
Record of Policy Actions of the Board of Governors

Regulation D **Reserve Requirements** **of Depository Institutions**

November 20, 1996—Amendments

The Board amended Regulation D to increase the amount of transaction balances to which the lower reserve requirement applies.

Votes for this action: Mr. Greenspan, Ms. Rivlin, Messrs. Kelley, Lindsey, and Meyer, and Mses. Phillips and Yellen.

Under the Monetary Control Act of 1980, depository institutions, Edge Act corporations, Agreement corporations, and U.S. agencies and branches of foreign banks are subject to reserve requirements set by the Board. The act directs the Board to annually adjust the amount subject to the lower reserve requirement to reflect changes in transaction balances nationwide. Recent decreases in transaction balances warranted a decrease to \$49.3 million, and the Board amended Regulation D accordingly.

The Garn–St Germain Depository Institutions Act of 1982 establishes a zero percent reserve requirement on the first \$2 million of an institution’s reservable liabilities. The act also provides for annual adjustments to that exemption amount based on deposit growth nationwide. Recent growth in deposits warranted an increase to \$4.4 million, and the Board amended Regulation D accordingly.

The amendments are effective with the reserve computation period beginning December 31, 1996, for institutions reporting weekly and December 17, 1996, for institutions reporting quarterly.

To reduce reporting burden for small institutions, depository institutions with total deposits below specified levels are required to report their deposits and reservable liabilities quarterly or less frequently, while larger institutions must report weekly. To reflect increases in the growth rate of total deposits at all depository institutions, the Board increased the deposit cutoff levels used in determining the frequency and detail of deposit reporting, to \$59.3 million for nonexempt depository institutions and to \$48.2 million for exempt depository institutions, beginning in September 1997.

December 23, 1996—Amendments

The Board amended Regulation D to simplify and update the regulation and reduce regulatory burden, effective April 1, 1997.

Votes for this action: Mr. Greenspan, Ms. Rivlin, Messrs. Kelley, Lindsey, and Meyer, and Mses. Phillips and Yellen.

After a review in accordance with its policy of regular review of regulations and the requirements of the Riegle Community Development and Regulatory Improvement Act of 1994, the Board adopted a revision of Regulation D to simplify and clarify the regula-

tion and remove certain obsolete material from it.

Regulation E Electronic Fund Transfers

March 20, 1996—Amendments

The Board amended Regulation E to clarify, simplify, and update the regulation, effective May 1, 1996, with compliance mandatory by January 1, 1997.

Votes for this action: Messrs. Greenspan, Kelley, and Lindsey and Ms. Phillips and Yellen.¹

The amendments change the exemptions for securities or commodities transfers and for preauthorized transfers to or from accounts at small institutions, simplify the language and format of the regulation, and delete obsolete provisions.

Regulation G Securities Credit by Persons Other Than Banks, Brokers, or Dealers

Regulation T Credit by Brokers and Dealers

Regulation U Credit by Banks for the Purpose of Purchasing or Carrying Margin Stocks

November 20, 1996—Interpretation

The Board approved an interpretation of Regulations G, T, and U to implement requirements of the National Securities Markets Improvement Act of 1996, effective November 19, 1996.

Votes for this action: Mr. Greenspan, Ms. Rivlin, Messrs. Kelley, Lindsey, and Meyer, and Ms. Phillips and Yellen.

1. Throughout this chapter, note 1 indicates that two vacancies existed on the Board when the action was taken.

The National Securities Markets Improvement Act of 1996 removes the Board's authority to regulate certain loans by registered broker-dealers unless the Board finds that such rules are in the public interest or necessary for the protection of investors. The Board issued an interpretation to clarify that it had not made such a finding and that provisions of its margin regulations for which it no longer had general authority were not in effect. The interpretation also identified regulatory provisions the Board had adopted to implement section 8(a) of the Securities Exchange Act of 1934, which had been repealed by the 1996 act, and concluded that those provisions were no longer in effect. In connection with this action, the Board sought public comment on proposed amendments to its margin regulations to implement the requirements of the act.

