CATTLE AND CALVES [1]—Continued

| State/unit | 1,000 head | Directors |
|---|---|---|
| Total | 550 | |
| 35. Mid-Atlantic | | 1 |
| Maryland | 192 | |
| West Virginia | 400 | |
| Total | 592 | |
| 36. Southeast | | 3 |
| Alabama | 1,253 | |
| Georgia | 1,100 | |
| South Carolina | 385 | |
| Total | 2,738 | |
| 37. Southwest | | 6 |
| California | 5,283 | |
| Nevada | 450 | |
| Total | 5,733 | |
| 38. Importer [2] | 6,887 | 7 |

[1] 2008, 2009, and 2010 average of January 1 cattle inventory data.
[2] 2007, 2008, and 2009 average of annual import data.

* * * * *

Dated: July 12, 2011.

**Rayne Pegg,**

*Administrator, Agricultural Marketing Service.*

[FR Doc. 2011–17885 Filed 7–15–11; 8:45 am]

**BILLING CODE P**

---

## FEDERAL RESERVE SYSTEM

### 12 CFR Parts 204, 217, and 230

### Regulations D, Q, and DD

**[Docket No. R–1413]**

**RIN 7100–AD 72**

### Prohibition Against Payment of Interest on Demand Deposits

**AGENCY:** Board of Governors of the Federal Reserve System (Board)

**ACTION:** Final rule.

**SUMMARY:** The Board is publishing a final rule repealing Regulation Q, Prohibition Against Payment of Interest on Demand Deposits, effective July 21, 2011. Regulation Q was promulgated to implement the statutory prohibition against payment of interest on demand deposits by institutions that are member banks of the Federal Reserve System set forth in Section 19(i) of the Federal Reserve Act (''Act''). Section 627 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (''Dodd-Frank Act'') repeals Section 19(i) of the Federal Reserve Act effective July 21, 2011. The final rule implements the Dodd-Frank Act's repeal of Section 19(i). The final rule also repeals the Board's published interpretation of Regulation Q and removes references to Regulation Q found in the Board's other regulations, interpretations, and commentary.

**DATES:** *Effective Date:* July 21, 2011.

**FOR FURTHER INFORMATION CONTACT:** Sophia H. Allison, Senior Counsel (202/452–3565), Legal Division, or Joshua S. Louria, Financial Analyst (202/263–4885), Division of Monetary Affairs; for users of Telecommunications Device for the Deaf (TDD) only, contact (202/263–4869); Board of Governors of the Federal Reserve System, 20th and C Streets, NW., Washington, DC 20551.

**SUPPLEMENTARY INFORMATION:**

### I. Prohibition Against Payment of Interest on Demand Deposits

Section 19(i) of the Federal Reserve Act (''Act'') (12 U.S.C. 371a) generally provides that no member bank ''shall, directly or indirectly, by any device whatsoever, pay any interest on any deposit which is payable on demand. * * *'' Section 19(i) was added to the Act by Section 11 of the Banking Act of 1933 (48 Stat. 162, 181). Section 324 of the Banking Act of 1935 (49 Stat. 684, 714) amended Section 19(a) of the Act to authorize the Board, ''for the purposes of this section, to define the terms 'demand deposits', 'gross demand deposits,' 'deposits payable on demand' [and] to determine what shall be deemed to be a payment of interest, and to prescribe such rules and regulations as it may deem necessary to effectuate the purposes of this section and prevent evasions thereof. * * *'' The Board promulgated Regulation Q on August 29, 1933 to implement Section 19(i) of the Act. Section 627 of the Dodd-Frank Act repeals Section 19(i) of the Act in its entirety, effective July 21, 2011.

### II. Request for Public Comment

On April 14, 2011, the Board published in the **Federal Register** a request for comment on its proposal to repeal Regulation Q effective July 21, 2011 (76 FR 20892, Apr. 14, 2011). In its request for comment, the Board also sought comment on all aspects of the proposal, and also sought comment on four specific issues related to the proposal:

1. Does the repeal of Regulation Q have significant implications for the balance sheets and income of depository institutions? What are the anticipated effects on bank profits, on the allocation of deposit liabilities among product offerings, and on the rates offered and fees assessed on demand deposits, sweep accounts, and compensating balance arrangements?

