

# Regulation D: Reserve Requirements for Depository Institutions

COMMENT LETTER

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May 14, 2019

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Ann E. Misback, Secretary  
Board of Governors of the Federal Reserve System  
20th Street and Constitution Avenue, NW  
Washington, DC 20551  
RIN 7100-AF-40 [Docket No. R-1652]

Dear Ms. Misback,

The Conference of State Bank Supervisors (“CSBS”) appreciates the opportunity to comment on the Advance Notice of Proposed Rulemaking issued by the Federal Reserve Board (the “Board”), titled “Regulation D: Reserve Requirements for Depository Institutions” (the “ANPR”). The ANPR requests comment on whether the Board should propose amendments to Regulation D to lower the rate of interest paid on excess balances (“IOER”) maintained at Federal Reserve Banks by eligible institutions that hold a very large proportion of their assets in the form of balances at Reserve Banks. The ANPR refers to these narrowly focused depository institutions as Pass-Through Investment Entities (“PTIEs”).

In the ANPR, the Board suggests several alternative approaches to defining a PTIE for the purpose of identifying the eligible institutions that would earn a lower IOER rate. Under one of these alternatives, a PTIE would be defined as “an eligible institution that (i) has a very high reserves/assets ratio or a very low capital/assets ratio; and (ii) is not subject to supervision by a federal banking agency (e.g., the Board, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, or the National Credit Union Administration).” State bank regulators oppose this proposed definition because we believe, as a matter of policy, access to Federal Reserve services should be limited on an equitable and impartial basis.

CSBS has consistently maintained that access to Federal Reserve services should be restricted to eligible institutions on an equitable and impartial basis. For this reason, we are concerned that the proposed definition seems to assume that the regulatory scrutiny applied to state-supervised eligible institutions is categorically substandard relative to that applied to federally-supervised eligible institutions. Of course, regulatory scrutiny should certainly be a factor in assessing the risk of providing Federal Reserve services to an eligible institution. But state regulators believe that this assessment can only be done on an equitable and impartial basis through a transparent and objective evaluation of the actual, substantive prudential requirements applicable to the institution. Limitations on access cannot be equitable and impartial when the application or nonapplication of prudential requirements is assumed based solely on the identity of the supervisory authority.

We appreciate the opportunity to comment on the ANPR and the general regulatory proposals pertaining to PTIEs contained therein. To reiterate, state regulators oppose defining a PTIE as an institution which, in part, is not subject to supervision by a federal banking agency as this runs counter to commitments to impartial and equitable access. We look forward to continuing to collaborate with the Board and the Federal Reserve Banks to achieve our shared supervisory mandates to maintain a strong and resilient banking system.

Sincerely,

John Ryan  
President & CEO