Regulation H Membership of State Banking Institutions in the Federal Reserve System

August 5, 1996—Amendments

The Board amended Regulation H to improve compliance with certain flood insurance requirements, effective October 1, 1996.

Votes for this action: Mr. Greenspan, Ms. Rivlin, Messrs. Kelley and Meyer, and Ms. Phillips and Yellen. Absent and not voting: Mr. Lindsey.

The Board and five other federal agencies adopted rules to implement the National Flood Insurance Reform Act of 1994. The rules did not change the basic flood insurance requirements but were designed to improve compliance with requirements concerning mandatory purchase of flood insurance and notice of flood hazards.

December 23, 1996—Interim Amendment

The Board approved an interim amendment to Regulation H to revise the guidelines for determining the frequency of examinations for banks, effective January 30, 1997.

Votes for this action: Mr. Greenspan, Ms. Rivlin, Messrs. Kelley, Lindsey, and Meyer, and Mses. Phillips and Yellen.

The Board, along with the other federal banking agencies, revised the criteria for determining the frequency of examinations to implement provisions of the Riegle Community Development and Regulatory Improvement Act of 1994 and the Economic Growth and Regulatory Paperwork Reduction Act of 1996. Under the new criteria, well-managed banks with a composite rating of 2 and with assets of \$250 million or less are eligible to be examined once every eighteen months instead of once every twelve months. In connection with this action, the Board sought public comment on the revised guidelines.

Regulation H
Membership of State Banking Institutions in the Federal Reserve System

Regulation K
International Banking Operations

Regulation Y
Bank Holding Companies and Change in Bank Control

January 29, 1996—Amendment

The Board amended Regulations H, K, and Y to simplify the process for reporting suspected crimes and suspicious activities by banking organizations

supervised by the Federal Reserve, effective April 1, 1996.

Votes for this action: Messrs. Greenspan, Blinder, Kelley, and Lindsey and Mses. Phillips and Yellen.²

The new rule, which was developed by the Federal Reserve, the other federal banking agencies, and the Financial Crimes Enforcement Network of the Department of the Treasury, significantly reduces burdens while enhancing the ability of law enforcement authorities to investigate and prosecute criminal offenses involving U.S. financial institutions.

Regulation H
Membership of State Banking Institutions in the Federal Reserve System

Regulation Y
Bank Holding Companies and Change in Bank Control

August 7, 1996—Amendments

The Board amended Regulations H and Y to incorporate a measure of market risk in its risk-based capital guidelines for state member banks and bank holding companies, effective January 1, 1997, with compliance mandatory by January 1, 1998.

Votes for this action: Mr. Greenspan, Ms. Rivlin, Messrs. Kelley and Meyer, and Ms. Phillips. Absent and not voting: Mr. Lindsey and Ms. Yellen.

The Board, along with the other federal banking agencies, revised the risk-based capital standards to set forth a supervisory framework for measuring

2. Throughout this chapter, note 2 indicates that one vacancy existed on the Board when the action was taken.

market risk of debt and equity positions in institutions' trading accounts and all foreign exchange and commodity positions, wherever located. The amendments require banks and bank holding companies with significant exposure to market risk to measure that risk using their own internal value-at-risk models, as specified in the rule, and hold commensurate amounts of capital.

Regulation K **International Banking Operations**

January 19, 1996—Amendment

The Board approved an amendment to Regulation K to permit certain foreign banks to establish representative offices in the United States through advance notice, effective January 24, 1996.

Votes for this action: Messrs. Greenspan, Kelley, and Lindsey and Ms. Phillips and Yellen.¹

The amendments permit foreign banks that meet certain requirements to establish representative offices without filing a formal application. The amendments clarify that only those foreign banking organizations subject to the International Banking Act and the Bank Holding Company Act may take advantage of general consent procedures to establish a representative office to engage in limited administrative functions in connection with their existing U.S. banking operations. The Board also decided to review on a case-by-case basis inquiries by special-purpose government banks seeking exemptions from regulation under the Foreign Bank Supervision Enhancement Act on the basis that they do not fall within the definition of a foreign bank under Regulation K.