2. Does the repeal of Regulation Q have any implications for short-term funding markets such as the overnight federal funds market and Eurodollar markets, or for institutions such as institution-only money market mutual funds that are active investors in short-term funding markets?

3. Is the repeal of Regulation Q likely to result in strong demand for interest-bearing demand deposits?

4. Does the repeal of Regulation Q have any implications for competitive burden on smaller depository institutions?

The comment period closed on May 16, 2011.

**III. Public Comments**

*a. Summary*

The Board received a total of 62 comments on the proposed rule. Of these, 45 comments were received from 40 banks,[1] 6 comments were received from trade associations, 4 comments were received from other types of entities, and 7 comments were received from individuals. Of the comments received on the proposed rule, 6 comments were in favor of the proposed rule, 54 comments were opposed to the proposed rule, and 2 comments neither supported nor opposed the proposed rule but commented on other aspects of the proposal. A number of commenters specifically addressed one or more of the four specific questions the Board asked in the proposed rule separately from their general comments on the proposed rule.

*b. Comments in Favor of the Proposed Rule*

One financial group expressed support for the proposed rule, stating that the commenter looked forward to a fair and competitive market that is no longer manipulated through regulation by lobbyists for money market funds and large banks. Another commenter, an individual, opined that the proposal ''repeals an arbitrary and basically non-functioning rule'' and would ''allow more transparency and competition in this arena'' that ''will force banks to innovate and to lower costs.'' This commenter asserted that the repeal would ''lead to more simplicity in deposit offerings and to less rationale for current workarounds'' such as NOW accounts.

A trade association commented that the repeal could result in a more stable source of capital for banks and provide financial professionals with another competitive investment alternative. This commenter also opined that taxes on interest paid would increase revenues for the U.S. Treasury, and asserted that ''there inherently will be new economic dynamics that must be considered when negotiating fees and rates.'' This commenter further asserted that this would ''force financial professionals and corporate treasurers to consider how to effectively rebalance their deposit portfolios in light of the new products and rates structures,'' and that they would have ''another option in terms of liquidity.'' This commenter expected demand for interest-bearing demand deposits to increase after the repeal.

One bank commented in support of the proposal because ''price controls should not be the subject of government regulation.'' This commenter suggested that the repeal would enable the bank to compete for corporate demand deposits without having to sweep them into other off-balance-sheet investments. Another bank commented favorably on the repeal, arguing that Regulation Q ''has been pretty much hollowed out and therefore rendered irrelevant through the years.''

*c. Comments Opposed to the Proposed Rule*

Most of the comments received opposed the repeal of Regulation Q. Several commenters indicated that they believe that the repeal would have ''devastating'' effects on smaller and community banks. Commenters also indicated that they expect many detrimental effects for institutions from the repeal, including increased cost of funding, the addition of increased interest rate risk to institution balance sheets, increased expenses, decreased net interest margins, decreased earnings, decreased profits, and the ''potential to place many banks in a liability sensitive position.'' Commenters also expected detrimental effects for institutions' customers, including decreased credit availability, increased costs of credit, and increased fees and costs of services. A number of commenters argued that the repeal comes at a time when the banking industry in general, and the community banking industry in particular, is already stressed and facing challenges to continued viability and profitability, as well as increased regulatory burden, particularly with new interchange fee regulations. Some commenters contended that there is currently little demand for loans, and that without loan demand the increased cost of funds represented by paying interest on demand deposits would result in decreased income. One commenter argued that the payment of interest on balances maintained in accounts at Federal Reserve Banks is not sufficient to offset the cost of paying interest on demand deposits.

