title:**           **Regulation G** (Securities Credit by Persons Other than Banks, Brokers, or Dealers, 12 CFR Part 207).

**Subject Matter:** This regulation was issued pursuant to the Securities Exchange Act of 1934. It requires registration by and restricts certain actions by lenders who make loans secured by margin stock and who are not regulated under Regulation T (which concerns such lending by brokers and dealers) or Regulation U (which concerns such lending by banks).

**Action/Status:** The Board requested public comment on the scope of the regulation in May 1996 (61 Federal Register 20,399 (1996)) and staff is reviewing comments in conjunction with the review of Regulation T (discussed above, item number 7 in Section C). Further comment likely will be solicited in January 1997.

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**Title:**           **Regulation H** (Membership of State Banking Institutions in the Federal Reserve System, 12 CFR Part 208).

**Subject Matter:** This regulation contains requirements in a variety of supervisory areas including eligibility for membership in the Federal Reserve System, capital adequacy, prompt corrective action, real estate lending standards, payment of dividends, procedures under the Bank Secrecy Act, and a number of other areas.

**Action/Status:** Discussed above, item number 9 in Section C.

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**Title:**           **Regulation I** (Issue and Cancellation of Stock of Federal Reserve Banks, 12 CFR 209).

**Subject Matter:** This regulation implements provisions of the Federal Reserve Act concerning ownership of stock in Federal Reserve Banks by members of the Federal Reserve System.

**Action/Status:** The Board expects to propose a request for public comments before the end of 1996.

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**Title:**           **Regulation J** (Collection of Checks and Other Items by Federal Reserve Banks and Funds Transfers Through Fedwire, 12 CFR Part 210).

**Subject Matter:** This regulation implements various provisions of the Federal Reserve Act, which authorizes the Federal Reserve Banks to collect checks, act as clearing houses, and perform other payments services for depository institutions. It contains the rules governing check collection and funds transfer through the Federal Reserve Banks.

**Action/Status:** Review completed January 1996. No revisions to the regulation recommended.

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**Title:**           **Regulation K** (International Banking Operations, 12 CFR Part 211).

**Subject Matter:** This regulation implements various provisions of the Federal Reserve Act, the Bank Holding Company Act, the International Banking Act, the Bank Export Services Act, the Export Trading Company Act Amendments of 1988, and the International Lending Supervision Act of 1983. Subpart A of the regulation sets out rules governing the international and foreign activities of U.S. banking organizations; Subpart B applies to foreign banks and foreign banking organizations concerning activities in the United States; Subpart C applies to Export Trading Companies; and Subpart D applies to supervision of international lending.

**Action/Status:** Discussed above, item number 6 in Section C.

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**Title:**           **Regulation L** (Management Official Interlocks, 12 CFR Part 212).

**Subject Matter:** This regulation is issued under the provisions of the Depository Institutions Management Interlocks Act. The purpose of the regulation is to foster competition by generally prohibiting a management official of a depository institution or depository holding company from also serving as a management official of a depository institution or depository holding company if the two organizations are not affiliated and are very large or are located in the same local area.

**Action/Status:** The review of this regulation was undertaken by an interagency task force and is discussed in the interagency portion of this status report. Final rule adopted by the Board in August, 1996 (61 Federal Register 40,293 (1996)).

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**Title:**           **Regulation M** (Consumer Leasing, 12 CFR Part 213).

**Subject Matter:** This regulation implements the consumer leasing portions of the Truth in Lending Act. The purpose of this regulation is to assure that lessees of personal property are given meaningful disclosures of lease terms, to limit the ultimate liability of lessees in leasing personal property, and to require meaningful and accurate disclosures of lease terms in advertising.

**Action/Status:** Discussed above, item number 8 in Section C.

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**Title:**           **Regulation N** (Relations with Foreign Banks and Bankers, 12 CFR Part 214).

**Subject Matter:** This regulation enumerates the rules governing relationships and transactions between Federal Reserve Banks and foreign banks or bankers or a foreign state.

**Action/Status:** Preliminary review completed September 1996. No administrative changes recommended at this time.

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**Title:**           **Regulation O** (Loans to Executive Officers, Directors, and Principal Shareholders of Member Banks, 12 CFR Part 215).