February 7, 1996—Amendment

The Board approved an amendment to Regulation K to establish criteria for evaluating the operations of certain foreign banks, effective March 25, 1996.

Votes for this action: Messrs. Greenspan, Kelley, and Lindsey and Ms. Phillips and Yellen.¹

The amendment sets out the criteria under which the Board will assess the U.S. operations of foreign banks that are not subject to comprehensive, consolidated supervision or regulation by their home country supervisors. The Board will take the criteria into account in deciding whether and under what terms such banks can continue to operate in the United States.

May 9, 1996—Amendments

The Board amended Regulation K to set a date by which certain foreign banks must select a home state and to update the regulation, effective May 9, 1996.

Votes for this action: Messrs. Greenspan and Kelley and Ms. Phillips and Yellen. Absent and not voting: Mr. Lindsey.¹

The Riegle–Neal Interstate Banking and Branching Efficiency Act of 1994 removed geographic restrictions on interstate banking by foreign banks and required certain foreign banks without U.S. deposit-taking offices to select a home state. The Board amended Regulation K to require those banks to select a home state by June 30, 1996; remove outdated restrictions on certain mergers by U.S. bank subsidiaries of foreign banks outside their home states; and delete obsolete and superseded provisions concerning selection of a home state.

July 17, 1996—Amendment

The Board approved an amendment to Regulation K to establish rules governing the management of offshore banking offices by U.S. agencies and branches of foreign banks, effective August 28, 1996.

Votes for this action: Mr. Greenspan, Ms. Rivlin, Messrs. Kelley, Lindsey, and Meyer, and Ms. Yellen. Absent and not voting: Ms. Phillips.

The amendment prohibits foreign banks from using their U.S. branches or agencies to manage types of activities through offshore offices that could not be managed by a U.S. bank at its foreign branches or subsidiaries. The amendment implements a provision of the Riegle–Neal Interstate Banking and Branching Efficiency Act of 1994.

Regulation L Management Official Interlocks

July 10, 1996—Amendments

The Board amended Regulation L to conform rules on management interlocks to recent statutory changes and to update the regulation, effective October 1, 1996.

Votes for this action: Messrs. Greenspan, Kelley, and Lindsey and Ms. Yellen. Absent and not voting: Ms. Phillips.¹

The Board revised its rules on management interlocks to implement certain requirements of the Riegle Community Development and Regulatory Improvement Act of 1994. The revisions also clarify the rules and reduce unnecessary regulatory burden.

Regulation M Consumer Leasing

September 18, 1996—Revision

The Board revised Regulation M to simplify and clarify required disclosures for car leasing and other types of consumer lease transactions, effective October 1, 1997.

Votes for this action: Messrs. Greenspan, Kelley, Lindsey, and Meyer and Ms. Phillips and Yellen. Absent and not voting: Ms. Rivlin.

The revision included additional requirements for early disclosure of termination charges; requirements for disclosure of the gross cost of a lease, the residual value of the leased property, and the estimated lease charge; a requirement that certain leasing disclosures be segregated from other information; and new provisions concerning advertising on radio and television.

Regulation O Loans to Executive Officers, Directors, and Principal Shareholders of Member Banks; Loans to Holding Companies and Affiliates

November 1, 1996—Amendments

The Board amended Regulation O to permit insiders of a bank and its affiliates to obtain loans under benefit plans available to all company employees and to simplify a procedure, effective November 1, 1996.

Votes for this action: Mr. Greenspan, Ms. Rivlin, Messrs. Kelley and Meyer, and Ms. Phillips and Yellen. Absent and not voting: Mr. Lindsey.