A number of commenters asserted that the interest-free demand deposit base is the primary franchise builder for community banks and the largest source of fixed-rate funding. One commenter argued that such deposits ''are the lifeblood of community banks'' who lend this money back into the local market at competitive rates to promote local lending for housing, consumer lending and small business lending. Commenters argued that smaller institutions, as they lose their demand deposit base, would have to access other short-term funding sources, which would increase costs in those markets. Commenters also argued that the repeal would increase the concentration of financial assets in the banking sector as funds move out of investments such as money market mutual funds into interest-bearing demand deposits, making nonbank money markets less liquid, less robust, less efficient, and more expensive. One commenter further argued that the outflow of funds from money market mutual funds into interest-bearing demand deposits would damage the commercial paper market, since money market mutual funds are major purchasers of commercial paper. Another commenter argued that the repeal would harm the market for municipal bonds, because community banks would be no longer able to buy fixed-rate bank-qualified municipal bonds.

Several commenters stated that they expect larger and ''too big to fail'' banks, which they believe already have a competitive advantage, to draw commercial demand depositors away from smaller and community banks with expensive marketing programs and offers of higher interest rates with which smaller institutions cannot compete. Some commenters asserted that these customers, once drawn away to larger banks, will suffer decreases in service levels compared to what they received from smaller banks because the business model of smaller banks focuses on relationships and service levels. One commenter asserted that the repeal of Regulation Q would not enable smaller and community banks to compete with larger institutions because, according to the commenter, community banks mostly compete with one another and not with larger institutions. Other commenters asserted that troubled banks would be likely to try to ''buy'' demand deposits by offering unsustainably high interest rates, placing the banking system at risk for more bank failures and increasing costs to the FDIC's bank insurance fund. One commenter argued that large banks that are funded with off-balance-sheet sources in order to avoid FDIC insurance premiums would see the repeal as a way to ''buy'' domestic deposits, ''robbing'' local communities of needed capital.

Some commenters asserted that the movement of funds from non-interest-

[1] More than one person from the same institution submitted comments in some cases.

bearing demand deposits into interest-bearing demand deposits would take such deposits outside of the unlimited FDIC insurance coverage currently available for non-interest-bearing transaction accounts. One commenter argued that the unlimited insurance for such accounts created moral hazard by reducing depositor incentives to monitor institutions and by encouraging institutions to engage in riskier behavior secure in the knowledge that their demand depositors will not move. This commenter argued that the repeal of Regulation Q will increase these risks because depositors could move freely from interest-bearing to non-interest-bearing demand deposits in times of stress, thereby creating effective unlimited insurance on all demand deposits.

Several commenters argued that the effects of the repeal may be less visible in a low interest rate environment but would be more pronounced as interest rates begin to rise. Some commenters argued that the repeal would threaten the viability of many institutions in a rising rate environment. Another commenter argued that the effect would be magnified by the combination of rising interest rates and the expiration of the FDIC's program of unlimited insurance for non-interest-bearing transaction accounts in 2012.

Some comments opposed to the repeal asserted that the provision that became Section 627 of the Dodd-Frank Act was inserted into the bill late in the process, and was not debated or heard in the House or Senate Committees. A few commenters questioned the stated rationale for interest on demand deposits as benefitting small businesses. These commenters asserted that a typical small business maintains on average about $10,000 in a demand deposit, which even at a two percent interest rate would still earn the small business only $200 in one year. One of these commenters asserted that banks would have to increase fees to make up for the increased cost associated with paying interest on demand deposits, eroding the $200-per-year figure to approximately $100 per year. This commenter argued that $100 or $200 per year was not sufficient to permit such businesses to grow or create jobs.

Several commenters argued that the Board should not repeal Regulation Q, or should delay the effective date of the repeal until studies of the impact of the repeal, including safety and soundness effects, could be conducted and considered. Some commenters suggested that the Board advocate before the Congress for a repeal of Section 627 of the Dodd-Frank Act (the provision that repeals the statutory prohibition against payment of interest on demand deposits), and some contended that the Board simply should retain or reinstate Regulation Q. One commenter, noting that the Board would no longer have statutory authority to retain Regulation Q after July 21, 2011, asserted that the Board nevertheless has the authority to issue a policy statement prohibiting the payment of interest on demand deposits until the banking agencies studied the safety and soundness implications of the repeal and determined that it was safe and sound to permit payment of such interest. Another commenter argued that the repeal of Regulation Q would create systemic risk and that the Board should use its systemic risk authority under the Dodd-Frank Act to prevent the repeal from taking effect. Another commenter suggested a two-stage process, repealing the regulation in the first phase, and then starting a second phase of twelve to eighteen months within which the existing interpretations of Regulation Q would remain in effect to give the FDIC the opportunity to consider whether to adopt some or all of them.

