

**FEDERAL RESERVE SYSTEM**

**12 CFR Part 209**

**[Regulation I; Docket No. R-1533]**

**RIN 7100-AE 47**

**Federal Reserve Bank Capital Stock**

**AGENCY:** Board of Governors of the Federal Reserve System.

**ACTION:** Final rule.

**SUMMARY:** The Board of Governors (Board) is adopting, in final form and without change, an interim final rule amending Regulation I. The final rule establishes procedures for payment of dividends by the Federal Reserve Banks (Reserve Banks) to implement the provisions of section 32203 of the “Fixing America's Surface Transportation Act.” The final rule sets out the dividend rates applicable to Reserve Bank depository institution stockholders and amends provisions of Regulation I regarding treatment of accrued dividends when a Reserve Bank issues or cancels Federal Reserve Bank capital stock.

**DATES:** This final rule is effective on January 1, 2017.

**FOR FURTHER INFORMATION CONTACT:** Evan Winerman, Counsel (202/872-7578), Legal Division; or Kimberly Zaikov, Financial Project Leader (202/452-2256), Reserve Bank Operations and Payments Systems Division. Users of Telecommunication Device for Deaf (TDD) only, call (202) 263-4869.

## **SUPPLEMENTARY INFORMATION:**

### **I. Overview**

Regulation I governs the issuance and cancellation of capital stock by the Reserve Banks. Under section 5 of the Federal Reserve Act<sup>1</sup> and Regulation I,<sup>2</sup> a member bank must subscribe to capital stock of the Reserve Bank of its district in an amount equal to six percent of the member bank's capital and surplus. The member bank must pay for one-half of this subscription on the date that the Reserve Bank approves its application for capital stock, while the remaining half of the subscription shall be subject to call by the Board.<sup>3</sup>

Prior to January 1, 2016, all member banks were entitled to a six percent dividend on their paid-in capital stock. As of January 1, 2016, the "Fixing America's Surface Transportation Act" ("FAST Act")<sup>4</sup> amended section 7(a)(1) of the Federal Reserve Act<sup>5</sup> to provide that stockholders with more than \$10 billion in total consolidated assets shall receive a dividend on paid-in capital stock equal to the *lesser* of six percent and "the rate equal to the high yield of the 10-year Treasury note auctioned at the last auction held prior to the payment of such dividend," while stockholders with \$10 billion or less in total consolidated assets shall continue to receive a six percent dividend. The FAST Act also provides that the Board must

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<sup>1</sup> 12 U.S.C. 287.

<sup>2</sup> 12 CFR 209.4(a).

<sup>3</sup> 12 U.S.C. 287 and 12 CFR 209.4(c)(2).

<sup>4</sup> Pub. L. No. 114-94, 129 Stat. 1312 (2015). See <https://www.congress.gov/114/bills/hr22/BILLS-114hr22enr.pdf/>.

<sup>5</sup> 12 U.S.C. 289(a)(1).

adjust the \$10 billion threshold for total consolidated assets annually to reflect the change in the Gross Domestic Product Price Index, published by the Bureau of Economic Analysis.

On February 24, 2016, the Board published an interim final rule and request for comment in the *Federal Register* (81 FR 9082) that amends Regulation I to implement section 32203 of the FAST Act. The interim final rule allowed the Reserve Banks to continue their practice of making semi-annual dividend payments, although at a new rate for larger institutions.

In addition, Regulation I contains provisions with respect to the treatment of accrued dividends when a Reserve Bank issues new stock or cancels existing stock. These Regulation I provisions implement portions of sections 5, 6, and 9 of the Federal Reserve Act, which were not amended by the FAST Act. Section 5 provides that (1) when a Reserve Bank issues new shares to a stockholder, the stockholder must pay the Reserve Bank for accrued dividends at a monthly rate of one-half of one percent from the last dividend and, correspondingly, (2) when a stockholder reduces or liquidates its holding of Reserve Bank stock, the Reserve Bank must pay the stockholder for accrued dividends at a monthly rate of one-half of one percent from the last dividend. Similarly, sections 6 and 9(10) of the Federal Reserve Act state that, when a member bank becomes insolvent or voluntarily withdraws from Reserve Bank membership, the Reserve Bank shall pay accrued dividends on the bank's cancelled stock at a monthly rate of one-half of one percent. Prior to the amendments published in the interim final rule, Regulation I adopted the approach described in sections 5, 6, and 9(10) of the Federal Reserve Act, providing in §§ 209.4(d) and

209.4(e)(1) that dividends for subscriptions to, and cancellations of, Reserve Bank stock shall accrue at a monthly rate of one-half of one percent. As discussed below, the interim final rule adjusted the accrued dividend rates for larger institutions to be consistent with the rate adopted in the FAST Act.

