FEDERAL RESERVE SYSTEM

12 CFR Part 210

[Regulation J; Docket No. R-1473]

RIN 7100-AE06

Collection of Checks and Other Items by Federal Reserve Banks and Funds Transfers through Fedwire

Time of Settlement by a Paying Bank for an Item Received from a Reserve Bank

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Final rule.

SUMMARY: The Board of Governors (Board) is adopting amendments to subpart A of its Regulation J, *Collection of Checks and Other Items by Federal Reserve Banks and Funds Transfers through Fedwire*, to permit the Federal Reserve Banks (Reserve Banks) to require paying banks that receive presentment of checks from the Reserve Banks to make the proceeds of settlement for those checks available to the Reserve Banks as soon as one half-hour after receipt of the checks. The amendments will also permit the Reserve Banks to obtain settlement from paying banks by as early as 8:30 a.m. eastern time for checks that the Reserve Banks present. These amendments to Regulation J are consistent with the revised method for

posting debits and credits to banks' Federal Reserve accounts to measure daylight overdrafts under amendments to the *Federal Reserve Policy on Payment System Risk* (PSR policy) that the Board is concurrently adopting. The Board is also adopting a technical amendment to the definition of "Administrative Reserve Bank."

DATES: *Effective Date:* The technical amendment to the definition of "Administrative Reserve Bank" will take effect on **[Insert Date of Publication in Federal Register]**. All other amendments will take effect on July 23, 2015. All items scheduled to settle on this date and after will post according to the new posting rule procedures for these transactions, regardless of date of deposit.

FOR FURTHER INFORMATION CONTACT: Susan V. Foley, Senior Associate Director (202/452-3596), Samantha J. Pelosi, Manager (202/530-6292), Scott J. Anchin, Senior Financial Services Analyst (202/452-3638), Division of Reserve Bank Operations and Payment Systems; or Evan Winerman, Senior Attorney (202/872-7578), Legal Division; for users of Telecommunication Devices for the Deaf (TDD) only, contact 202/263-4869.

SUPPLEMENTARY INFORMATION:

I. Background

Subpart A of Regulation J, Collection of Checks and Other Items by Federal Reserve Banks, governs the collection of checks and the handling of returned checks by the Reserve Banks. The purpose of the subpart is to provide rules for collecting and returning items and settling balances. Among other things, the subpart specifies the time and manner in which paying banks must settle for items presented to them by the Reserve Banks.

In accordance with Subpart A, the Reserve Banks have issued Operating Circular 3 (OC 3), *Collection of Cash Items and Returned Checks*, which provides specific terms and conditions under which the Reserve Banks will handle checks.[1] The Board's Regulation CC, *Availability of Funds and Collection of Checks*, and provisions of the Uniform Commercial Code (UCC), as adopted in a state, also govern the collection, presentment, and return of checks, to the extent those provisions are not inconsistent with Regulation J.[2]

---

[1] Operating Circular 3 is available at www.frbservices.org/regulations/operating_circulars.html.

[2] 12 CFR part 229; UCC Article 4.

On December 10, 2013, the Board requested comment on proposed changes to the PSR policy.[3] The changes related to the Board's procedures for posting debit and credit entries to depository institutions' Federal Reserve accounts for automated clearinghouse (ACH) debit transactions and commercial check transactions. At the same time, the Board requested comment on proposed changes to Regulation J that would conform to the proposed changes to the PSR policy.[4]

Currently, § 210.9(b)(2)(i) of Regulation J provides that the proceeds of a paying bank's settlement must be made available to its Administrative Reserve Bank by the latest of (A) the next clock hour that is at least one hour after the paying bank receives the check; (B) 9:30 a.m. eastern time; or (C) such later time as provided in the Reserve Banks' operating circulars.[5] Under this section, 9:30 a.m. is the earliest time a paying bank is required to settle for an item, and there has to be at least one hour between the time the item was presented to the paying bank and the time the paying bank settles

---

[3] 78 FR 74130 (Dec. 10, 2013). The Federal Reserve's current policy on payment system risk is available at www.federalreserve.gov/paymentsystems/psr_policy.htm.

[4] 78 FR 74041 (Dec.10, 2013).