A few commenters argued that, instead of repealing Regulation Q, the Board should amend Regulation D to provide for a non-reservable interest-bearing ''money market deposit account'' that would allow up to twenty-four preauthorized or automatic transfers per month. Commenters also asserted that funds moving into interest-bearing demand deposits from non-reservable deposits such as time deposits, or from other non-deposit sources would be subject to a reserve requirement of up to ten percent, which they stated would reduce the availability of such funds for lending or other investment.

*d. Comments Addressing Four Specific Questions Raised in the Proposed Rule*

1. Does the repeal of Regulation Q have significant implications for the balance sheets and income of depository institutions? What are the anticipated effects on bank profits, on the allocation of deposit liabilities among product offerings, and on the rates offered and fees assessed on demand deposits, sweep accounts, and compensating balance arrangements?

A financial group commented that the ''playing field will be leveled between big banks and community banks'' and that the proposed rule would ''provide an opportunity to pursue large balance commercial clients that in the past would not consider a smaller institution.'' This group commented that the cost of funds ''will be considerably less than consumer core deposits,'' and that ''in spite of the cannibalization of some current deposits'' the net effect would be beneficial. This commenter also asserted that ''we will no longer have to pay vendors for sweeps'' and that customers would be able to choose between receiving earnings credits and direct payments of interest. This commenter further asserted that there would be no impact on that institution's fees but that the repeal would enable smaller institutions to compete with larger institutions for ''large balance clients'' because previously ''large balance clients'' always had sufficient earnings credits to offset fees and the large institutions holding those balances were able to use in-house sweeps programs. Smaller institutions, according to this commenter, were not able to price competitively for such programs because of the vendor costs for sweeps programs, ''the 'Too Big To Fail' concept'' and the fact that earnings credits are not valuable beyond what can be used to pay for fees.

A trade association commented that the anticipated effects of the repeal on bank profits, allocation of deposit liabilities, and rates offered is closely tied to the bank's local market and interest rate environment. Specifically, this association commented that in small markets with little competition for deposits, banks may elect neither to pay interest nor to offer earnings credits following the repeal. This commenter asserted that many banks in markets with high competition for deposits believed that the cost difference between paying direct interest or offering an interest substitute would not be significant in a low interest rate environment. This commenter asserted that, in a high interest rate environment, banks will be under increased pressure to offer interest which would result in higher costs of funds and decreased net interest margins. This commenter also asserted that ''the banking industry's best defense against interest rates spiraling to exceptionally high and unsustainable levels are more account options, including interest, earnings credits, premiums, bonuses, and hybrid accounts.'' This commenter further asserted that the effect of the repeal on correspondent banks should be negligible.

2. Does the repeal of Regulation Q have any implications for short-term funding markets such as the overnight federal funds market and Eurodollar markets, or for institutions such as institution-only money market mutual funds that are active investors in short-term funding markets?

A financial group commented that ''[a]ny changes would be limited'' and would have no long-term effects on such markets. This group commented that off-balance-sheet sweeps would be moved back on balance sheet and that ''deposits for the first time will actually have market competition which will be good for the company, good for the bank, consumers, and overall good for the market.'' This commenter also asserted that ''[t]he only complainers will be those that monopolize the business today due to regulation, but they will adjust [by] either paying more or [downsizing].''

A bank commented that the demand for short-term funding markets will likely increase, which will increase cost of accessing those markets which will increase bank borrowing costs and have a negative impact on profitability.

3. Is the repeal of Regulation Q likely to result in strong demand for interest-bearing demand deposits?

A financial group commented that the repeal of Regulation Q is likely to result in strong demand for interest-bearing demand deposits and that ''this is very good for the bank and the business clients'' and that they expect to see ''significant growth in this product category in number of accounts and balances.''