## **II. Summary of Comments Received and Final Rule**

### *A. Public Comments*

The Board received nine comments on the interim final rule: one from a trade association representing commercial banks; one from a small commercial bank; and seven from individual members of the public. The trade association and the commercial bank expressed concerns regarding Congress's decision to lower the statutory dividend rate for banks with more than \$10 billion in total consolidated assets, while other commenters supported Congress's decision. None of the commenters suggested specific changes to the text of the interim final rule.

### *B. Description of Final Rule*

#### *1. Dividend Payment Rate*

Like the interim final rule, the final rule amends Regulation I to include a new paragraph, § 209.4(e), addressing the rate for dividend payments by the Reserve Banks. Section 209.4(e)(1)(i) implements the FAST Act provision requiring that banks with more than \$10 billion in total consolidated assets receive a dividend on their Reserve Bank capital stock at an annual rate of the lesser of six percent and the high yield of the 10-year Treasury note auctioned at the last auction held prior to the payment of the dividend. Section 209.4(e)(1)(ii) provides that banks with \$10 billion or less in total consolidated assets will continue to receive a dividend at an annual rate

of six percent. Section 209.4(e)(3) provides that dividends are cumulative, as required by section 7 of the Federal Reserve Act.

Section 209.4(e)(2) provides that each dividend “will be adjusted to reflect the period from the last dividend payment date to the current dividend payment date according to the dividend proration basis.” Section 209.1(d)(2) in turn defines “dividend proration basis” as “the use of a 360-day year of 12 30-day months for purposes of computing dividend payments.” Thus, under the interim final rule, a semi-annual dividend payment to a stockholder with \$10 billion or less in total consolidated assets continues to be calculated as three percent of paid-in capital. A semi-annual dividend payment to a stockholder with more than \$10 billion in total consolidated assets would be calculated as the lesser of three percent or one-half of the high yield of the 10-year Treasury note auctioned at the last auction held prior to the payment of the dividend.

## *2. Payment of Accrued Dividends for Subscriptions to Reserve Bank Stock*

Section 5 of the Federal Reserve Act requires that member banks subscribe to new stock of the appropriate Reserve Bank whenever the member bank increases its own capital stock, so as to maintain an investment in Federal Reserve Bank stock equal to 3 percent of the member bank’s capital and surplus. Banks also become member banks throughout the year.

As discussed above, section 5 of the Federal Reserve Act provides that, when a stockholder subscribes to new capital stock, it must pay for accrued dividends on that new stock at a monthly rate of one-half of one percent from the last dividend (*i.e.*, a monthly rate derived from a six percent annual rate). Prior to the amendments published in the interim final rule, Regulation I adopted the same approach. This

requirement ensures that the stockholder will not be overcompensated at the next dividend payment, because the stockholder has paid in advance for the portion of the stockholder's next dividend payment attributable to the period for which the member bank did not own the stock.

Although section 5 of the Federal Reserve Act continues to provide that a stockholder should pay for accrued dividends at a monthly rate of one-half of one percent from the last dividend, section 7 of the Federal Reserve Act now provides that stockholders with more than \$10 billion in total consolidated assets will receive an annual dividend at the lesser of six percent and the high yield of the 10-year Treasury note auctioned at the last auction held prior to the payment of the dividend. Applying sections 5 and 7 literally could cause a larger stockholder to overpay for accrued dividends if it paid at a rate based on a six percent annual rate but received its next dividend payment at an annual rate *below* six percent (assuming the high yield of the 10-year Treasury note at the applicable auction was below six percent).