The amendment implements a requirement in the Economic Growth and Regulatory Paperwork Reduction Act of 1996. The Board also simplified the procedure under which a bank's board of directors can exclude executive officers from the policymaking functions of the bank and, therefore, from the restrictions of the regulation.

Regulation R **Relations with Dealers in Securities Under Section 32, Banking Act of 1933**

October 30, 1996—Rescission of Regulation and Related Interpretation

The Board approved rescission of Regulation R and a related interpretation, effective December 6, 1996.

Votes for this action: Mr. Greenspan, Ms. Rivlin, Messrs. Kelley, Lindsey, and Meyer, and Mses. Phillips and Yellen.

Regulation R implemented section 32 of the Glass-Steagall Act, which prohibits interlocks between member banks and firms primarily engaged in underwriting and dealing in securities. A related interpretation clarified the applicability of the prohibitions of section 32 to bank holding companies. After a review of the regulation and interpretation as required by the Riegle Community Development and Regulatory Improvement Act of 1994, the Board determined that the regulation, which restated the statutory language of section 32, and the interpretation that applied the prohibitions to bank holding companies were no longer necessary. In addition, certain other interpretations of section 32 were moved to Miscellaneous Interpretations.

Regulation S **Reimbursement for Providing Financial Records; Recordkeeping Requirements for Certain Financial Records**

March 26, 1996—Amendments

The Board amended Regulation S to conform certain definitions in the regulation to the Uniform Commercial Code, effective May 28, 1996, and deferred certain other effective dates until that date.

Votes for this action: Messrs. Greenspan and Lindsey and Mses. Phillips and Yellen. Absent and not voting: Mr. Kelley.¹

The Board and the Department of the Treasury jointly adopted amendments to their rules under the Bank Secrecy Act that require enhanced recordkeeping related to certain funds transfers by financial institutions. The amendments revise definitions and conform the definitions of certain terms to their meanings under article 4A of the Uniform Commercial Code. The two agencies deferred the effective date of the recordkeeping rules until May 28, 1996, and the Board also deferred the effective date of subpart B of Regulation S until that date.

June 5, 1996—Amendments

The Board amended subpart A of Regulation S to establish rates and conditions under which payment would be made to financial institutions for assembling or providing certain financial records, effective July 12, 1996.

Votes for this action: Messrs. Greenspan, Kelley, and Lindsey and Mses. Phillips and Yellen.¹

The Right to Financial Privacy Act requires that the Board establish the

rates and conditions for reimbursement of financial institutions for costs incurred in responding to requests for records by government agencies. The Board's amendments streamlined subpart A and updated the fees it specifies.

November 14, 1996—Amendment

The Board amended subpart B of Regulation S to clarify its applicability, effective December 20, 1996.

Votes for this action: Mr. Greenspan, Ms. Rivlin, Messrs. Kelley, Lindsey, and Meyer, and Mses. Phillips and Yellen.

Subpart B of Regulation S refers to the substantive provision of a joint rule adopted by the Board and the Department of the Treasury relating to record-keeping requirements for funds transfers and transmittals of funds under the Bank Secrecy Act. The Board amended subpart B to clarify that the regulation does not apply to any person or transaction or class of persons or transactions that the Department of the Treasury has exempted from the joint rule.

Regulation T Credit by Brokers and Dealers

April 24, 1996—Amendments

The Board updated Regulation T to take into account developing trends in the securities markets. The updates became effective July 1, 1996, except for certain provisions relating to options transactions, which become effective June 1, 1997.

Votes for this action: Messrs. Greenspan, Kelley, and Lindsey and Mses. Phillips and Yellen.¹

The final rule eliminates restrictions on the ability of broker-dealers to arrange for credit, increases the type and

number of domestic and foreign securities that can be bought on margin and increases the loan value of some other securities; removes Board rules on options transactions and relies on the margin rules of self-regulatory organizations; and reduces restrictions on transactions involving foreign persons, foreign securities, and foreign currency. The new rule also includes certain technical changes.

