

(c) An assignment terminates 31 days after the insurance terminates, unless the insured individual is reemployed in or returns to a position in which he or she is entitled to coverage under this part within 31 days after the insurance terminates. If the individual returns to Federal service, Basic insurance and any Option A and/or Option B insurance acquired through returning to service is subject to the existing assignment.

25. Section 870.910 is revised to read as follows:

**§ 870.910 Notification of current addresses.**

Each assignee must keep the office where the assignment is filed informed of his/her current address.

**Subpart K—Living Benefits**

26. Section 870.1103 is revised to read as follows:

**§ 870.1103 Election procedures.**

(a) The insured individual must request information on Living Benefits and an application form directly from OFEGLI.

(b)(1) The insured individual must complete the first part of the application and have his or her physician complete the second part. The completed application must be submitted directly to OFEGLI.

(2) Another person may apply for a Living Benefit on the insured individual's behalf if all of the following conditions are met:

(i) The insured's physician must certify that the insured individual is physically or mentally incapable of making an election;

(ii) The applicant must have power of attorney or a court order authorizing him or her to elect a Living Benefit on the insured individual's behalf;

(iii) The applicant must place his or her own signature on the application and attach it to a true and correct copy of the power of attorney or court order authorizing the applicant to make the election on the insured individual's behalf; and

(iv) The applicant must either be the insured individual's sole beneficiary or attach a true and correct copy of each beneficiary's written and signed consent.

(c)(1) OFEGLI reviews the application, obtains certification from the insured's employing office regarding the amount of insurance and the absence of an assignment, and determines whether the individual meets the requirements to elect a Living Benefit.

(2) If OFEGLI needs additional information, it will contact the insured or the insured's physician.

(3) Under certain circumstances, OFEGLI may require a medical examination before making a decision. In these cases, OFEGLI is financially responsible for the cost of the medical examination.

(d)(1) If the application is approved, OFEGLI sends the insured a check or makes an electronic funds transfer to the insured's account for the Living Benefit payment and an explanation of benefits.

(i) Until the check has been cashed or deposited, or before the electronic funds transfer has been received, the individual may change his or her mind about electing a Living Benefit; if this happens, the individual must mark the check "void" and return it to OFEGLI.

(ii) Once the insured individual has cashed or deposited the payment, the Living Benefit election becomes effective and cannot be revoked; OFEGLI then sends explanations of benefits to the insured's employing office, so it can make the necessary changes in withholdings and deductions.

(2) If the application is not approved, OFEGLI will notify the insured individual and the employing office. The decision is not subject to administrative review; however, the individual may submit additional medical information or reapply at a later date if future circumstances warrant.

**Subpart L—[Removed]**

27. Subpart L, consisting of §§ 870.1201 through 807.1208, is removed and reserved.

[FR Doc. E9-31023 Filed 12-30-09; 8:45 am]

**BILLING CODE 6325-39-P**

**FEDERAL RESERVE SYSTEM**

**12 CFR Part 204**

[Regulation D; Docket No. R-1381]

**Reserve Requirements of Depository Institutions Policy on Payment System Risk**

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

**ACTION:** Notice of proposed rulemaking; request for public comment.

**SUMMARY:** The Board is requesting public comment on proposed amendments to Regulation D, Reserve Requirements of Depository Institutions, to authorize the establishment of term deposits. Term deposits are intended to facilitate the conduct of monetary policy by providing a tool for managing the aggregate quantity of reserve balances. Institutions eligible to receive earnings

on their balances in accounts at Federal Reserve Banks ("eligible institutions") could hold term deposits and receive earnings at a rate that would not exceed the general level of short-term interest rates. Term deposits would be separate and distinct from those maintained in an institution's master account at a Reserve Bank ("master account") as well as from those maintained in an excess balance account. Term deposits would not satisfy required reserve balances or contractual clearing balances and would not be available to clear payments or to cover daylight or overnight overdrafts. The proposal also would make minor amendments to the posting rules for intraday debits and credits to master accounts as set forth in the Board's Policy on Payment System Risk to address transactions associated with term deposits.