**Subject Matter:** This regulation governs any extension of credit by a member bank to an executive officer, director, or principal shareholder of the member bank, a bank holding company of which the member bank is a subsidiary, and any other subsidiary of that bank holding company. Regulation O also applies to any extension of credit by a member to a company controlled by such a person and a political or campaign committee that benefits or is controlled by such a person. In addition, the regulation enumerates reporting requirements regarding extensions of credit by a member bank to its executive officers or principal shareholders.

**Action/Status:** Notice of Proposed Rulemaking published for comment in May 1996 (61 Federal Register 19863). Action on final rule deferred until fall 1996 on account of possible legislation.

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**Title:**           **Regulation P** (Minimum Security Devices and Procedures for Federal Reserve Banks and State Member Banks, 12 CFR Part 216).

**Subject Matter:** This regulation implements the Bank Protection Act of 1968, which requires each Federal bank supervisory agency to promulgate rules establishing minimum standards regarding the installation, maintenance, and operation of security devices and procedures.

**Action/Status:** Review completed January 1996. No revisions to the regulation recommended. Since the regulation applies to state banks that are members of the Federal Reserve System, the Board will consider moving the regulatory language into Regulation H as part of the review of that regulation now in progress.

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**Title:**           **Regulation Q** (Interest on Deposits, 12 CFR Part 217).

**Subject Matter:** This regulation prohibits the payment of interest on demand deposits by member banks and other depository institutions within the scope of the regulation.

**Action/Status:** The review of this regulation was undertaken by an interagency task force and is discussed in the interagency portion of this status report. The Board and the other agencies expect to make a joint recommendation calling for the Congress to reexamine the need for this statutory prohibition.

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**Title:**           **Regulation R** (Relationships with Dealers in Securities Under Section 32 of the Banking Act of 1933, 12 CFR Part 218).

**Subject Matter:** This regulation implements provisions of Section 32 of the Banking Act of 1933 concerning prohibitions on the involvement of an officer, director, or employee of any member bank in the issue, flotation, underwriting, public sale, or distribution of securities.

**Action/Status:** Discussed above, item number 11 in Section C.

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**Title:**           **Regulation S** (Reimbursement to Financial Institutions for Assembling or Providing Financial Records, 12 CFR Part 219).

**Subject Matter:** This regulation implements the Right to Financial Privacy Act concerning the rates and conditions under which payment is made by a government authority to a financial institution for providing records pursuant to a request under the Act (Subpart A), and implements the requirements of the Annunzio-Wylie Anti Money-Laundering Act of 1992 that the Federal Reserve Board and the Department of the Treasury prescribe record keeping regulations regarding domestic and international funds transfers (Subpart B).

**Action/Status:** Discussed above, item number 11 in Section C.

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**Title:**           **Regulation T** (Credit by Brokers and Dealers, 12 CFR Part 220).

**Subject Matter:** This regulation was issued pursuant to the Securities Exchange Act of 1934. Its principal purpose is to regulate extensions of credit by and to brokers and dealers; it also covers related transactions within the Board's authority under the Act.

**Action/Status:** Discussed above, item number 7 in Section C.

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**Title:**           **Regulation U** (Credit by Banks for the Purpose of Purchasing or Carrying Margin Stocks, 12 CFR Part 221).

**Subject Matter:** This regulation was issued pursuant to the Securities Exchange Act of 1934. It imposes credit restrictions on banks that extend credit for the purpose of buying or carrying margin stock if the credit is secured directly or indirectly by margin stock.

**Action/Status:** Review began in 1995. The Board sought public comment on all aspects of the regulation in December 1995 (60 Federal Register 63,660 (1995)) and requested further comment on the coverage of the regulation in May 1996 (61 Federal Register 20,386 (1996)). After review of comments, the Board will consider revisions to the regulation.

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**Title:**           **Regulation V** (Loan Guarantees for Defense Production, 12 CFR Part 222).

**Subject Matter:** This regulation implements the Defense Production Act of 1950. The purpose of this regulation is to facilitate the financing of contracts or other operations deemed necessary to national defense production. The regulation applies to those private financing institutions that make loans for defense production that are guaranteed by the Federal departments or agencies designated by the implementing act.

