

FEDERAL RESERVE SYSTEM

12 CFR Part 229

[Regulation CC; Docket No. R-1027]

Availability of Funds and Collection of Checks.

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Final Rule.

SUMMARY: The Board of Governors of the Federal Reserve System (the Board) recognizes that banks are currently dedicating their automation resources to addressing Year 2000 and leap year computer problems and may be challenged to make and test other programming changes, including those that may be required to comply with Regulation CC's merger transition provisions, without jeopardizing their Year 2000 or other programming efforts. Therefore, the Board is amending Regulation CC to allow banks that consummate a merger on or after July 1, 1998, and before March 1, 2000, greater time to implement software changes related to the merger.

EFFECTIVE DATE: April 1, 1999.

FOR FURTHER INFORMATION CONTACT: Jean Anderson, Staff Attorney, Legal Division (202/452-3707). For the hearing impaired only, Telecommunications Device for the Deaf (TDD), Diane Jenkins (202/452-3544).

SUPPLEMENTARY INFORMATION: On December 2, 1998, the Board proposed amending Regulation CC to allow banks that consummate merger transactions on or after July 1, 1998, and before June 1, 1999, greater time to implement software changes related to the merger. (63 FR 66499). The proposal did not affect applications under the Bank Merger Act or the Bank Holding Company Act. The Board proposed this amendment because it recognizes that banks are currently dedicating their automation resources to addressing Year 2000 and leap year computer problems and may be challenged to make and test other programming changes, including those that may be required to comply with Regulation CC, without jeopardizing their Year 2000 or other programming efforts.

The Board received 15 comments on the proposed rule from the following types of institutions:

Banks/thrifts	3
Trade associations	3
Federal Reserve Banks	3
Clearinghouses	3
Bank holding companies	3

All of the commenters generally supported the Board's proposal and viewed it as aiding banks' efforts to focus programming resources on renovating and testing software systems to address Year 2000 rollover and leap year computer problems. Nine commenters urged the Board, however, to lengthen the proposed extension of the transition period, and generally recommended that a more liberal transition period be applicable to banks that consummate mergers in 2000.

These commenters stated that adopting an extension into the Year 2000 would enable banks to delay merger programming work so that they may focus greater resources on addressing the Year 2000 computer problem. In particular, it would enable merged banks that were Year 2000 compliant as separate entities to delay merging their systems until after key Year 2000 events (the century rollover and leap year), which would enable them to avoid reprogramming and retesting already Year 2000 compliant systems prior to spring 2000. Finally, one commenter noted that extending the period into the Year 2000 would help ensure that banks have sufficient resources to address unanticipated Year 2000 problems that may arise at the turn of the century.

For these reasons, the Board has decided to further extend the transition period. The final rule allows banks that consummate a merger on or after July 1, 1998, and before March 1, 2000, to be treated as separate banks until March 1, 2001. Beginning in March 2000, banks that merge will be subject to the normal one-year transition period.

Final Regulatory Flexibility Analysis

Two of the three requirements of a final regulatory flexibility analysis (5 U.S.C. 604), (1) a succinct statement of the need for and the objectives of the rule and (2) a summary of the issues raised by the public comments, the agency's assessment of the issues, and a statement of the changes made in the final rule in response to the comments, are discussed above. The third requirement of a final regulatory flexibility analysis is a description of significant alternatives to the rule that would minimize the rule's economic impact on small entities and reasons why the alternatives were rejected.

The final rule will apply to all depository institutions regardless of size. The amendments are intended to provide relief to banks involved in mergers, including small institutions, by reducing required changes to their automation environment during the period surrounding the century rollover, and should not have a negative economic effect on small institutions. Because the amendments should not have a negative economic effect on small institutions there were no significant alternatives that would have minimized the economic impact on those institutions.

List of Subjects in 12 CFR Part 229

Banks, banking, Federal Reserve System, Reporting and recordkeeping requirements.

For the reasons set forth in the preamble, the Board proposes to amend Regulation CC, 12 CFR Part 229 as set forth below:

**PART 229 - AVAILABILITY OF FUNDS AND COLLECTION OF CHECKS
(REGULATION CC)**

1. The authority citation for part 229 continues to read as follows:

Authority: 12 U.S.C. 4001 *et seq.*

2. In ' 229.19, paragraph (g) is redesignated as paragraph (g)(1), a heading is added for newly designated paragraph (g)(1), and a new paragraph (g)(2) would be added to read as follows:

§ 229.19 Miscellaneous

- (g) Effect of merger transaction. (1) In general. ***

- (2) Merger transactions on or after July 1, 1998, and before March 1, 2000. If banks have consummated a merger transaction on or after July 1, 1998, and before March 1, 2000, the merged banks may be considered separate banks until March 1, 2001.

3. Section 229.40 is redesignated as ' 299.40 (a), a heading is added for newly designated paragraph (a), and a new paragraph (b) would be added to read as follows:

§ 229.40 Effect of merger transaction.

- (a) In general. ***

- (b) Merger transactions on or after July 1, 1998, and before March 1, 2000. If banks have consummated a merger transaction on or after July 1, 1998, and before March 1, 2000, the merged banks may be considered separate banks until March 1, 2001.

By order of the Board of Governors of the Federal Reserve System, March 22, 1999.

(signed) Jennifer J. Johnson

Jennifer J. Johnson,
Secretary of the Board.