**DATES:** Comments must be submitted by February 1, 2010.

**ADDRESSES:** You may submit comments, identified by Docket No. R-1381, by any of the following methods:

- *Agency Web Site:* <http://www.federalreserve.gov>. Follow the instructions for submitting comments at <http://www.federalreserve.gov/generalinfo/foia/ProposedRegs.cfm>.

- *Federal eRulemaking Portal:* <http://www.regulations.gov>. Follow the instructions for submitting comments.

- *E-mail:* [regs.comments@federalreserve.gov](mailto:regs.comments@federalreserve.gov). Include the docket number in the subject line of the message.
- *Fax:* (202) 452-3819 or (202) 452-3102.

- *Mail:* Jennifer J. Johnson, Secretary, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue, NW., Washington, DC 20551.

All public comments are available from the Board's Web site at <http://www.federalreserve.gov/generalinfo/foia/ProposedRegs.cfm> as submitted, unless modified for technical reasons. Accordingly, your comments will not be edited to remove any identifying or contact information.

Public comments may also be viewed electronically or in paper in Room MP-500 of the Board's Martin Building (20th and C Streets, NW.) between 9 a.m. and 5 p.m. on weekdays.

**FOR FURTHER INFORMATION CONTACT:** Sophia H. Allison, Senior Counsel (202/452-3565), or Dena L. Milligan, Staff Attorney (202/452-3900), Legal Division, or Seth Carpenter, Associate Director (202/452-2385), or Margaret Gillis DeBoer, Section Chief (202/452-3139), 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. Interest on Balances of Eligible Institutions at Reserve Banks

Section 19(b)(12) of the Federal Reserve Act (the "Act") (12 U.S.C. 461(b)(2)) authorizes "eligible institutions"<sup>1</sup> to receive earnings on balances maintained at Reserve Banks, to be paid at least once each quarter at a rate or rates not to exceed the general level of short-term interest rates. The same section of the Act authorizes the Board to prescribe regulations concerning the payment of such earnings. Effective October 9, 2008, the Board amended Regulation D to direct the Reserve Banks to pay earnings on balances of eligible institutions held at Reserve Banks to satisfy reserve requirements ("required reserve balances")<sup>2</sup> and on balances held in excess of required reserve balances and clearing balance requirements<sup>3</sup> ("excess balances").<sup>4</sup> (73 FR 59482) (Oct. 9, 2008). Regulation D currently provides that the rate of interest on both required reserve balances and on excess balances is equal to ¼ percent. The Board may from time to time determine any other rate or rates for such balances subject to the limitation that such rates may not exceed the general level of short-term interest rates.

##### II. Term Deposit Proposal

*Introduction and Basic Structure.* The Federal Reserve has addressed the financial market turmoil of the past two years in part by greatly expanding its balance sheet and by supplying an unprecedented volume of reserves to the banking system. Term deposits could be

part of the Federal Reserve's tool kit to drain reserves, if necessary, and thus support the implementation of monetary policy.

Term deposits would be distinct from balances held by eligible institutions in their master accounts. Term deposits could not be withdrawn prior to maturity, would not satisfy required reserve balances or contractual clearing balances, and would not be available to clear payments or cover daylight or overnight overdrafts. Term deposits would, however, be eligible to collateralize discount window advances.

Term deposits could be structured in many different ways. For example, term deposits could be offered at one maturity or several maturities. Moreover, the interest rate or rates paid on term deposits could be set through an auction mechanism or, alternatively, could be set administratively or by a formula. A basic proposal in which term deposits are offered through an auction process is described below.

*Term Deposit Auctions.* The Federal Reserve could hold regular auctions of term deposits, offering a fixed quantity of term deposits with relatively short maturities. Auctions could be held shortly before the end of each two-week reserve maintenance period, with settlement occurring on the first day of the subsequent maintenance period. The Federal Reserve would announce each auction in advance and would specify both the quantity of term deposits offered and their maturity. Term deposits of more than one maturity could be outstanding simultaneously.<sup>5</sup> Terms and conditions for each auction could specify various parameters, such as minimum and maximum bid amounts and a maximum-allowable bid rate.