**Action/Status:** The Board has proposed repealing this regulation. Discussed above, item number 11 in Section C.

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**Title:**           **Regulation X** (Borrowers of Securities Credit, 12 CFR Part 224).

**Subject Matter:** This regulation implements Section 7f of the Securities Exchange Act of 1934, as amended. It applies the Board's margin regulations to United States borrowers or to foreign persons acting on behalf of United States borrowers who obtain credit outside the United States to purchase or carry United States securities, or within the United States to purchase or carry any securities.

**Action/Status:** Request for public comments will be proposed in January 1997.

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**Title:**           **Regulation Y** (Bank Holding Companies and Change in Bank Control, 12 CFR Part 225).

**Subject Matter:** This regulation implements parts of the Bank Holding Company Act, the International Banking Act, the Change in Bank Control Act, and the International Lending Supervision Act. The principal purposes of this regulation are to regulate the acquisition of control of banks by companies and individuals, to define and regulate the nonbanking activities in which banking companies and foreign banking organizations with United States operations may engage, and to set forth the procedures for securing approval for such transactions and activities.

**Action/Status:** Discussed above, item numbers 1,2, and3 in Section C.

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**Title:**           **Regulation Z** (Truth in Lending, 12 CFR Part 226).

**Subject Matter:** This regulation implements the Federal Truth in Lending and Fair Credit Billing Acts. The purpose of this regulation is to promote the informed use of consumer credit by requiring disclosures about its terms and cost. The regulation also gives consumers the right to cancel certain credit transactions that involve a lien on a consumer's principal dwelling, regulates certain credit card practices, and provides a means for fair and timely resolution of credit billing disputes.

**Action/Status:** Discussed above, item number 10 in Section C.

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**Title:**           **Regulation AA** (Unfair or Deceptive Acts or Practices, 12 CFR Part 227).

**Subject Matter:** This regulation explains the procedures for consumers to lodge complaints regarding a state member bank. The regulation also defines unfair or deceptive acts or practices in connection with extensions of credit to consumers. Such unfair or deceptive acts or practices are prohibited under the Federal Trade Commission Act.

**Action/Status:** Review of regulation completed in September 1996 determined that no revisions were necessary. Request for comments on further guidance through staff guidelines will be published for comment in October 1996.

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**Title:**           **Regulation BB** (Community Reinvestment, 12 CFR Part 228).

**Subject Matter:** This regulation implements the Community Reinvestment Act. The purposes of this regulation are to encourage state member banks to help meet the credit needs of their local community or communities; to provide guidance to state member banks as to how the Board will assess the records of state member banks in satisfying their continuing and affirmative obligations to help meet the credit needs of their local communities, including low- and moderate-income neighborhoods, consistent with the safe and sound operation of those banks; and to provide for taking into account those records in connection with certain applications.

**Action/Status:** The review of this regulation was undertaken by an interagency task force and is discussed in the interagency portion of this status report.

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**Title:**           **Regulation CC** (Availability of Funds and Collection of Checks, 12 CFR Part 229).

**Subject Matter:** This regulation implements the Expedited Funds Availability Act, as amended. It contains rules regarding the duty of banks to make funds deposited into accounts available for withdrawal, including both temporary and permanent availability schedules. It also contains rules to expedite the collection and return of checks by banks.

**Action/Status:** Discussed above, item number 11 in Section C.

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**Title:**           **Regulation DD** (Truth in Savings, 12 CFR Part 230).

**Subject Matter:** This regulation implements the Truth in Savings Act of 1991. The purpose of this regulation is to enable customers to make informed decisions about accounts at depository institutions. This regulation requires depository institutions to provide disclosures so that consumers can make meaningful comparisons among depository institutions.

**Action/Status:** Compliance with Regulation DD became mandatory in 1993. In an internal review in 1995, it was determined that further rulemaking in 1995 was not warranted; staff is scheduled to conduct a comprehensive review in 1998 as part of the Board's Regulatory Planning and Review process.

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**Title:**           **Regulation EE** (Netting Eligibility for Financial Institutions, 12 CFR Part 231).

**Subject Matter:** This regulation was issued under the authority of section 402 of the FDIC Improvement Act of 1991. It expands the Act's definition of financial institution to allow more financial market participants to avail themselves of the netting provisions set forth in the act. It does not affect the status of financial institutions specifically defined in the Act.