[5] All times are eastern time unless otherwise specified. Section 210.9(b)(3)(i) sets forth similar times of day if the paying bank closes voluntarily on a Reserve Bank banking day. Section 210.9(b)(4)(i) sets forth analogous times if the paying bank receives an item on a banking day on which the Reserve Bank is closed, i.e., a business day that is not a banking day for the Reserve Bank.

for the item. The same rules apply to the settlement of returned items under § 210.12(i).[6]

Section 12.2 of the Reserve Banks' Operating Circular 3 currently sets 11:00 a.m. as the earliest settlement time (later than 9:30 a.m. set forth in Regulation J). Under section 12.2, the proceeds of a paying bank's settlement must be available to its Administrative Reserve Bank by the later of 11:00 a.m. or the next clock hour that is at least one hour after the paying bank receives the item, but no later than 3:00 p.m. local time of the paying bank.

Consistent with the proposed PSR policy changes, the Board proposed that § 210.9(b)(2)(i) of Regulation J be revised to state that the paying bank shall settle for an item by the latest of (A) the next clock hour or clock half-hour that is at least one half-hour after the paying bank receives the item; (B) 8:30 a.m.; or (C) such later time as provided in the Reserve Banks' operating circulars. For example, if a Reserve Bank presents an item by 8:00 a.m., the paying bank would be required to settle for the item at 8:30 a.m., unless a later settlement time were provided for in the Reserve Banks' operating

[6] Section 210.12(i) of Regulation J provides that recipients of returned items must settle with Reserve Banks in the same manner and by the same time as items presented for payment.

circulars. The Board proposed similar changes in §§ 210.9(b)(3)(i) and (b)(4)(i).

The Board also proposed to define "clock half-hour," a new term in § 210.2(p)(2), to mean a time that is on the half-hour (for example, 1:30 or 2:30). Section 210.2(p), which the Board proposed to redesignate as § 210.2(p)(1), currently defines the term "clock hour" as a time that is on the hour (for example, 1:00 or 2:00).

II. Summary of Public Comments and Analysis

The Board received six comments submitted by depository institution trade organizations on the proposed amendments to Regulation J.[7] The Board considered these comments in developing its final rule as discussed below.

A. One half-hour window between presentment and settlement

The Board requested comment on whether one half-hour between receipt of items by a paying bank and the paying bank's settlement is sufficient for a paying bank to perform a limited verification of cash letters and determine whether to settle for or return the cash letter. The Board also

[7] The comment letters are available at *http://www.federalreserve.gov/apps/foia/proposedregs.aspx.*

requested comment on whether a shorter period between presentment and settlement would be appropriate (for example, fifteen minutes).

Two commenters, the American Bankers Association and the Independent Community Bankers of America, supported the Board's proposal to reduce the settlement window to one half-hour, agreeing that advances in check processing allow for a shorter period between check presentment and settlement. One commenter, the American Bankers Association, did not support shortening the period further to 15 minutes but did not provide a specific reason.

The Board believes that the almost all-electronic nature of check processing that currently exists makes one half-hour between presentment and settlement sufficient because of the reduced time required to verify cash letters in an electronic environment.

The Board also believes that sufficient tools are available to depository institutions to mitigate any adverse effect that movement to a one half-hour settlement window would have on an institution's Federal Reserve account balance. Past trends indicate that an institution should be able to predict within a reasonable margin of error the approximate dollar value of the checks it expects the Reserve Banks to present and should be able to hold balances sufficient to cover that amount. The Reserve Banks now pay

interest on most institutions' Federal Reserve account balances, reducing institutions' opportunity cost (that is, loss of interest) associated with holding higher account balances overnight.[8] In addition, the PSR policy allows eligible institutions to collateralize their daylight overdrafts to avoid paying a fee. For each two-week reserve maintenance period, depository institutions also receive a $150 fee waiver, reducing the burden on institutions that might incur small amounts of uncollateralized daylight overdrafts.[9]

For these reasons, the Board is adopting as proposed the amendments shortening the minimum time period between receipt of checks by a paying bank and the paying bank's settlement to one half-hour. The Board did not receive any comments on the proposal to define "clock half-hour" as a new term in § 210.2(p)(2) and is adopting the new term as proposed.

---

[8] 12 CFR § 204.10.