Eligible institutions that wished to hold term deposits would bid in a competitive auction, indicating both the interest rate at which they are willing to hold term deposits and the quantity they wish to hold at that rate. At the submission deadline, all bids received would be considered final and could not be modified or withdrawn. Starting with the lowest interest rate and working up, the Federal Reserve would accept as many bids as necessary to reach the announced quantity of term deposits,

but would not accept bids at an interest rate that exceeds the stated maximum rate. All winning bidders would receive the highest accepted rate; bids at lower rates would be accepted in full while bids at the highest accepted rate would be prorated as necessary. The auction would settle at least one day after winning bidders are notified of their awards.

To settle the auction, the Federal Reserve would transfer balances from the master account of each institution that submits a winning bid (or, if a winning bidder does not maintain such an account, from the master account of its correspondent) to a term deposit. Winning bidders would maintain their term deposits at the Reserve Bank in whose District the winning bidder is located.<sup>6</sup> When the term deposit matures, the Federal Reserve would transfer the term deposit principal plus accrued interest into the institution's master account (or the master account of its correspondent).

The maximum-allowable rate for each auction of term deposits would be no higher than the general level of short-term interest rates. For these purposes, "short-term interest rates" would be defined as the primary credit rate and rates on obligations with maturities of up to one year in which eligible institutions may invest, such as rates on term Federal funds, term repurchase agreements, commercial paper, term Eurodollar deposits, and other similar rates.

*Participation Eligibility.* Any "eligible institution" could hold term deposits.<sup>7</sup> Branches and agencies of foreign banks are included within the definition of "eligible institution" and could therefore hold term deposits. Unlike branches of domestic banks, branches and agencies of the same foreign bank that are located in different Reserve Bank Districts may have separate master accounts at the corresponding Reserve Banks. The proposal anticipates that each affiliated branch of a foreign bank would be eligible to bid separately at term deposit auctions and maintain separate term deposits at that branch's Reserve Bank unless the Board determines otherwise.

<sup>6</sup> For an account-holding eligible institution, term deposits would be placed at the Reserve Bank that maintains the institution's master account (as defined in Reserve Bank Operating Circular 1, "Account Relationships," [http://www.frb-services.org/files/regulations/pdf/operating\\_circular\\_1.pdf](http://www.frb-services.org/files/regulations/pdf/operating_circular_1.pdf)). For non-account-holding eligible institutions, term deposits would be placed at the Reserve Bank in whose District the institution is located for purposes of Section 3(g) of Regulation D, 12 CFR 204.3(g).

<sup>7</sup> See footnote 1, *supra*.

<sup>1</sup> "Eligible institution" includes the depository institutions defined in section 19(b)(1)(A) of the Act, including banks, savings associations, savings banks and credit unions that are Federally insured or eligible to apply for Federal insurance. 12 CFR 204.2(y). "Eligible institution" also includes trust companies, Edge and agreement corporations, and U.S. agencies and branches of foreign banks. *Id.* The definition does not include all entities for which the Reserve Banks hold accounts, such as entities for which the Reserve Banks act as fiscal agents, including Federal Home Loan Banks, Fannie Mae, and Freddie Mac.

<sup>2</sup> 12 CFR 204.2(bb) (definition of "required reserve balance").

<sup>3</sup> 12 CFR 204.2(v) (definition of "clearing balance").

<sup>4</sup> 12 CFR 204.2(z) (definition of "excess balance"). Excess balances may be maintained in the institution's own account at a Reserve Bank, in the account of the institution's correspondent, or in a limited-purpose "excess balance account." Cf. 12 CFR 204.2(aa) (definition of "excess balance account"); 12 CFR 204.10(d) (regarding excess balance accounts).