**Action/Status:** Review completed January 1996. Clarifying amendment adopted by the Board at that time (61 Federal Register 1273 (1996)).

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**Title:**           **Rules Regarding Availability of Information, 12 CFR 261.**

**Subject Matter:** This regulation sets forth the kinds of information made available to the public, the rules of procedure for obtaining documents and records, and the rules of procedure with respect to confidential information.

**Action/Status:** Proposed revisions published for public comment in February 1996 (61 Federal Register 7436 (1996)). The proposed amendments clarify certain provisions of the Board's rules, simplify the processing of requests for information, and expand certain delegations of authority. The Board will consider a proposed final rule within the next several months.

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**Title:**           **Rules Regarding Access to Personal Information Under the Privacy Act of 1974, 12 CFR 261a.**

**Subject Matter:** The purpose of this part of 12 CFR 261 is to implement the provisions of the Privacy Act of 1974 with regard to the maintenance, protection, disclosure, and amendment of records contained within the systems of records maintained by the Board.

**Action/Status:** Review completed February 1995. Revised regulation adopted at that time.

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**Title:**           **Rules Regarding Public Observation of Meetings, 12 CFR 261b.**

**Subject Matter:** This part carries out the policy of the Government in the Sunshine Act that the public is entitled to the fullest practicable information regarding the decision making processes of the Board while at the same time preserving the rights of individuals and the ability of the Board to carry out its responsibilities.

**Action/Status:** The rule adheres closely to statutory language and no revision is recommended at this time. In 1995 the Board staff forwarded legislative recommendations regarding the Government in the Sunshine Act in response to a request from the Administrative Conference of the United States. The Board staff intends to continue streamlining and automating its internal procedures implementing the Act.

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**Title:**           **Rules of Procedure, 12 CFR Part 262.**

**Subject Matter:** This part was issued pursuant to section 552 of Title 5 of the United States Code, which requires that every agency shall publish in the Federal Register statements of the general course and method by which its functions are channeled and determined, rules of procedure, and descriptions of forms available or the places at which forms may be obtained.

**Action/Status:** Certain procedures are now incorporated into substantive regulations. Other provisions cross reference existing regulations for ease of location.

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**Title:**           **Rules of Practice for Hearings, 12 CFR Part 263.**

**Subject Matter:** This regulation prescribes uniform rules of practice and procedure for many areas: 1) rules applicable to adjudicatory proceedings required to be conducted on the record after opportunity for hearing under certain statutory provisions which are enumerated in the subpart; 2) rules governing formal adjudication; 3) rules for assessment and collection of civil money penalties; 4) rules applicable to suspension or removal of an institution-affiliated party where a felony is charged or proven; 5) rules of procedures for issuance and enforcement of directives to require a state member bank or bank holding company to maintain adequate capital; 6) rules relating to general practice before the Board on one's own behalf or in a representational capacity; 7) rules regarding claims under the Equal Access to Justice Act; and 8) rules for issuance and review of orders pursuant to prompt corrective action provisions of the Federal Deposit Insurance Act.

**Action/Status:** Following interagency review, the Board approved technical, clarifying, and substantive changes to its rules in May 1996 (61 CFR 20,338). The Board expects to make changes implementing amendments to the Equal Access to Justice Act by year-end 1996.

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**Title:**           **Employee Responsibilities and Conduct, 12 CFR Part 264.**

**Subject Matter:** This regulation prescribes standards of conduct and responsibilities for Board employees and special employees of the Board and governs statements reporting employment and financial interests of the Board's employees and special employees of the Board.

**Action/Status:** In November 1996 this regulation will be replaced by 5 CFR Part 6801, a new supplemental ethics regulation issued jointly by the Board and Office of Government Ethics.

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**Title:** Reserve Bank Directors -- Actions and Responsibilities, 12 Part CFR 264a.

**Subject Matter:** This regulation elucidates how Reserve Bank directors are to be chosen, what type of activities directors are prohibited from participating in, and when exceptions to such prohibitions will be granted.

**Action/Status:** This regulation will be replaced in part in the near future by a new regulation to be issued by the Office of Government Ethics under 18 U.S.C. 208(b)(2).