Regulation V Loan Guarantees for Defense Production

October 1, 1996—Repeal

The Board repealed Regulation V, effective October 9, 1996.

Votes for this action: Mr. Greenspan, Ms. Rivlin, Messrs. Kelley, Lindsey, and Meyer, and Mses. Phillips and Yellen.

After a review required by section 303 of the Riegle Community Development and Regulatory Improvement Act of 1994, the Board found Regulation V to be obsolete. The Board's action did not represent a change in any policy.

Regulation Y Bank Holding Companies and Change in Bank Control

August 23, 1996—Amendment

The Board amended an interpretive rule in Regulation Y to permit bank holding companies under certain conditions to purchase, as a fiduciary, securities of investment companies they advise, effective September 30, 1996.

Votes for this action: Mr. Greenspan, Ms. Rivlin, Messrs. Kelley, Lindsey, and

Meyer, and Ms. Phillips. Absent and not voting: Ms. Yellen.

The condition on such purchases is that they must be specifically authorized by the terms of the instrument creating the fiduciary relationship, by court order, or by the law of the jurisdiction under which the trust is administered. The revision conforms the rule to those of other federal banking agencies and the standard in section 23B of the Federal Reserve Act.

October 23, 1996—Interim Rule

The Board approved an interim amendment to Regulation Y to provide a definition of a well capitalized bank holding company, effective October 23, 1996.

Votes for this action: Mr. Greenspan, Ms. Rivlin, Messrs. Kelley and Meyer, and Mses. Phillips and Yellen. Absent and not voting: Mr. Lindsey.

The Board adopted the interim rule in connection with easing provisions of Regulation Y to eliminate the requirement that bank holding companies seek the Board's approval before engaging *de novo* in permissible nonbanking activities. The easing would apply to holding companies that are well capitalized and meet other criteria specified in the Economic Growth and Regulatory Paperwork Act of 1996. The interim rule also implements provisions of the act to establish expedited procedures for qualified well capitalized bank holding companies to be approved to acquire smaller companies that engage in any permissible nonbanking activities listed in Regulation Y as well as to engage in nonbanking activities that the Board has approved only by order.

For purposes of determining the capital levels at which a bank holding company is considered well capitalized under the act and Regulation Y, the Board adopted, as an interim rule, two

criteria: (1) risk-based capital thresholds that are the same as those for determining that a state member bank is well capitalized and (2) a modified leverage ratio. The Board sought public comment on the definition and how it should be applied to foreign banking organizations.

Regulation Z Truth in Lending

January 24, 1996—Amendment

The Board amended Regulation Z to adjust the threshold amount of mortgage points and fees that entails certain additional disclosures, effective January 1, 1996.

Votes for this action: Messrs. Greenspan, Blinder, Kelley, and Lindsey and Mses. Phillips and Yellen.²

The Home Ownership and Equity Protection Act of 1994 requires that creditors make additional disclosures on mortgages for which total points and fees payable by the consumer exceed the larger of \$400 or 8 percent of the total loan amount and requires that the Board annually adjust the absolute dollar value of the threshold amount for the forthcoming calendar year according to the annual percentage change in the consumer price index as of June 1 of the preceding year. On the basis of the CPI on June 1, 1995, the Board increased the threshold amount to \$412 for 1996.

September 11, 1996—Amendments

The Board amended Regulation Z to limit lender liability for disclosure errors and to establish new rules for debt cancellation agreements, effective October 21, 1996.

Votes for this action: Mr. Greenspan, Ms. Rivlin, Messrs. Kelley, Lindsey, and Meyer, and Mses. Phillips and Yellen.

The Truth in Lending Act Amendments of 1995 established new rules for creditor liability for closed-end loans secured by real property or dwellings and consummated on or after September 30, 1995. The 1995 amendments created several tolerances for accuracy in disclosing the amount of the finance charge; within those tolerances, creditors have no civil or administrative liability. The 1995 amendments also clarified requirements for disclosure of certain fees connected with mortgage loans. The Board revised Regulation Z to implement the 1995 amendments and established new disclosure rules for debt cancellation agreements.