Like the interim final rule, the final rule reconciles the conflict between sections 5 and 7 of the Federal Reserve Act by requiring that a stockholder with more than \$10 billion in total consolidated assets pay for accrued dividends at an annual rate of the lesser of six percent and the high yield of the 10-year Treasury note auctioned at the last auction held prior to the previous dividend payment date (that is, the rate used for the previous dividend payment to stockholders with more than \$10 billion in total consolidated assets), prorated to cover the period between the last dividend payment date and the date of subscription. This approach allows a larger stockholder to pay for accrued dividends at a rate that is generally close to the dividend rate the stockholder

will earn at the next dividend payment. This approach also resolves the statutory conflict in favor of giving effect to the most recent Congressional act regarding the payment of dividends as provided in the FAST Act. Conversely, the interim final rule provided that stockholders with \$10 billion or less in total consolidated assets will continue to pay for accrued dividends at an annual rate of six percent (prorated to cover the period between the last dividend payment date and the date of subscription), as those stockholders will continue to receive a six percent annual dividend. This approach is adopted in the final rule without change.

The final rule also provides at § 209.4(c)(3) for an adjustment at the next annual dividend if a stockholder pays for accrued dividends at a rate that is different from the annualized rate that the stockholder ultimately receives at the next scheduled dividend payment date. This adjustment equals the difference between the accrued dividends the stockholder paid for the additional subscription and the portion of the next dividend payment attributable to that additional subscription, prorated to cover the period from the last dividend payment date to the subscription date.

### *3. Payment of Accrued Dividends for Cancellations of Reserve Bank Stock*

Section 5 of the Federal Reserve Act requires that a member bank seek redemption of its Federal Reserve Bank stock as the capital of the member bank declines, so as to maintain an investment in Federal Reserve Bank stock equal to 3 percent of the member bank's capital and surplus. Banks also relinquish membership throughout the year.

As discussed above, three provisions of the Federal Reserve Act (sections 5, 6, and 9(10)) state that, when a Reserve Bank cancels stock, the Reserve Bank shall pay the

stockholder for accrued dividends at a monthly rate of one-half of one percent from the last dividend (*i.e.*, a monthly rate derived from a six percent annual rate). Prior to the amendments published in the interim final rule, Regulation I adopted the same approach. Sections 5, 6, and 9(10) of the Federal Reserve Act now conflict with section 7 of the Federal Reserve Act, which provides (following passage of the FAST Act) that stockholders with more than \$10 billion in total consolidated assets will receive an annual dividend at the lesser of six percent and the high yield of the 10-year Treasury note auctioned at the last auction held prior to the payment of the dividend.

The final rule reconciles sections 5, 6, and 9(10) of the Federal Reserve Act with section 7 of the Federal Reserve Act by requiring the Reserve Banks to pay accrued dividends to stockholders with more than \$10 billion of total consolidated assets at an annual rate of the lesser of six percent and the high yield of the 10-year Treasury note auctioned at the last auction held prior to the date of cancellation, prorated to cover the period between the last dividend payment date and the date of cancellation. As noted above, this approach also resolves the statutory conflict between sections 5, 6, and 9(10), on the one hand, and section 7 on the other, in favor of the most recent Congressional act regarding dividends expressed in the FAST Act. Conversely, the final rule provides that, when a Reserve Bank cancels stock of a stockholder with \$10 billion or less in total consolidated assets, the Reserve Bank will pay the stockholder for accrued dividends at an annual rate of six percent (prorated to cover the period between the last dividend payment date and the date of cancellation), as those stockholders will continue to receive a six percent annual dividend.

#### *4. Total Consolidated Assets: Definition and Inflation Adjustment*

The dividend rate to which a stockholder is entitled under Section 7 of the Federal Reserve Act (as amended by the FAST Act) depends on the stockholder's "total consolidated assets." The final rule amends Regulation I to include a new paragraph, § 209.1(d)(3), that generally defines total consolidated assets by reference to total assets reported on the stockholder's most recent December 31 Consolidated Report of Condition and Income (Call Report).<sup>6</sup> When a bank joins the Federal Reserve System or when a member bank merges with another entity and the surviving bank continues to be a Reserve Bank stockholder, the bank may have never filed a year-end call report, or its most recent year-end call report may not accurately reflect the institution's size. Accordingly, the new member bank or the surviving bank must report whether its total consolidated assets exceed \$10 billion in its application for capital stock, which would be shortly after the transaction or the date that the bank becomes a member bank. To that end, the final rule amends § 209.2(a) to require that a bank seeking to join the Federal Reserve System report whether its total consolidated assets exceed \$10 billion in its application for capital stock. Similarly, the final rule adds a new paragraph, § 209.3(d)(3), that requires a surviving bank to report whether its total consolidated assets exceed \$10 billion when it submits its next application for additional capital stock.