[9] The Board notes that Federal Home Loan Banks (FHLBs) are not eligible to earn interest on balances in Federal Reserve accounts, but can act as pass-through correspondents. Per § 204.10 of Regulation D, in cases of balances maintained by pass-through correspondents that are not interest-eligible institutions, Reserve Banks shall pay interest only on the balances maintained to satisfy a reserve balance requirement of one or more respondents, and the correspondents shall pass back to its respondents interest paid on balances in the correspondent's account (12 CFR § 204.10). The Board notes also that voluntary collateralization of daylight overdrafts and the $150 fee waiver are not available to Edge and agreement corporations, bankers' banks that have not waived their exemption from reserve requirements, limited-purpose trust companies, government-sponsored enterprises (including FHLBs), and international organizations. These types of institutions do not have regular access to the discount window and, therefore, are expected not to incur daylight overdrafts in their Federal Reserve accounts.

B. Earliest settlement time at 8:30 a.m.

The Board requested comment on whether to permit the Reserve Banks to obtain settlement from a paying bank for a check by as early as 8:30 a.m. The Board also requested comment on the feasibility of settlement earlier than 8:30 a.m., given the current almost all-electronic check processing environment, and whether an earlier settlement time would even better align presentment to settlement.[10]

Two commenters, the American Bankers Association and the Independent Community Bankers of America, supported the proposal to allow the Reserve Banks to obtain settlement from a paying bank for a check by as early as 8:30 a.m., noting that the rules that allow the Reserve Banks to pay interest on account balances held by institutions reduces the cost that institutions might incur to hold funds overnight to cover any checks presented early the next morning. One commenter, the American Bankers Association, did not support the proposal to move the settlement time earlier

[10] In September 1997, the Board revised § 210.9(b) to explicitly refer to 9:30 a.m. (rather than one hour after the opening of Fedwire) as the earliest time a paying bank could be required to settle for an item. This revision to § 210.9(b) was intended to ensure the earliest settlement time for checks remained unchanged when the scheduled opening of Fedwire moved from 8:30 a.m. to an earlier hour. 62 FR 48166, 48169 (Sept. 15, 1997). In December 1997, the scheduled opening of Fedwire was moved from 8:30 a.m.to 12:30 a.m., and in May 2004, it moved to 9:00 p.m. on the preceding calendar day. For example, for the Reserve Banks' banking day of Tuesday, Fedwire opens at 9:00 p.m. on Monday.

than 8:30 a.m. but did not provide a specific reason. Four commenters, the Credit Union National Association, the Georgia Credit Union League, the Missouri Credit Union Association, and the National Association of Federal Credit Unions, expressed concern that some smaller institutions might be negatively affected by the proposed change and might have to increase their Federal Reserve account balances to settle presented checks by holding higher balances overnight, arranging for additional funding before settlement time, or incurring daylight overdrafts.

The Board recognizes that some depository institutions will need to fund their accounts earlier in order to settle for checks by as early as 8:30 a.m. or incur daylight overdrafts. The Board believes, however, that sufficient tools are available to depository institutions to mitigate any adverse effect that a change to 8:30 a.m. may present. As discussed earlier, the Reserve Banks now pay interest on most institutions' Federal Reserve account balances, eligible institutions can collateralize their daylight overdrafts to avoid paying a fee, and depository institutions receive a $150 fee waiver for each two-week reserve maintenance period. The changes to the posting rules of the PSR policy and to Regulation J better align the policy and regulation with today's electronic check processing environment, in which over 90 percent of checks are available to be

presented by 8:00 a.m. and prompt settlement is possible for the majority of the value of check activity.[11] Accordingly, the Board is adopting the amendments to Regulation J § 210.9(b) as proposed. The Reserve Banks plan to amend OC 3 to conform to the changes in Regulation J.

C. Effective date

The Board proposed that the changes to the PSR policy and these conforming changes to Regulation J would become effective six months after publication in the **Federal Register**. The Board requested comment on whether six months provided paying banks with sufficient time to make any necessary operational changes.

Five commenters, the American Bankers Association, the Credit Union National Association, the Georgia Credit Union League, the Independent Community Bankers of America, the Missouri Credit Union Association, believed that a six-month lead time would allow enough time to make any necessary operational changes. One commenter, the National Association of Federal Credit Unions, requested that the Board allow a one-year implementation period, stating that the proposed six-month implementation period would not allow institutions enough time to adjust

[11] In addition, the proposed posting rules would give earlier availability for items deposited with the Reserve Banks and for credit adjustments and corrections.

their policies and procedures to reduce the chances of incurring daylight overdraft fees. The Board is adopting an effective date of July 23, 2015. All items scheduled to settle on this date and after will post according to the new posting rule procedures for these transactions, regardless of date of deposit.