4. Does the repeal of Regulation Q have any implications for competitive burden on smaller depository institutions?

Many of the comments described above discussed the implications of the repeal of Regulation Q for competitive burden on smaller depository institutions. A financial group commented that the repeal of Regulation Q would not have any implications ''to any significant degree'' for competitive burden on smaller depository institutions and that the repeal ''provides the best opportunity we have seen in decades to pursue business clients.'' This commenter asserted that only the smaller institutions that would be negatively affected by the repeal ''are those very small institutions in non-competitive markets which have benefitted having no large banks compete for funds.'' A bank contended that the repeal of Regulation Q will add to the profitability challenges of smaller institutions that have a better track record of serving the communities in which they operate than larger institutions do.

A trade association commented that the repeal would increase competition for typically high-balance business accounts and that costs of funds would increase as such accounts become more difficult to attract and more expensive to retain. This commenter asserted that troubled financial institutions needing liquidity or deposits will aggressively market exceptionally high interest rates which may place community banks at a disadvantage. This commenter also asserted that the repeal would improve parity between FDIC-insured institutions and credit unions in a high interest rate environment because credit unions ''pay interest on business checking and are moving aggressively into the small business-banking niche.'' The commenter further asserted that the repeal ''may assist banks of all sizes and charter types to attract funds previously placed outside of the traditional banking system'' and that this ''reintermediation of corporate money will be more noticeable when interest rates increase.''

*e. Responses to the Public Comments*

Many of the comments opposed to the repeal of Regulation Q suggested implicitly or explicitly that the Board should not repeal Regulation Q or should delay the repeal of Regulation Q. As stated in the Board's Notice of Proposed Rulemaking, however, the Board will no longer have the authority to retain Regulation Q after July 21, 2011. Accordingly, the Board does not have the discretion to retain the regulation, nor does the Board have the authority to postpone the effective date of the repeal beyond July 21, 2011. While the Board may use its safety and soundness authority to regulate interest paid by the smaller group of state-chartered member banks (but not all member banks, as under Regulation Q), the implementation of Section 627 of the Dodd-Frank Act does not appear to present issues of systemic risk or safety and soundness. In particular, the ability to pay interest on demand deposits should enhance clarity in the market for transaction accounts and potentially eliminate many of the complicated procedures implemented by depository institutions to pay implicit interest on demand deposits. Interest-bearing demand deposits could attract funds from other areas of the financial system and increase the funding possibilities of the banking sector. Additionally, the repeal of Regulation Q will become effective during a period of exceptionally low interest rates. In such an environment, all short-term money market rates are near zero, suggesting that even for those institutions that chose to pay interest on demand deposits, the rate paid will likely also be close to zero. Near-zero money market rates will likely continue for an extended period, so depository institutions and their customers should be able to adjust in a gradual and orderly manner to the new environment.

Similarly, it would be contrary to the purpose of Regulation D to define ''savings deposit'' to include an account from which up to 24 convenient transfers or withdrawals per month are permitted, as some commenters requested. The Board is required by Section 19(b) of the Act to impose reserve requirements on transaction accounts. Section 19(b)(1)(C) of the Act defines ''transaction account'' as a deposit or account on which the depositor is permitted ''to make withdrawals by negotiable or transferrable instrument, payment orders of withdrawal, telephone transfers, or other similar items for the purpose of making payments or transfers to third persons or others.''[2] Section 19 was intended to distinguish transaction accounts, which are reservable, from savings deposits, which are not reservable. Allowing 24 convenient transfers per month would allow such transfers every business day of the month, and allow a savings deposit to function in a manner indistinguishable from a transaction account.