<sup>5</sup> Auctions of multiple tenors could be staggered. For example, an auction of 28-day term deposits could be held at the end of one maintenance period, and an auction of 84-day term deposits could be held at the end of the next maintenance period. Alternatively, auctions of multiple tenors could be conducted simultaneously, with, for example, auctions of 14-day and 28-day term deposits held every second week.

*Administration of Term Deposit Offerings.* The Board would designate a single Reserve Bank as the “Term Deposit Offering Administrator” on behalf of all twelve Reserve Banks. The Term Deposit Administrator would be responsible for posting announcements and results of auctions. The Term Deposit Offering Administrator would also post the results for each auction to a public Web site. If the Board were to set the rate paid on term deposits administratively or by formula, the Term Deposit Offering Administrator would be responsible for posting announcements of available rates and maturities.

*Term Deposit Maturities.* Term deposit maturities would not exceed one year and the Board anticipates that term deposits would likely have maturities ranging between one and six months. Maturities might be aligned with the first day of each 14-day reserve maintenance periods.

*No Early Withdrawal.* In order to ensure that term deposits will be an effective reserve management tool, early withdrawals of term deposits will not be permitted.

*Mergers.* If an institution with outstanding term deposits were to be merged into another institution, the surviving institution would assume the term deposits of the acquired institution.

*Discount Window Collateral.* The ability of a participating institution to pledge its term deposits as collateral for the discount window could provide a means for an institution to address a pressing need for immediate funds. The Board contemplates that term deposits would be available as collateral for any discount window advances that the participating institution might request.<sup>8 9</sup>

*Settlement and Posting Rules.* Settlement for auctions of term deposits (the transfer of funds from participating institutions’ master accounts or correspondents’ master accounts) would occur on the announced settlement date. Principal plus interest would be returned to participating institutions’ master accounts (or correspondents’ master accounts) on the stated maturity date.

Reserve Banks measure depository institutions’ intraday account balances according to a set of posting rules outlined in the Board’s Policy on

<sup>8</sup> Term deposits would also serve as collateral for daylight overdraft purposes. Collateral takes on additional importance upon implementation of the revised PSR in late 2010 or early 2011.

<sup>9</sup> The Board anticipates that no haircut would be applied to term deposits used as collateral.

Payment System Risk<sup>10</sup> (“PSR Policy”). The PSR Policy posting rules set forth a schedule for the posting of debits and credits to an institution’s master account for different types of payments. The Board expects that, on the announced settlement date for a particular offering, the Reserve Bank would fund the term deposits of the winning bidders by transferring funds from the master accounts of the winning bidders (or the master accounts of their correspondents) into term deposits at the Reserve Bank in whose District the winning bidder is located. Specifically, the transfer from a master account to fund a term deposit would post after the close of Fedwire Funds service on the settlement date. On the date that a term deposit matures, principal and interest would be returned to the master account of the participating institution (or its correspondent). The return of the funds representing the matured term deposit, together with accrued interest, would post to the participating institution’s master account on the maturity date at 8:30 a.m.

*Capital Treatment.* Term deposits would receive a zero risk-weight for risk-based capital purposes, similar to other claims on the Federal Reserve.

### III. Comments

The Board seeks comments on all aspects of the proposal. In addition, the Board specifically requests comment on the following:

1. Is it necessary to place any limitations on the maximum amount of term deposits that an institution may hold or on the maximum portion of a single offering that an institution may win at auction?

2. What maturity or maturities would eligible institutions recommend as appropriate for term deposits, and should more than one maturity be offered?

3. Are there basic terms and structures for term deposits other than those described in this notice that should be considered?

### IV. Section-By-Section Analysis

#### A. Proposed Amendments to Regulation D

##### Section 204.2(dd)

Proposed section 204.2(dd) would add a definition of “term deposit” to the regulation.