III. Technical Amendment

The Board is also adopting a technical amendment to the definition of "Administrative Reserve Bank."[12] Section 210.2(c) states that an "Administrative Reserve Bank" is "the Reserve Bank in whose District the entity is located, as determined under the procedure described in § 204.3(b)(2) of this chapter (Regulation D) . . . ." The Board has relocated § 204.3(b)(2) of Regulation D to § 204.3(g).[13] Accordingly, the Board is amending the definition of "Administrative Reserve Bank" in § 210.2(c) to cross-reference § 204.3(g) rather than § 204.3(b)(2).

The Board did not provide public notice or request comment regarding this technical amendment. Pursuant to § 553(b)(3)(B) of the Administrative Procedure Act,[14] the Board finds that public notice and comment is unnecessary because the technical amendment does not effect a

---

[12] 12 CFR 210.2(c).

[13] *See* 74 FR 25629, 25633-34 (May 29, 2009).

[14] 5 U.S.C. 553(b)(3)(B).

substantive change; rather, the technical amendment conforms § 210.2(c) to reorganized Regulation D. For the same reasons, the Board finds that there is good cause for the technical amendment to be effective immediately, rather than thirty days after its publication date.[15]

IV. Competitive Impact Analysis

The Board conducts a competitive impact analysis when it considers a rule or policy change that may have a substantial effect on payment system participants. Specifically, the Board determines whether there would be a direct and material adverse effect on the ability of other service providers to compete with the Federal Reserve due to legal differences or due to the Federal Reserve's dominant market position deriving from such legal differences.[16] If such legal differences exist, the Board will assess whether the same objectives could be achieved by a modified proposal with lesser competitive impact or, if not, whether the benefits of the proposal outweigh the effect on competition.

The Board believes that the amendments to Regulation J do not have a direct and material adverse effect on the ability of other service providers to compete effectively with the Reserve Banks in providing similar services.

---

[15] 5 U.S.C. 553(d)(3).

[16] Federal Reserve Regulatory Service, 7-145.2.

Under Regulation J, the Reserve Banks have the legal ability to obtain same-day settlement for checks they present before the paying bank's cut-off hour (typically 2:00 p.m. local time) through "auto-charge," that is, a direct debit to the Federal Reserve account of the paying bank or its correspondent settlement agent.[17] Under amended Regulation J, the Reserve Banks could present a check at any time before the paying bank's cut-off hour and debit the account of the paying bank or its correspondent settlement agent on the next clock hour or half-hour that is at least one half-hour after presentment.

In contrast, the latest that a private-sector bank may present a paper check for same-day settlement is 8:00 a.m. local time. Section 229.36(f) of Regulation CC requires the paying bank to settle for the check by credit to a Reserve Bank account designated by the presenting bank by the close of Fedwire (currently 6:30 p.m.) or by another agreed-upon method and time.[18] Thus, the Reserve Banks may present checks later in the day for same-day settlement than private-sector banks. In addition, the Reserve Banks may obtain settlement earlier in the day than private-sector collecting banks and, in turn, may pass credits for deposited checks earlier in the day without incurring significant intraday float.

---

[17] 12 CFR 210.9(b)(1) and (b)(5).

[18] 12 CFR 229.36(f)(2).

In March 1998, the Board requested comment on whether these legal differences between the rights of the Reserve Banks and private-sector presenting banks provided the Reserve Banks with a competitive advantage and whether the Board should take action to reduce the differences.[19] Commenters generally concluded that the costs of further changes outweighed any advantage of the Reserve Banks. In particular, commenters noted the efficiency of the Reserve Bank's auto-charge process for paying banks, and stated that moving the private-sector presentment deadline to later in the day or eliminating the direct debit of Federal Reserve accounts for check presentments would result in higher costs to paying banks and their business customers in terms of account management, settlement funds transfer fees, and shortened processing windows, and that those costs would outweigh the benefits gained by presenting banks. Based on an analysis of the comments, the Board took no further action.