## IV. Final Regulatory Flexibility Analysis

In accordance with Section 3(a) of the Regulatory Flexibility Act, 5 U.S.C. 601 *et seq.* (RFA), the Board is conducting this final regulatory flexibility analysis incorporating comments received during the public comment period. An initial regulatory flexibility analysis was included in the Board's notice of proposed rulemaking in accordance with Section 3(a) of the RFA. In its notice of proposed rulemaking, the Board requested comments on all aspects of the proposal, and specifically requested comment on whether the repeal of Regulation Q pursuant to Section 627 of the Dodd-Frank Act would have any implications for competitive burden on smaller depository institutions.

*1. Statement of the need for and the objectives of the final rule.* The Board is repealing Regulation Q, which implements the statutory prohibition set forth in Section 19(i) of the Act,

[2] 12 U.S.C. 461(b)(1)(C).

effective July 21, 2011. The repeal implements Section 627 of the Dodd-Frank Act, which repeals Section 19(i) of the Act effective July 21, 2011. Accordingly, the repeal of Regulation Q effective July 21, 2011, is mandatory.

*2. Summary of significant issues raised by public comments in response to the Board's IRFA, the Board's assessment of such issues, and a statement of any changes made as a result of such comments.* As noted in the **SUPPLEMENTARY INFORMATION**, a majority of commenters asserted that the final rule would have numerous deleterious effects on small member banks. As also noted in the **SUPPLEMENTARY INFORMATION,** however, the legal authority pursuant to which the Board promulgated Regulation Q will cease to exist on July 21, 2011. Accordingly, the Board does not have the discretion to retain the regulation beyond July 21, 2011, nor does the Board have the authority to postpone the effective date of the repeal beyond that date. As further noted in the **SUPPLEMENTARY INFORMATION**, the Board does not believe that the final rule presents issues of systemic risk or safety and soundness sufficient to warrant action by the Board on those bases. Accordingly, the Board made no changes in the final rule as a result of the analysis of the public comments.

*3. Description of and estimate of small entities affected by the final rule.* The final rule will affect all national banks and all state-chartered member banks. Those institutions may choose after July 21, 2011 to pay interest on demand deposits that they hold for their customers. A financial institution is generally considered ''small'' if it has assets of $175 million or less.[3] There are currently approximately 2,956 member banks (national banks and state-chartered member banks) that have assets of $175 million or less. These institutions are not required to offer demand deposits to their customers or to pay interest on those deposits. The Board expects the final rule to have a positive impact on all such entities because it eliminates an obsolete regulatory provision and because it provides member banks with the option of offering interest-bearing demand deposits following the repeal of Regulation Q.

*4. Projected reporting, recordkeeping, and other compliance requirements.* The Board believes that the final rule will not have any impact on reporting, recordkeeping, and other compliance requirements for member banks.

*5. Steps taken to minimize the economic impact on small entities; significant alternatives.* No significant alternatives to the final rule were suggested that could be accomplished without Congressional action. Although some commenters suggested that the Board issue a policy statement delaying the implementation of the statutory repeal, the Board does not believe that it has the authority to extend the statutory effective date through a policy statement that would contravert the clear Congressional intent to repeal the prohibition against the payment of interest on demand deposits effective July 21, 2011.

[3] U.S. Small Business Administration, Table of Small Business Size Standards Matched to North American Industry Classification System Codes, available at *http://www.sba.gov/sites/default/files/Size_Standards_Table.pdf.*

## V. Paperwork Reduction Act Analysis

In accordance with the Paperwork Reduction Act (PRA) of 1995 (44 U.S.C. 3506; 5 CFR 1320 Appendix A.1), the Board reviewed the final rule under the authority delegated to the Board by the Office of Management and Budget (OMB). No collections of information pursuant to the PRA are contained in the final rule; however, there will be clarifications to the instructions of several regulatory reporting requirements. The Board estimates that the clarifications would have a negligible effect on the burden estimates for the existing regulatory reporting information collections.

## VI. Administrative Procedure Act

The Administrative Procedure Act (''APA'') generally requires federal agencies to publish a final rule at least 30 days before the effective date thereof. 5 U.S.C. 553. The APA also provides exceptions under which an agency may publish a final rule with an effective date that is less than 30 days from the date of publication of the final rule. Specifically, the APA provides a substantive rule may be published on a date that is less than 30 days before its effective date where the rule ''grants or recognizes an exemption or relieves a restriction,'' or where the agency finds good cause that is published in the final rule. 5 U.S.C. 553(d)(2)–(3).