December 3, 1996—Amendment

The Board amended Regulation Z to adjust the threshold amount of mortgage points and fees that entails certain additional disclosures, effective January 1, 1997.

Votes for this action: Mr. Greenspan, Ms. Rivlin, Messrs. Kelley, Lindsey, and Meyer, and Mses. Phillips and Yellen.

Acting under the requirements of the Home Ownership and Equity Protection Act of 1994, the Board increased the level of points and fees beyond which mortgage creditors must disclose additional information (see Regulation Z amendment of January 24, 1996, above). On the basis of the CPI on June 1, 1996, the Board increased the threshold amount to \$424 for 1997.

Regulation EE Netting Eligibility for Financial Institutions

January 3, 1996—Amendment

The Board amended Regulation EE with regard to the definition of a financial institution, effective February 20, 1996.

Votes for this action: Messrs. Greenspan, Blinder, and Kelley and Mses. Phillips and Yellen.¹

The amendment clarifies that, for purposes of qualifying as a financial institution under Regulation EE, an entity may declare itself, either orally or in writing, to be a financial market intermediary.

Miscellaneous Interpretations

April 15, 1996—Definition

The Board defined unimpaired capital stock and surplus for purposes of section 23A of the Federal Reserve Act, effective July 1, 1996.

Votes for this action: Messrs. Greenspan, Kelley, and Lindsey and Mses. Phillips and Yellen.¹

The new rule adopts the definition of unimpaired capital and unimpaired surplus used to calculate the limits in Regulation O (Loans to Executive Officers, Directors, and Principal Shareholders of Member Banks) for insider lending and used by the Office of the Comptroller of the Currency to calculate the limit on loans by a national bank to a single borrower.

Rules Regarding Availability of Information

November 20, 1996—Interim Amendment

The Board approved an interim amendment to its Rules Regarding Availability of Information to increase certain fees associated with requests under the Freedom of Information Act, effective January 1, 1977.

Votes for this action: Mr. Greenspan, Ms. Rivlin, Messrs. Kelley, Lindsey, and Meyer, and Mses. Phillips and Yellen.

The amended fee schedule reflects increases in the cost of conducting searches and reviewing and copying documents. The Board also requested comment on the new fee schedule.

Policy Statements and Other Actions

March 19, 1996—Uniform Rules of Practice and Procedure for Administrative Hearings

The Board amended its Uniform Rules of Practice and Procedure for Administrative Hearings, effective June 5, 1996.

Votes for this action: Messrs. Greenspan, Kelley, and Lindsey and Ms. Phillips and Yellen.¹

The Board, along with the other federal banking agencies, clarified certain provisions of the rules and made other changes that are expected to increase the efficiency and fairness of administrative hearings.

October 22, 1996—Amendment

As required by the Debt Collection Improvements Act of 1996, the Board amended its Rules of Practice for Hearings to increase the maximum amount of each civil money penalty under its jurisdiction to account for inflation, effective October 24, 1996.

Votes for this action: Mr. Greenspan, Ms. Rivlin, Messrs. Kelley and Meyer, and Ms. Phillips and Yellen. Absent and not voting: Mr. Lindsey.

January 24, 1996—Fedwire Policy Statement

The Board set rules for access to Fedwire by a service provider located outside the United States, effective February 1, 1996.

Votes for this action: Messrs. Greenspan, Blinder, and Lindsey and Ms. Phillips and Yellen. Absent and not voting: Mr. Kelley.²

The revisions make the arrangements for a foreign service provider subject to the conditions applicable to the arrangements for a domestic service provider and to several additional conditions related to access to examination information and other data.

May 7, 1996—Standards for Safety and Soundness

The Board approved guidelines prescribing safety and soundness standards for the asset quality and earnings of depository institutions, effective October 1, 1996.