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**Title:** Rules Regarding Foreign Gifts and Decorations, 12 CFR Part 264b.

**Subject Matter:** This regulation implements the 1977 Amendments to the Foreign Gifts and Decorations Act which restricts Board Members' and employees' acceptance of foreign gifts and decorations. The restrictions apply to gifts whether they are tangible or intangible. Different rules apply depending on whether the gift has only "minimal value." There are also rules regarding acceptance of decorations from foreign governments.

**Action/Status:** Review completed September 1996. No changes recommended.

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**Title:** Rules Regarding Delegation of Authority, 12 CFR Part 265.

**Subject Matter:** This part details the responsibilities that the Board has delegated. Pursuant to section 11(k) of the Federal Reserve Act, the Board may delegate, by published order or rule, any of its functions other than those relating to rulemaking or pertaining principally to monetary and credit policy to Board members and employees, Reserve Banks, or administrative law judges. The Board may make all rules and orders necessary to enable it effectively to perform the duties, functions, or services specified in the Federal Reserve Act.

**Action/Status:** Review completed June 1996. Staff has drafted a revision of the rules that repeals outdated provisions and clarifies or simplifies other provisions. Board action on the proposal awaits action in other areas that may require further changes in the delegation rules.

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**Title:**           **Limitation on Activities of Former Members and Employees of the Board,**  
12 CFR Part 266.

**Subject Matter:** This regulation enumerates limitations on former members and employees of the Board with respect to participation in matters connected with their former duties and official responsibilities while serving with the Board.

**Action/Status:** Review completed September 1996. Revision of this regulation cannot occur until the Office of Government Ethics publishes its own regulation interpreting the post-employment ethics statute, 18 U.S.C. 207.

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**Title:**           **Rules Regarding Equal Opportunity,** 12 CFR Part 268.

**Subject Matter:** This regulation sets forth the Board's policy, program, and procedures for providing equal opportunity to Board employees and applicants for employment without regard to race, color, religion, sex, national origin, age, or physical or mental disability. It also sets forth the Board's policy, program, and procedures for prohibiting discrimination on the basis of physical or mental disability in programs and activities conducted by the Board. In addition, it also specifies the circumstances under which the Board will hire or decline to hire persons who are not citizens of the United States, consistent with the Board's operational needs, the requirements and prohibitions of the Immigration Reform and Control Act of 1986, as amended, and other applicable laws.

**Action/Status:** Review completed April 1996. The rules comply as closely as possible with the rules of the Equal Employment Opportunity Commission, taking into account the Federal Reserve's independent status under the Federal Reserve Act. No revisions recommended at this time.

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**Title:**           **Member Bank Purchase of Stock of Foreign Operations Subsidiaries,**  
12 CFR 250.143.

**Subject Matter:** This interpretation summarizes the Board's conclusions that a member bank may only organize and operate operations subsidiaries at locations in the United States. Investments by member banks in foreign subsidiaries must be made with the Board's permission in accordance with the applicable section of the Federal Reserve Act. Bank holding companies may acquire the shares of certain foreign subsidiaries with the Board's approval under the appropriate section of the Bank Holding Company Act.

**Action/Status:** This interpretation will be considered during comprehensive revisions to Regulation K during 1996.

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**Title:**           **Inapplicability of Amount Limitations to "Ineligible Acceptances",**  
12 CFR 250.163.

**Subject Matter:** This interpretation summarizes the Board's conclusions regarding the question whether the amount limitations described in section 13 of the Federal Reserve Act should apply to acceptances made by a member bank that are not of the type described in the section. The Board concluded that the per-customer and aggregate limitations of the 12th paragraph of the section apply only to the dollar exchange acceptances described in the paragraph and that the per-customer and aggregate limitations of the seventh paragraph apply only to the type of acceptances described there.

**Action/Status:** Review completed August 1996. No revisions to the interpretations recommended. The interpretation in its current form is still effective and serves to clarify the statute.