##### Section 204.10(b)(3)

Proposed section 204.10(b)(3) would add a reference to “term deposits” to the

<sup>10</sup> [http://www.federalreserve.gov/paymentsystems/psr\\_policy.htm](http://www.federalreserve.gov/paymentsystems/psr_policy.htm).

provisions regarding the payment of interest on balances at any other rate or rates as determined by the Board from time to time and clarify that those rates may not exceed the general level of short-term interest rates. For purposes of this subsection, the proposal would define “short-term interest rates” as the primary credit rate and rates on obligations with maturities of up to one year in which eligible institutions may invest, such as rates on term Federal funds, term repurchase agreements, commercial paper, term Eurodollar deposits, and other similar rates.

##### Section 204.10(e)

Proposed section 204.10(e) would add a new subsection, “Term Deposits,” to section 204.10, “Payment of interest on balances.”

##### Section 204.10(e)(1)

Proposed section 204.10(e)(1) would authorize Reserve Banks to establish term deposits for eligible institutions under the provisions of 204.10(e), subject to such terms and conditions as the Board may establish from time to time, including but not limited to conditions regarding the maturity of the term deposits being offered, maximum and minimum amounts that may be maintained by an eligible institution in a term deposit, the interest rate or rates offered and, if term deposits are offered through an auction mechanism, the size of the offering, and maximum and minimum bid amounts.

##### Section 204.10(e)(2)

Proposed section 204.10(e)(2) would provide that term deposits will not satisfy any institution’s required reserve balance or contractual clearing balance.

##### Section 204.10(e)(3)

Proposed section 204.10(e)(3) would provide that a term deposit may not be used for general payments or other activities.

#### B. Proposed Amendments to Policy on Payment System Risk

The Board proposes to amend section II.A. of the PSR Policy under the heading “Procedures for Measuring Daylight Overdrafts” as follows (changes identified by *italics*):

Procedures for Measuring Daylight Overdrafts

Opening Balance (Previous Day’s Closing Balance)

Post at 8:30 a.m. Eastern Time:  
+ *Term deposit maturities and accrued interest*

Post After the Close of Fedwire Funds Service:

+/- All other transactions. These transactions include the following: local Federal Reserve Bank checks presented after 3 p.m. Eastern Time but before 3:00 p.m. local time; noncash collection; currency and coin shipments; small-dollar credit adjustments; *term deposit settlements*; and all debit adjustments.

**V. Form of Comment Letters**

Comment letters should refer to Docket No. R-1381 and, when possible, should use a standard typeface with a font size of 10 or 12; this will enable the Board to convert text submitted in paper form to machine-readable form through electronic scanning, and will facilitate automated retrieval of comments for review. Comments may be mailed electronically to [regs.comments@federalreserve.gov](mailto:regs.comments@federalreserve.gov).

**VI. Solicitation of Comments Regarding Use of "Plain Language"**

Section 722 of the Gramm-Leach-Bliley Act of 1999 (12 U.S.C. 4809) requires the Board to use "plain language" in all proposed and final rules published after January 1, 2000. The Board invites comments on whether the interim final rule is clearly stated and effectively organized, and how the Board might make the text of the rule easier to understand.

**VII. Regulatory Flexibility Act**

In accordance with Section 3(a) of the Regulatory Flexibility Act, 5 U.S.C. 601 *et seq.* (RFA), the Board has reviewed the proposed amendments to Regulation D. A final regulatory flexibility analysis will be conducted after consideration of comments received during the public comment period.

1. *Statement of the objectives of the proposal.* The Board is proposing to amend Regulation D to authorize Reserve Banks to offer deposits of specified maturities to eligible institutions. Term deposits are intended to facilitate the conduct of monetary policy by providing a tool that could be used to drain excess reserves, if necessary, to adjust the stance of monetary policy.

2. *Small entities affected by the proposal.* The number of small entities affected by this proposal is unknown. The proposal would only affect those entities, regardless of size, that choose to hold term deposits at Reserve Banks. The impact on institutions choosing to hold term deposits at Reserve Banks would be positive and not adverse, because term deposits would expand the range of investment opportunities available to eligible institutions.