Currently, institutions may determine, as part of the agreement between a presenting bank and a paying bank, the time at which settlement for electronic checks is required to be funded. A presenting bank and a paying bank could agree, for example, to a minimum time between

[19] The request for comment and the subsequent notice of the Board's decision can be found, respectively, at 63 FR 12700 (March 16, 1998) and 63 FR 68701 (December 14, 1998).

presentment and settlement. For presenting banks and paying banks that opt to use a check clearinghouse rather than directly exchange checks, private-sector clearinghouses have the option to use the Reserve Banks' National Settlement Service (NSS) to effect settlement of checks or may settle by directing their members to initiate funds transfers over the Reserve Banks' Fedwire Funds Service.[20] Beginning in January 2015, the NSS file submission window will be 7:30 a.m. to 5:30 p.m. Fedwire Funds operating hours begin at 9:00 p.m. the previous calendar day and end at 6:30 p.m.

Under the final amendments to Regulation J and the recently adopted changes to the PSR policy posting rules, the bulk of the Reserve Banks' postings of credits to senders and debits to paying banks for commercial check transactions will shift to earlier in the day. The value of checks a bank sends to the Reserve Banks could be higher or lower than the value it receives from the Reserve Banks. As a result, the earlier posting of commercial check transactions may be viewed as more or less attractive, depending on whether the value of an institution's check credits is higher or

[20] NSS is a multilateral settlement service owned and operated by the Reserve Banks. The service is offered to depository institutions that settle for participants in clearinghouses, financial exchanges, and other clearing and settlement groups. Settlement agents, acting on behalf of depository institutions in a settlement arrangement, electronically submit settlement files to the Reserve Banks. Files are processed upon receipt, and entries are automatically posted to the depository institutions' Reserve Bank accounts. The NSS file submission window is currently 8:30 a.m. to 5:00 p.m.

lower than the value of its check debits. Further, private-sector institutions can achieve improvements in earlier settlement similar to those provided by the rule and the PSR policy changes through private agreements among participants, as well as the use of NSS.

More recently, the Board requested comment on the continued utility of the Regulation CC same-day settlement rule for paper checks and whether the rule should be applied to electronic check presentments by private-sector banks. The Board also noted that if, in the future, it proposes to eliminate the same-day settlement rule, it could also propose to retain the proscription against paying banks' assessment of presentment fees in order to maintain the current balance of bargaining power, as well as reduce the competitive disparities in presentment abilities between the Reserve Banks and private-sector banks.[21] The Board is in the process of analyzing these comments and will discuss these issues, as appropriate, at a later date in the context of the final amendments to Regulation CC. In the meantime, the Board does not believe that the changes to Regulation J reducing the minimum time between presentment and settlement to 30 from 60 minutes, and moving the earliest settlement time to 8:30 a.m. from 9:30 a.m., changes the Reserve Banks'

[21] 79 FR 6674 (Feb. 14, 2014).

competitive position versus private-sector presenting banks in a material way.

V. Final Regulatory Flexibility Analysis

The Board has reviewed the final regulation in accordance with section 3(a) of the Regulatory Flexibility Act (RFA) (5 U.S.C. 601 et seq.). The rule would apply to all depository institutions that receive presentment or return of checks from the Reserve Banks. Based on current information, the Board believes that the final rule would not have a significant economic impact on a substantial number of small entities (5 U.S.C. 605(b)). Nonetheless, a Final Regulatory Flexibility Analysis has been prepared in accordance with 5 U.S.C. 604, after consideration of comments received during the public comment period.

Statement of the Need for, and Objectives of the Final Rule

These final amendments to Regulation J are necessary to conform the required settlement times for checks presented by the Reserve Banks to the method for posting debits and credits to institutions' Federal Reserve accounts to measure daylight overdrafts under recent revisions to the PSR policy. The Board believes that the Regulation J revisions and the PSR policy posting rules better align the settlement for checks with actual deposit

and presentment times, reflecting the industry's almost complete shift from paper to electronic check processing.

Public Comments

The Board requested information and comment on any costs that would arise from the application of the proposed rule. Four institutions expressed concern that some smaller institutions might be negatively affected by the proposed change and might have to increase their Federal Reserve account balances to settle presented checks by holding higher balances overnight, arranging for additional funding before settlement time, or incurring daylight overdrafts. As discussed earlier, the Board believes that sufficient tools are available to depository institutions to mitigate any adverse effect. For example, the Reserve Banks now pay interest on most institutions' Federal Reserve account balances, eligible institutions can collateralize their daylight overdrafts to avoid paying a fee, and depository institutions receive a $150 fee waiver for each two-week reserve maintenance period.[22] As further discussed earlier, under the PSR policy posting rules, the bulk of the Reserve Banks' postings of debits to paying institutions for commercial check transactions will shift to earlier in the day,

[22] A small number of institutions could be ineligible to receive intraday credit and would incur overdrafts. To avoid violating the PSR policy and incurring fees, these institutions would need to increase funding either overnight or early in the morning. Some of these institutions could be eligible to receive interest on Federal Reserve account balances.

allowing the Reserve Banks to provide credits to depositing institutions earlier, thus mitigating adverse effects on depository institutions.