Section 7(a)(1)(C) of the Federal Reserve Act (added by the FAST Act) requires that the Board make an annual inflation adjustment to the total consolidated

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<sup>6</sup> The Board has also moved, without revision, the definition of "capital stock and surplus" to the definitions in new § 209.1(d).

asset threshold that determines the dividend rate to which a Reserve Bank is entitled. The final rule implements this provision at § 209.4(f). The Board expects to make this adjustment using the final second quarter estimate of the Gross Domestic Product Price Index for each year, published by the Bureau of Economic Analysis.

### **III. Regulatory Analysis**

#### *A. Regulatory Flexibility Act Analysis*

In accordance with section 604 of the Regulatory Flexibility Act (“RFA”), 5 U.S.C. 601 et seq., the Board is publishing a final regulatory flexibility analysis for the final rule. The RFA generally requires an agency to assess the impact a rule is expected to have on small entities. Under size standards established by the Small Business Administration, banks and other depository institutions are considered “small” if they have less than \$550 million in assets.<sup>7</sup> The RFA requires an agency either to provide a regulatory flexibility analysis or to certify that the final rule will not have a significant economic impact on a substantial number of small entities.

The final rule implements amendments to the Federal Reserve Act that provide that Reserve Bank stockholders with more than \$10 billion in total consolidated assets will receive a dividend at an annual rate equal to the lower of six percent and the high yield of the 10-year Treasury note auctioned at the last auction held prior to the payment of such dividend (with such dividend prorated to cover the period between the last dividend payment date and the current dividend payment date). The final rule also provides that, if a Reserve Bank cancels stock of a stockholder with more than \$10 billion in total consolidated assets, the Reserve Bank

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<sup>7</sup> 13 CFR 121.201.

will pay the stockholder accrued dividends at an annual rate of the lesser of six percent and the high yield of the most recent 10-year Treasury note auction held prior to the date of cancellation, prorated to cover the period between the last dividend payment date and the cancellation date. Finally, the final rule provides that, if a Reserve Bank issues new stock to a stockholder with more than \$10 billion in total consolidated assets, the stockholder will pay accrued dividends on such stock at an annual rate of the lesser of six percent and the high yield of the most recent 10-year Treasury note auction held prior to the previous dividend payment date (prorated to cover the period between the last dividend payment date and the subscription date). The next regular dividend payment to that stockholder would be adjusted to account for the difference between the rate at which the stockholder paid for accrued dividends and the rate at which the stockholder receives the regular dividend payment.

Under the final rule, Reserve Bank stockholders with \$10 billion or less in total consolidated assets will continue to receive a dividend on their Reserve Bank stock at an annual rate of six percent (prorated to cover the period between the last dividend payment and the current dividend payment). If a Reserve Bank issues new stock to, or cancels existing stock of, a stockholder with \$10 billion or less in total consolidated assets, the stockholder or the Reserve Bank would (respectively) continue to pay accrued dividends on such stock at an annual rate of six percent (prorated to cover the period between the last dividend payment date and the subscription date or the cancellation date). Additionally, the final rule continues to allow Reserve Banks to pay dividends semiannually to all stockholders, including

banks with \$10 billion or less in total consolidated assets. The Board received no public comments in response to the initial regulatory flexibility analysis, nor did it receive comments from the Chief Counsel for Advocacy of the Small Business Administration

The only new requirement that the final rule imposes on stockholders with \$10 billion or less in total consolidated assets is that such a stockholder must report whether its total consolidated assets exceed \$10 billion when the stockholder applies for (1) new capital stock upon joining the Federal Reserve System or (2) additional capital stock upon merging with another entity. Excluding these two situations, a Reserve Bank will determine the total consolidated assets of all stockholders by reference to the stockholder's most recent December 31 Call Report. The final rule requires the Board to make an annual inflation adjustment to the \$10 billion total consolidated asset threshold.

