

FEDERAL RESERVE SYSTEM

Docket No. OP-1747

Guidelines for Evaluating Account and Services Requests

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Final Guidance.

SUMMARY: The Board of Governors of the Federal Reserve System (Board) has clarified that its Guidelines Covering Access to Accounts and Services at Federal Reserve Banks (Guidelines) apply to Excess Balance Accounts at the Federal Reserve Banks (Reserve Banks).

DATE: Implementation Date is [Insert date of publication in the *Federal Register*]

FOR FURTHER INFORMATION CONTACT:

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SUPPLEMENTARY INFORMATION:

I. Background on Guidelines

On August 19, 2022, the Board implemented the Guidelines, which consist of six risk-based principles for Reserve Banks to consider when evaluating requests for access to Reserve Bank accounts and services (accounts and services). The risks considered under the Guidelines include various risks to the Reserve Bank, risks to the overall payments systems, risks to the stability of the U.S. financial system, risks to the overall economy by facilitating activities such as money laundering or other illicit activity, and risk of any adverse impact on the Federal Reserve's ability to implement monetary policy.

The Guidelines apply to requests for accounts and services from member banks or other entities that meet the definition of depository institution under section 19(b) of the Federal Reserve Act (12 U.S.C. 461(b)(1)(A)), as well as Edge and Agreement Corporations (12 U.S.C. 601-604a, 611-631), and U.S. branches and agencies of foreign banks (12 U.S.C. 347d). The Guidelines do not apply to accounts that the Reserve Banks provide (i) as depository and fiscal agent for the Treasury and certain government-sponsored entities (12 U.S.C. 391, 393-95, 1823, 1435), (ii) to certain international organizations (22 U.S.C. 285d, 286d, 290o-3, 290i-5, 290l-3), (iii) to designated financial market utilities (12 U.S.C. 5465), (iv) pursuant to the Board's Regulation N (12 CFR 214), or (v) pursuant to the Board's Guidelines for Evaluating Joint Account Requests.

II. Excess Balance Accounts

Reserve Banks began to pay interest on balances maintained at the Reserve Banks by or on behalf of eligible institutions in October 2008.¹ Until July 2021, balances maintained by depository institutions at a Reserve Bank were divided into required reserves (balances held to satisfy a reserve requirement) and excess reserves (balances maintained in excess of required reserves).² Eligible institutions that were respondents could maintain excess balances as deposits with their correspondent or, alternatively, could instruct their correspondent to sweep their deposits into overnight investments in the federal funds market.³ Correspondents typically preferred the latter because it helped to limit the size of their balance sheet and boosted their regulatory capital ratios. However, when the market rate of interest on federal funds was below the rate paid by Reserve Banks on excess balances, respondents had an incentive to shift the investment of their surplus funds away from the sales of federal funds (through their correspondents) and toward holding those funds directly as excess balances with the Reserve Banks, potentially disrupting established correspondent-respondent relationships.⁴

The Board authorized the creation of excess balance accounts (EBAs) on May 20, 2009, to alleviate these pressures on correspondent-respondent business relationships

¹ The authority to pay interest was originally enacted through the Financial Services Regulatory Relief Act of 2006, with an effective date of October 1, 2011. The date was moved forward to 2008 by the Emergency Economic Stabilization Act of 2008.

² Final Rule, Regulation D, 86 Fed. Reg. 29937 (June 4, 2021); Press Release, “Federal Reserve Board issues final rule amending Regulation D with regard to interest on reserve balances” (June 2, 2021), <https://www.federalreserve.gov/newsevents/pressreleases/bcreg20210602a.htm>

³ In a correspondent-respondent relationship, the correspondent bank provides banking services on behalf of the respondent bank. This often includes the correspondent bank executing payments on behalf of the respondent bank and its customers. A respondent bank typically maintains an account with its correspondent bank.

⁴ 74 Fed. Reg. 5628, 5629 (Jan. 30, 2009).

associated with an environment in which federal funds traded at rates persistently below the interest rate on excess reserves.⁵ EBAs permit eligible institutions to earn interest on their excess balances without disrupting established correspondent-respondent relationships. An EBA is a limited-purpose account at a Federal Reserve Bank managed by an agent and established for maintaining the excess balances of one or more institutions (participants) that are eligible to earn interest on balances held at a Reserve Bank.⁶ The agent does not own the EBA or the balances therein and thus the balances held in the EBA are not included in the calculation of the agent's regulatory leverage ratio.

III. Current Scope of the Guidelines

Currently, the Guidelines do not expressly state that EBA arrangements are in the scope of the Guidelines. The Board believes it is appropriate to amend the Guidelines to clarify that they apply to requests to be an agent for, or a participant in, an EBA.

Expressly including EBAs in the Guidelines will clarify that the same standard of review will be applied to any institution requesting access to accounts and services. While EBAs are not used to access Reserve Bank financial services, they are, in fact, limited-purpose Reserve Bank accounts. This clarification, therefore, would prevent depository

⁵ Final Rule, Regulation D, 74 Fed. Reg. 25620 (May 29, 2009); Press Release, "Board announces approval of final amendments to Regulation D pertaining to transfers from savings deposits and the establishment of excess balance accounts at Reserve Banks" (May 20, 2009), <https://www.federalreserve.gov/newsevents/pressreleases/monetary20090520b.htm>

⁶ See 12 CFR 204.2(aa) (defining "excess balance account"); 12 CFR 204.10(d)(4) (establishing interest payable on excess balance accounts). An EBA agent and participant may also be in a separate correspondent-respondent relationship, but not necessarily.

institutions that do not qualify for access to Federal Reserve accounts and services under the Guidelines from accessing the Federal Reserve's balance sheet through EBAs.

IV. Clarification to Scope of Guidelines

For the reasons set forth in this document, the Board is amending and restating the text in footnote seven to the Guidelines to read as follows:

Unless otherwise expressly excluded under the previous footnote, these principles apply to account requests from all institutions, including member banks, entities that meet the definition of a depository institution under section 19(b) (12 U.S.C. 461(b)(1)(A)), Edge and Agreement Corporations (12 U.S.C. 601–604a, 611–631), and U.S. branches and agencies of foreign banks (12 U.S.C. 347d), and to requests to be an agent or participant in an excess balance account (12 C.F.R. 204.10(d)).

By order of the Board of Governors of the Federal Reserve System.

Ann E. Misback,
Secretary of the Board