Small Entities Affected by the Rule

The final rule affects all institutions that receive checks or returned checks handled by the Reserve Banks. The Board believes that virtually all depository institutions receive checks or returned checks handled by the Reserve Banks on at least an occasional basis. Pursuant to regulations issued by the Small Business Administration (SBA) (13 CFR 121.201), a "small banking organization" includes a depository institution with $500 million or less in total assets. Based on data reported as of June 30, 2014, the Board believes that there are approximately 11,750 small depository institutions.

Projected Reporting, Recordkeeping, and Other Compliance Requirements

The final rule would permit the Reserve Banks to require a paying bank to settle for an item by as early as 8:30 a.m., instead of 9:30 a.m., and as soon as one half-hour, instead of one hour, after it receives the item from the Reserve Banks. Paying banks may choose to fund their accounts to accommodate the earlier settlement time by holding sufficient balances overnight or arranging for funding before the settlement time. Otherwise,

paying banks would incur daylight overdrafts in their Federal Reserve account. The rule contains no other reporting, recordkeeping, or compliance requirements.

Steps Taken To Minimize Impact of, and Significant Alternatives to, the Final Rule

As noted earlier, four commenters, the Credit Union National Association, the Georgia Credit Union League, the Missouri Credit Union Association, and the National Association of Federal Credit Unions, suggested that some smaller institutions might be negatively affected by the proposed change and might have to increase their Federal Reserve account balances to settle presented checks by holding higher balances overnight or arranging for additional funding before settlement time. Otherwise, paying banks would incur daylight overdrafts. As discussed earlier, the Board believes that sufficient tools are available to depository institutions to mitigate any adverse effect on an institution's Federal Reserve account balance (including interest on Federal Reserve account balances, collateralization of daylight overdrafts to avoid paying a fee, and a $150 fee waiver for each two-week reserve maintenance period). As further discussed earlier, under the PSR policy posting rules, the bulk of the Reserve Banks' postings of debits to paying institutions for commercial check

transactions will shift to earlier in the day, allowing the Reserve Banks to provide credits to depositing institutions earlier, thus mitigating adverse effects on depository institutions.

Alternatively, the Board could have adopted a rule that permits the Reserve Banks to require a paying bank to settle for an item at a time earlier than 8:30 a.m. or leave the earliest possible settlement time at 9:30 a.m. The Board believes the proposed time of 8:30 a.m. better achieves the Board's goal of aligning presentment to settlement, and better aligns with today's electronic check processing environment, than the existing 9:30 a.m. settlement time under Regulation J. In addition, the Board believe that the proposed settlement time of 8:30 a.m. will impose minimal costs on paying banks. The Board sought comment on (1) whether permitting the Reserve Banks to obtain settlement from a paying bank for a check by as early as 8:30 a.m. was appropriate and (2) the feasibility of settlement prior to 8:30 a.m. and whether an earlier posting time would even better align presentment to settlement. (See discussion earlier in section II.B.)

In addition, in lieu of proposing to permit the Reserve Banks to require a paying bank to settle as soon as one half-hour after it receives the item from the Reserve Banks, the Board could have proposed a shorter or longer period. The Board believes the final time period of one half-hour

promotes the Board's objective of minimizing the window between presentment and settlement to reflect technological and operational developments while continuing to provide paying banks with sufficient time to perform a limited verification of cash letters. The Board requested comment on whether one half-hour between presentment and settlement is appropriate or if a shorter window would be sufficient. (See discussion earlier in section II.A.)

VI. Paperwork Reduction Act Analysis

In accordance with the Paperwork Reduction Act (PRA) of 1995 (44 U.S.C. 3506; 5 CFR part 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.

List of Subjects in 12 CFR Part 210

Banks, banking, Federal Reserve System

Authority and Issuance

For the reasons set forth in the preamble, the Board will amend Regulation J, 12 CFR part 210, as follows:

PART 210 – COLLECTION OF CHECKS AND OTHER ITEMS BY FEDERAL RESERVE BANKS AND FUNDS TRANSFERS THROUGH FEDWIRE (REGULATION J)

1. The authority citation for part 210 is revised to read as follows:

Authority: 12 U.S.C. 248(i), (j), and 248-1, 342, 360, 464, 4001-4010, and 5001-5018.