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**Title:**           **Bankers' Acceptances, 12 CFR 250.164.**

**Subject Matter:** This interpretation clarifies the application of the amount limitations on eligible bankers' acceptances set forth in the Bank Export Services Act to certain participations in eligible bankers' acceptances and to bankers' acceptances arising out of domestic transactions. The interpretation also clarifies the calculation of the bankers' acceptances limitations applicable to U.S. branches and agencies of foreign banks.

**Action/Status:** Review completed August 1996. No revisions to the interpretation recommended. The interpretation in its current form is still effective and serves to clarify the statute.

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**Title:**           **Bankers' Acceptances: Definition of Participations, 12 CFR 250.165.**

**Subject Matter:** This interpretation clarifies the term "participation" for purposes of the bankers' acceptances limitations of the Bank Export Services Act.

**Action/Status:** Review completed August 1996. No revisions to the interpretation recommended. The interpretation in its current form is still effective and serves to clarify the statute.

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**Title:**           **Whether a Member Bank Acting as Trustee is Prohibited by Section 20 of the Banking Act of 1933 from Acquiring Majority of Shares of Mutual Fund, 12 CFR 250.220.**

**Subject Matter:** This interpretation clarifies whether a member bank acting as trustee is prohibited by section 20 of the Banking Act of 1933 from acquiring a majority of shares of a mutual fund, concluding that such situations are not prohibited and do not involve a violation of the statute given that the bank will not vote any of the Fund's shares, nor control in any manner, the election of any of its directors, trustees, or other persons exercising similar functions.

**Action/Status:** Review completed April 1996. This interpretation is permissive in nature and no revision is recommended.

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**Title:**           **Issuance and Sale of Short-term Debt Obligations by Bank Holding Companies, 12 CFR 250.221.**

**Subject Matter:** This interpretation clarifies the matter of proposed sale of "thrift notes" by a bank holding company for the purpose of supplying capital to its wholly-owned nonbanking subsidiaries. The Board concluded that the issuance of commercial paper by a bank holding company is not an activity intended to be included within the scope of section 20 of the Banking Act of 1933.

**Action/Status:** Review completed April 1996. No changes recommended.

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**Title:**           **Kinds of Bank Services Subject to Board Examination Under the Bank Service Corporation Act, 12 CFR 250.300.**

**Subject Matter:** This interpretation clarifies that the performance of bank services for state member banks is subject to the Board's regulation and examination, regardless of the nature of the bank servicer, including servicers that are national banks; State nonmember insured banks; non-profit, no-stock credit card servicing organizations; and servicing subsidiaries of bank holding companies.

**Action/Status:** This interpretation implements the Bank Service Corporation Act as written, and staff has concluded that it need not be changed other than to conform citations and cross references.

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**Title:**           **Scope of Investment Authority and Notification Requirement Under the Bank Service Corporation Act, 12 CFR 250.301.**

**Subject Matter:** This interpretation clarifies that the authority of state member banks under the Bank Service Corporation Act to invest in bank service corporations is limited to investments in corporations that perform "bank services" solely. A state member bank is required by the Act to notify the Board only of the performance of "bank services" for it. "Bank services" will not usually be regarded as including legal, advisory, and administrative services, such as transportation or guard services.

**Action/Status:** This interpretation will be considered in conjunction with proposals for revision of Regulation H during the latter part of 1996.

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**Title:**           **Applicability of Bank Service Corporation Act to Bank Credit Card Service Organization, 12 CFR 250.302.**

**Subject Matter:** This interpretation clarifies that although a non-profit, no-stock service organization in which no bank has made an investment is not a bank service corporation as defined in the Bank Service Corporation Act, that organization's credit card servicing activities are bank services as defined in the Act and thus subject to the notification requirement of section 5 of the Act.

**Action/Status:** Staff has recommended retention of this interpretation (other than conforming new citations) as providing useful guidance regarding the scope of activities permissible under the Bank Services Corporation Act.

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**Title:**           **Payments System Risk Policy, 4 FRRS 9-1000.**

**Subject Matter:** This policy statement is addressed primarily to large-dollar payments systems and incorporates the Federal Reserve's policies to reduce Federal Reserve risk as well as risk on various types of private-sector networks.

**Status:** Development of payments system risk policy is evolutionary and under constant review. Recent modifications adopted by the Board have focused on burden reduction and policy clarification. Comprehensive review has determined that the policy does not need substantial revision at this time.

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