The repeal of Regulation Q implements the repeal of Section 19(i) of the Federal Reserve Act, effective July 21, 2011, pursuant to Section 627 of the Dodd-Frank Act. The repeal relieves a restriction by repealing the prohibition against payment of interest on demand deposits by member banks. As such, the final rule is exempt under Section 553(d)(2) of the APA from the requirement of publication not less than 30 days before the effective date. The Board also finds good cause under Section 553(d)(3) of the APA for publication of the final rule on a date that is less than 30 days before the effective date. Publication of the final rule in this time frame will not impose a burden on anyone, since all persons subject to Regulation Q have been on notice since passage of the Dodd-Frank Act nearly a year ago that Regulation Q would be repealed effective July 21, 2011. In addition, the Board's request for comment published in the **Federal Register** on April 14 provided additional notice, over three months prior to the effective date, that the rule would be repealed. The Board does not have the legal authority to extend the effective date beyond July 21, 2011, because the law pursuant to which the Board promulgated the rule will cease to exist on that date. Accordingly, the Board finds good cause for not delaying the effective date of the final rule.

## List of Subjects

*12 CFR Part 204*

Banks, Banking, Reporting and recordkeeping requirements.

*12 CFR Part 217*

Banks, Banking, Reporting and recordkeeping requirements.

*12 CFR Part 230*

Advertising, Banks, Banking, Consumer protection, Reporting and recordkeeping requirements, Truth in savings.

For the reasons set forth in the preamble, under the authority of section 627 of Public Law 111–203, 124 Stat. 1376 (July 21, 2010), the Board is amending 12 CFR parts 204, 217, and 230 to read as follows:

## PART 204—RESERVE REQUIREMENTS OF DEPOSITORY INSTITUTIONS

■ 1. The authority citation for part 204 is amended to read as follows:

**Authority:** 12 U.S.C. 248(a), 248(c), 461, 601, 611, and 3105.

■ 2. In § 204.10, paragraph (c) is revised to read as follows:

### § 204.10 Payment of interest on balances.

* * * * *

(c) *Pass-through balances.* A pass-through correspondent that is an eligible institution may pass back to its respondent interest paid on balances held on behalf of that respondent. In the case of balances held by a pass-through correspondent that is not an eligible institution, a Reserve Bank shall pay interest only on the required reserve balances held on behalf of one or more respondents, and the correspondent shall pass back to its respondents interest paid on balances in the correspondent's account.

* * * * *

## PART 217—PROHIBITION AGAINST PAYMENT OF INTEREST ON DEMAND DEPOSITS (REGULATION Q)—[REMOVED AND RESERVED]

■ 3. Part 217 is removed and reserved.

## PART 230—TRUTH IN SAVINGS (REGULATION DD)

■ 4. The authority citation for part 230 continues to read as follows:

**Authority:** 12 U.S.C. 4301 *et seq.*

### Supplement I to Part 230—Official Staff Interpretations

■ 5. In Supplement I to Part 230:

■ A. Under *Section 230.2—Definitions,* paragraph *(n) Interest,* is revised.

■ B. Under *Section 230.7—Payment of interest,* subsection *(a)(1) Permissible methods,* the introductory text of paragraph (5) is revised.

The revisions read as follows:

### Supplement I to Part 230—Official Staff Interpretations

* * * * *

**Section 230.2 Definitions.**

* * * * *

*(n) Interest*

1. *Relation to bonuses.* Bonuses are not interest for purposes of this regulation.

* * * * *

**Section 230.7 Payment of interest.**

*(a)(1) Permissible methods*

* * * * *

5. *Maturity of time accounts.* Institutions are not required to pay interest after time accounts mature. Examples include:

* * * * *

By order of the Board of Governors of the Federal Reserve System, July 12, 2011.