2. In § 210.2, revise paragraph (p) to read as follows:

§ 210.2—Definitions.

* * * * *

(c) *Administrative Reserve Bank* with respect to an entity means the Reserve Bank in whose District the entity is located, as determined under the procedure described in § 204.3(g) of this chapter (Regulation D), even if the entity is not otherwise subject to that section.

* * * * *

(p) *Clock hour and clock half-hour*. (1) Clock hour means a time that is on the hour, such as 1:00, 2:00, etc.

(2) Clock half-hour means a time that is on the half-hour, such as 1:30, 2:30, etc.

3. In § 210.9, revise paragraphs (b)(2), (b)(3), and (b)(4) to read as follows:

§ 210.9—Settlement and Payment.

* * * * *

(b) * * *

(2) *Time of settlement*. (i) On the day a paying bank receives a cash item from a Reserve Bank, it shall settle for the item so that the proceeds of the settlement are available to its administrative Reserve Bank, or return the item, by the latest of—

(A) the next clock hour or clock half-hour that is at least one half-hour after the paying bank receives the item;

(B) 8:30 a.m. eastern time; or

(C) such later time as provided in the Reserve Banks' operating circulars.

(ii) If the paying bank fails to settle for or return a cash item in accordance with paragraph (b)(2)(i) of this section, it shall be subject to any applicable overdraft charges. Settlement under paragraph (b)(2)(i) of this section satisfies the settlement requirements of paragraph (b)(1) of this section.

(3) *Paying bank closes voluntarily*. (i) If a paying bank closes voluntarily so that it does not receive a cash item on a day that is a banking day for a

Reserve Bank, and the Reserve Bank makes a cash item available to the paying bank on that day, the paying bank shall either—

(A) on that day, settle for the item so that the proceeds of the settlement are available to its administrative Reserve Bank, or return the item, by the latest of the next clock hour or clock half-hour that is at least one half-hour after it ordinarily would have received the item, 8:30 a.m. eastern time, or such later time as provided in the Reserve Banks' operating circulars; or

(B) on the next day that is a banking day for both the paying bank and the Reserve Bank, settle for the item so that the proceeds of the settlement are available to its administrative Reserve Bank by 8:30 a.m. eastern time on that day or such later time as provided in the Reserve Banks' operating circulars; and compensate the Reserve Bank for the value of the float associated with the item in accordance with procedures provided in the Reserve Bank's operating circular.

(ii) If a paying bank closes voluntarily so that it does not receive a cash item on a day that is a banking day for a Reserve Bank, and the Reserve Bank makes a cash item available to the paying bank on that day, the paying bank is not considered to have received the item until its next banking day, but it shall be subject to any applicable overdraft charges if it fails to settle

for or return the item in accordance with paragraph (b)(3)(i) of this section. The settlement requirements of paragraphs (b)(1) and (b)(2) of this section do not apply to a paying bank that settles in accordance with paragraph (b)(3)(i) of this section.

(4) *Reserve Bank closed.* (i) If a paying bank receives a cash item from a Reserve Bank on a banking day that is not a banking day for the Reserve Bank, the paying bank shall—

(A) settle for the item so that the proceeds of the settlement are available to its administrative Reserve Bank by the close of Fedwire on the Reserve Bank's next banking day, or return the item by midnight of the day it receives the item (if the paying bank fails to settle for or return a cash item in accordance with this paragraph (b)(4)(i)(A), it shall become accountable for the amount of the item as of the close of its banking day on the day it receives the item); and

(B) settle for the item so that the proceeds of the settlement are available to its administrative Reserve Bank by 8:30 a.m. eastern time on the Reserve Bank's next banking day or such later time as provided in the Reserve Bank's operating circular, or return the item by midnight of the day it receives the item. If the paying bank fails to settle for or return a cash item in accordance with this paragraph (b)(4)(i)(B), it shall be subject to any

applicable overdraft charges. Settlement under this paragraph (b)(4)(i)(B) satisfies the settlement requirements of paragraph (b)(4)(i)(A) of this section.

* * * * *

By order of the Board of Governors of the Federal Reserve System, December 1, 2014.

Robert deV. Frierson (signed)

Robert deV. Frierson,
Secretary of the Board.