Votes for this action: Messrs. Greenspan and Kelley and Ms. Phillips and Yellen. Absent and not voting: Mr. Lindsey.¹

As required by section 132 of the Federal Deposit Insurance Corporation Improvement Act of 1991, the Board, along with the other federal banking agencies, prescribed safety and soundness standards for the asset quality and earnings of depository institutions. The guidelines require that institutions (1) establish and maintain systems to identify problem assets and prevent their deterioration and (2) evaluate and monitor earnings to ensure that they are sufficient to maintain adequate capital and reserves.

May 23, 1996—Interest Rate Risk Policy Statement

The Board provided guidance on sound practices for managing interest rate risk, effective June 26, 1996.

Votes for this action: Messrs. Greenspan and Kelley and Ms. Phillips and Yellen. Absent and not voting: Mr. Lindsey.¹

The policy statement, which was issued in conjunction with the other federal banking agencies, identifies the key elements of interest rate risk management and describes prudent principles and practices for each element. It emphasizes the importance both of a comprehensive risk-management process and of adequate oversight by the boards of directors and the senior management of banks. The statement also describes the critical factors affecting the agencies' evaluation of interest rate risk when making determinations of capital adequacy.

April 24, 1996—Uniform Cash Access Policy

The Board approved a new cash access policy for the Federal Reserve Banks that provides for greater consistency in cash service levels at Reserve Banks, effective May 1, 1998.

Votes for this action: Messrs. Greenspan, Kelley, and Lindsey and Mses. Phillips and Yellen.¹

The revised policy provides for a base level of free-of-charge access to currency for all depository institutions but restricts the number of offices served and the frequency of access. Depository institutions that meet volume thresholds will be able to obtain more frequent free access. Access beyond the free service level will be priced.

October 22, 1996—Policy Statement on Payments System Risk

The Board modified its procedures for measuring daylight overdrafts to take into account posting times for Treasury investments resulting from electronic tax payments, effective November 18, 1996.

Votes for this action: Mr. Greenspan, Ms. Rivlin, Messrs. Kelley, Lindsey, and Meyer, and Mses. Phillips and Yellen.

October 30, 1996—Announcement of Date of Expansion of Fedwire Operation Hours and Establishment of Daylight Overdraft Posting Time

The Board set December 8, 1997, as the effective date of its previously announced expansion of operating hours for the Fedwire on-line funds transfer service and established a posting time for certain nonwire transactions.

Votes for this action: Mr. Greenspan, Ms. Rivlin, Messrs. Kelley and Meyer, and Ms. Phillips. Absent and not voting: Mr. Lindsey and Ms. Yellen.

The Board announced that beginning December 8, 1997, the Fedwire on-line funds transfer service will operate from 12:30 a.m. to 6:30 p.m., eastern time, Monday through Friday. The Board also established 8:30 a.m. eastern time as the daylight overdraft posting time for certain nonwire transactions that had been based on the 8:30 a.m. opening time of the Fedwire funds transfer service.

1996 Discount Rates

The Board approved one change in the basic discount rate during 1996, a decrease from 5¼ percent to 5 percent in late January. In addition, the Board approved numerous changes, including both increases and decreases, in the rates charged by the Federal Reserve Banks for seasonal and for extended credit; rates for both types of credit are set on the basis of market-related formulas and those rates exceeded the basic discount rate by varying amounts during the year.

Basic Discount Rate

The Board's decisions on the basic rate are made against the background of the policy actions of the Federal Open Market Committee (FOMC) and the related economic and financial developments that are covered more fully in part 1 of this REPORT and in the minutes of the 1996 meetings of the FOMC that also appear in this REPORT.

The Board's approval of a $\frac{1}{4}$ percentage point reduction in the basic discount rate, to 5 percent, on January 31, 1996, followed the FOMC's decision on the same day to ease reserve conditions slightly, an action that was expected to foster a decrease of about $\frac{1}{4}$ percentage point in the federal funds rate. The complementary policy actions were taken against the backdrop of a potential reduction in inflationary pressures associated with the moderation in economic growth in previous months. In an environment of already subdued price and wage trends, a slight easing of monetary policy was deemed to be consistent with containing inflation and encouraging further economic expansion at a sustainable pace.