**Jennifer J. Johnson,**

*Secretary of the Board.*

[FR Doc. 2011–17886 Filed 7–15–11; 8:45 am]

BILLING CODE 6210–01–P

## DEPARTMENT OF TRANSPORTATION

### Federal Aviation Administration

### 14 CFR Part 33

**[Docket No. FAA–2010–0398; Amendment No. 33–31]**

**RIN 2120–AJ62**

## Airworthiness Standards; Rotor Overspeed Requirements

**AGENCY:** Federal Aviation Administration (FAA), DOT.

**ACTION:** Final rule.

**SUMMARY:** This rule will amend the aircraft turbine engine rotor overspeed type certification standards. This action establishes uniform rotor overspeed design and test requirements for aircraft engines and turbochargers certificated by the FAA and the European Aviation Safety Agency (EASA). The rule also establishes uniform standards for the design and testing of engine rotor parts in the United States and in Europe, eliminating the need to comply with two differing sets of requirements.

**DATES:** This amendment becomes effective September 16, 2011.

**FOR FURTHER INFORMATION CONTACT:** For technical questions concerning this final rule, contact Tim Mouzakis, Engine and Propeller Directorate Standards Staff, ANE–111, Engine and Propeller Directorate, Federal Aviation Administration, 12 New England Executive Park, Burlington, Massachusetts 01803–5299; telephone (781) 238–7114; fax (781) 238–7199; e-mail *timoleon.mouzakis@faa.gov.* For legal questions concerning this final rule contact Vincent Bennett, ANE–7, Office of Regional Counsel, Federal Aviation Administration, 12 New England Executive Park, Burlington, Massachusetts 01803–5299; telephone (781) 238–7044; fax (781) 238–7055; e-mail *vincent.bennett@faa.gov.*

**SUPPLEMENTARY INFORMATION:**

### Authority for This Rulemaking

The FAA's authority to issue rules regarding aviation safety is found in Title 49 of the United States Code. Subtitle I, Section 106 describes the authority of the FAA Administrator. Subtitle VII, Aviation Programs, describes in more detail the scope of the agency's authority.

We are issuing this rulemaking under the authority described in Subtitle VII, Part A, Subpart III, Section 44701, ''General requirements.'' Under that section, the FAA is charged with promoting safe flight of civil aircraft in air commerce by prescribing regulations for practices, methods, and procedures the Administrator finds necessary for safety in air commerce, including minimum safety standards for aircraft engines. This final rule is within the scope of that authority because it updates existing regulations for rotor overspeed for aircraft turbine engines.

### Background

Part 33 of Title 14, Code of Federal Regulations, prescribes airworthiness standards for original and amended type certificates for aircraft engines. The European Aviation Safety Agency (EASA) Certification Specification—Engines (CS–E) prescribes corresponding airworthiness standards to certify aircraft engines in Europe. While part 33 and the CS–E are similar, they differ in several respects. These differences may result in added costs, delays, and time required for certification. This rule will harmonize applicable U.S. and EASA standards and clarify existing overspeed requirements for aircraft turbine engine rotor parts.

### Summary of the NPRM

The FAA published a notice of proposed rulemaking (NPRM) on April 26, 2010 (75 FR 21523). The proposed changes establish a uniform certification basis for aircraft turbine engine rotor parts between the FAA and EASA. The proposal discussed requiring that rotor parts be designed with a safety margin large enough that the parts have an overspeed capability that exceeds the engine's certified operating conditions, including overspeed conditions which can occur in the event of a failure of another engine component and/or system malfunction. For failures that may result in an overspeed, the proposal limited rotor growth to that which would not lead to a hazardous condition as defined in § 33.75. The comment period for the NPRM closed on July 26, 2010.

### Summary of the Final Rule

There are minor differences between the proposal and this final rule. Sections 33.27(c) and (g) were changed in response to comments and our review of the proposal. This rule harmonizes rotor overspeed requirements found in part 33 with EASA CS–E 840, Rotor Integrity.

### Summary of Comments

The FAA received comments from Rolls-Royce, General Electric Aviation, Turbomeca, Pratt and Whitney, and General Aviation Manufacturers Association (GAMA). The commenters