3. *Other Federal rules.* The Board believes that no Federal rules duplicate,

overlap, or conflict with the proposed amendments to Regulation D.

4. *Significant alternatives to the proposed revisions.* The Board welcomes comment on any significant alternatives that would minimize the impact of the proposal on small entities.

**VIII. Paperwork Reduction Act**

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 proposed rule under the authority delegated to the Board by the Office of Management and Budget (OMB). The proposed rule contains no requirements subject to the PRA.

**List of Subjects in 12 CFR Part 204**

Banks, banking, Reporting and recordkeeping requirements.

**Authority and Issuance**

For the reasons set forth in the preamble, the Board is proposing to amend 12 CFR part 204 as follows:

**PART 204—RESERVE REQUIREMENTS OF DEPOSITORY INSTITUTIONS (REGULATION D)**

1. The authority citation for part 204 continues to read as follows:

**Authority:** 12 U.S.C. 248(a), 248(c), 371a, 461, 601, 611, and 6105.

2. Amend § 204.2 by adding paragraph (dd) to read as follows:

**§ 204.2 Definitions.**

\* \* \* \* \*

(dd) *Term deposit* means those funds of an eligible institution that are maintained by that institution for a specified maturity at a Federal Reserve Bank pursuant to § 204.10(e) of this part.

3. Section 204.10 is amended by revising paragraph (b)(3) and by adding a new paragraph (e) to read as follows:

**§ 204.10 Payment of interest on balances.**

\* \* \* \* \*

(b) \* \* \*

(3) For required reserve balances, excess balances, and term deposits, at any other rate or rates as determined by the Board from time to time, not to exceed the general level of short-term interest rates. For purposes of this subsection, "short-term interest rates" means the primary credit rate and rates on obligations with maturities of up to one year in which eligible institutions may invest, such as rates on term Federal funds, term repurchase agreements, commercial paper, term Eurodollar deposits, and other similar rates.

\* \* \* \* \*

(e) *Term deposits.* (1) A Federal Reserve Bank may accept term deposits

from eligible institutions under the provisions of this paragraph (e) subject to such terms and conditions as the Board may establish from time to time, including but not limited to conditions regarding the maturity of the term deposits being offered, maximum and minimum amounts that may be maintained by an eligible institution in a term deposit, the interest rate or rates offered and, if term deposits are offered through an auction mechanism, the size of the offering, maximum and minimum bid amounts, and other relevant terms.

(2) A term deposit will not satisfy any institution's required reserve balance or contractual clearing balance.

(3) A term deposit may not be used for general payments or other activities.

By order of the Board of Governors of the Federal Reserve System, December 23, 2009.

**Jennifer J. Johnson,**

*Secretary of the Board.*

[FR Doc. E9-31040 Filed 12-30-09; 8:45 am]

BILLING CODE 6210-01-P

**DEPARTMENT OF VETERANS AFFAIRS**

**38 CFR Part 39**

**RIN 2900-AM96**

**State Cemetery Grants**

**AGENCY:** Department of Veterans Affairs.

**ACTION:** Proposed rule.

**SUMMARY:** The Department of Veterans Affairs (VA) is proposing to amend its regulations governing grants to States for the establishment, expansion, and improvement of State veterans cemeteries (Establishment, Expansion, and Improvement Projects). We propose to implement through regulation new statutory authority to provide grants for the operation and maintenance of State veterans cemeteries (Operation and Maintenance Projects), as authorized by the Dr. James Allen Veteran Vision Equity Act of 2007 (the Act), enacted on December 26, 2007. The Act expands VA authority to provide grants to States for operating and maintaining State veterans cemeteries and limits to \$5 million the aggregate amount of such grants VA may award in any fiscal year. The Act requires that VA prescribe regulations implementing the new authority within 180 days of enactment. VA proposes to amend its regulations to outline the process, the criteria, and the priorities relating to the award of these Operation and Maintenance Project grants. The proposed rule would also revise part 39 by changing the arrangement and numbering of the