Over the remainder of 1996 the Board considered further requests to change the basic rate but took no action on them. All those requests called for increases of $\frac{1}{4}$ or $\frac{1}{2}$ percentage point. The initial requests to increase the rate were submitted by two Federal Reserve Banks during the first half of May, and the number of outstanding requests rose gradually to a maximum of eight during September and again from mid-October to early November. All but one had been withdrawn by year-end. In reaching its decisions not to approve the requests, the Board took account of the favorable performance of inflation, including the persistence of subdued increases in labor compensation and overall prices despite

high levels of resource use as reflected especially in low unemployment. In these circumstances, the Board concluded that there was no clear case for raising the discount rate.

Structure of Discount Rates

The basic rate is the rate normally charged on loans to depository institutions for short-term adjustment credit, while flexible, market-related rates generally are charged on seasonal and extended credit. These flexible rates are calculated periodically in accordance with formulas that are approved by the Board.

Under the seasonal program, whose purpose is to assist smaller institutions in meeting regular needs arising from a clear pattern of intra-yearly movements in their deposits and loans, funds may be provided for periods longer than those permitted under adjustment credit. Since its introduction in early 1992, the flexible rate charged on seasonal credit has been closely aligned with short-term market rates; it is never less than the basic rate applicable to adjustment credit.

A different flexible rate is charged on extended-credit loans, which are made to depository institutions that are under sustained liquidity pressure and are not able to obtain funds from other sources. The rate for extended credit is 50 basis points higher than the seasonal rate and is at least 50 basis points above the basic rate. In appropriate circumstances, borrowings of extended credit could be at the basic rate for up to thirty days, but any further borrowings would be charged the flexible rate.

Exceptionally large adjustment-credit loans that arise from computer breakdowns or other operating problems that are not clearly beyond the reasonable control of the borrowing institution are

assessed the highest rate applicable to any credit extended to depository institutions; under the current structure, that rate is the flexible rate on extended credit.

At the end of 1996 the structure of discount rates was as follows: a basic rate of 5 percent for short-term adjustment credit, a rate of 5.35 percent for seasonal credit, and a rate of 5.85 percent for extended credit. During 1996 the flexible rate on seasonal credit ranged from a low of 5.15 percent to a high of 5.50 percent, and the flexible rate on extended credit ranged from a low of 5.65 percent to a high of 6 percent.

Board Votes

Under the provisions of the Federal Reserve Act, the boards of directors of the Federal Reserve Banks are required to establish rates on loans to depository institutions at least every fourteen days and to submit such rates to the Board of Governors for review and determination. Federal Reserve Bank proposals on the discount rate include requests to renew the formulas for calculating the flexible rates on seasonal and extended credit. Votes relating to the reestablishment of existing rates or for the updating of market-related rates under the seasonal and extended credit programs are not shown in this summary. All votes on discount rates taken by the Board of Governors during 1996 were unanimous.

Vote on the Basic Discount Rate

January 31, 1996. Effective this date, the Board approved actions taken by the directors of the Federal Reserve Banks of New York, Philadelphia, Cleveland, Atlanta, Minneapolis, Dallas, and San Francisco to reduce the basic discount rate $\frac{1}{4}$ percentage point, to 5 percent.

Votes for this action: Messrs. Greenspan, Kelley, and Lindsey and Ms. Phillips and Yellen. Votes against this action: None. Absent and not voting: Vice Chairman Blinder.²

The Board subsequently approved similar actions taken by the directors of the Federal Reserve Banks of Boston, Richmond, Chicago, and Kansas City, effective February 1, 1996, and by the directors of the Federal Reserve Bank of St. Louis, effective February 5, 1996. ■