As noted above, a depository institution is "small" for purposes of the RFA if it has less than \$550 million of assets. The final rule has no effect on small institutions. The Board expects that existing banks and banks that are in the process of organization can readily calculate their total consolidated assets to know if they are a large institution covered by the amendments. The Board currently requires that a bank file an application form with the Reserve Bank in whose district it is located if the bank wishes to join the Federal Reserve System or if the bank must increase or decrease its holding

of Reserve Bank stock.<sup>8</sup> The Board is revising these forms to require that, when a bank applies for membership or applies for new stock after merging with another entity, the bank report whether its total consolidated assets exceed \$10 billion.

The RFA requires a description of why the agency rejected any significant alternatives that would have affected the impact of the rule on small entities. In this circumstance, there is no feasible alternative to requiring that a bank in the process of organization report whether its total consolidated assets exceed \$10 billion when it applies to join the System, because such banks will not have filed a Call Report before applying for membership. With respect to measuring the total consolidated assets of a surviving bank after a merger, the Reserve Banks could alternatively (1) refer to the total assets reported by the surviving bank on its most recent December 31 Call Report or (2) add the total assets of the surviving bank and the nonsurviving bank as reported on each bank's most recent December 31 Call Report. These alternative approaches to measuring total consolidated assets in the merger context would reduce the reporting burden on small entities, but they would not provide timely and accurate notice to a Reserve Bank of whether a merger has caused a surviving bank's total consolidated assets to exceed \$10 billion. The Board believes that requiring surviving banks to report whether total consolidated assets exceed \$10 billion when they apply for

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<sup>8</sup> See FR 2030 (application for capital stock for organizing national banks); FR 2030A (application for capital stock for nonmember state banks that are converting to national banks); FR 2083A (application for capital stock by state banks (except mutual savings banks) and national banks that are converting to state banks); FR 2083B (application for capital stock by mutual savings banks); FR 2056 (application for adjustment in holding of Reserve Bank stock).

additional capital stock is a minimal reporting burden of an amount that is known by the banks and serves the intent of the FAST Act.

*B. Paperwork Reduction Act Analysis*

In accordance with section 3512 of the Paperwork Reduction Act of 1995 (44 U.S.C. 3501–3521) (PRA), the Board may not conduct or sponsor, and a respondent is not required to respond to, an information collection unless it displays a currently valid Office of Management and Budget (OMB) control number. The OMB control numbers are 7100-0042 and 7100-0046. The Board reviewed the final rule under the authority delegated to the Board by OMB. The final rule contains requirements subject to the PRA. The reporting requirements are found in §§ 209.2(a) and 209.3(d)(3). The Board received no comments on the PRA analysis in the interim final rule.

The Board has a continuing interest in the public's opinions of collections of information. At any time, comments regarding the burden estimate, or any other aspect of this collection of information, including suggestions for reducing the burden, may be sent to: Secretary, Board of Governors of the Federal Reserve System, 20<sup>th</sup> and C Streets NW, Washington, DC 20551. A copy of the comments may also be submitted to the OMB desk officer (1) by mail to U.S. Office of Management and Budget, 725 17th Street NW, 10235, Washington, DC 20503; (2) by facsimile to 202–395–6974; or (3) by e-mail to: [oir\\_submission@omb.eop.gov](mailto:oir_submission@omb.eop.gov), Attention, Federal Reserve Board Agency Desk Officer.

***Proposed Revisions, With Extension for Three Years, of the Following Information Collections:***

(1) *Title of Information Collection:* Applications for Subscription to, Adjustment in Holding of, and Cancellation of Federal Reserve Bank Stock.

*Agency Form Number:* FR 2030, FR 2030a, FR 2056, FR 2086, FR 2086a, FR 2087.

*OMB Control Number:* 7100-0042.

*Frequency of Response:* On occasion.

*Affected Public:* Businesses or other for-profit.

*Respondents:* National, State Member, and Nonmember banks.

*Abstract:* These application forms are required by the Federal Reserve Act and Regulation I. These forms must be used by a new or existing member bank (including a national bank) to request the issuance, and adjustment in, or cancellation of Federal Reserve Bank stock. The forms must contain certain certifications by the applicants, as well as certain other financial and shareholder data that is needed by the Federal Reserve to process the request.

*Current Actions:* The dividend rate to which a Reserve Bank stockholder is entitled under section 7 of the Federal Reserve Act (as amended by the FAST Act) depends on the stockholder's "total consolidated assets." Section 209.2(a) requires a bank to report whether its total consolidated assets exceed \$10 billion when it applies for membership in the Federal Reserve System. Section 209.3(d)(3) requires a bank to report whether its total consolidated assets exceed \$10 billion when it applies for additional capital stock after merging with another entity. The Board is proposing to revise FR 2030, FR 2030a, and FR 2056 to require that a bank report whether its total consolidated assets exceed \$10 billion when it applies to join the Federal Reserve System or applies for additional capital stock after merging with another entity. The proposed revisions would increase the

estimated average hours per response for FR 2030 and FR 2030a by half an hour. The proposed revisions would increase the estimated average hours per response for FR 2056 by one quarter of an hour. The Board is not proposing to revise FR 2086, FR 2086A, and FR 2087. The draft reporting forms are available on the Board's public website at <http://www.federalreserve.gov/apps/reportforms/review.aspx>.

*Estimated annual reporting hours:* FR 2030: 4 hours; FR 2030a: 2 hours;  
FR 2056: 1,000 hours; FR 2086: 5 hours; FR 2086a: 40 hours; FR 2087: 1 hour.

*Estimated average hours per response:* FR 2030: 1 hour; FR 2030a: 1 hour;  
FR 2056: 0.75 hours; FR 2086: 0.5 hours; FR 2086a: 0.5 hours; FR 2087: 0.5 hours.

*Number of respondents:* FR 2030: 4; FR 2030a: 2; FR 2056: 1,333; FR 2086: 10;  
FR 2086a: 79; FR 2087: 1.

(2) *Title of Information Collection:* Application for Membership in the Federal Reserve System.

*Agency Form Number:* FR 2083, FR 2083A, FR 2083B, and FR 2083C.

*OMB Control Number:* 7100-0046.

*Frequency of Response:* On occasion.

*Affected Public:* Businesses or other for-profit.

*Respondents:* Newly organized banks that seek to become state member banks, or existing banks or savings institutions that seek to convert to state member bank status.

*Abstract:* The application for membership is a required one-time submission that collects the information necessary for the Federal Reserve to evaluate the statutory criteria for admission of a new or existing state bank into membership in the Federal Reserve System. The application collects managerial, financial, and structural data.

*Current Actions:* The dividend rate to which a Reserve Bank stockholder is entitled under Section 7 of the Federal Reserve Act (as amended by the FAST Act) depends on the stockholder's "total consolidated assets." Section 209.2(a) requires a bank to report whether its total consolidated assets exceed \$10 billion when it applies for membership in the Federal Reserve System. The Board is proposing to revise FR 2083A and FR 2083B to require that a bank report whether its total consolidated assets exceed \$10 billion when it applies to join the Federal Reserve System. The proposed revisions would increase the estimated average hours per response by half an hour. The Board is not proposing to revise FR 2083 or FR 2083C. The draft reporting forms are available on the Board's public website at <http://www.federalreserve.gov/apps/reportforms/review.aspx>. The estimated annual reporting hours listed below, and the estimated average hours per response, are cumulative totals for FR 2083, FR 2083A, FR 2083B, and FR 2083C.

*Estimated annual reporting hours:* 207 hours.

*Estimated average hours per response:* 4.5 hours.

*Number of respondents:* 46.

### **List of Subjects in 12 CFR Part 209**

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

**PART 209 – FEDERAL RESERVE BANK CAPITAL STOCK (REGULATION I)**

Accordingly, the interim final rule amending 12 CFR part 209, which was published at 81 FR 9082 on February 24, 2016, is adopted as a final rule without change.

By order of the Board of Governors of the Federal Reserve System, November 18, 2016.

Robert deV. Frierson (signed)

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Robert deV. Frierson,  
Secretary of the Board.