cost and burden at that time (59 FR 24376, May 11, 1994).

Simultaneously with the withdrawal of the December 1993 proposal, in May 1994 the Board published a related proposal that addressed depository institutions' compounding and crediting practices. Under the May proposal, institutions offering accounts that pay interest by check (or transfer) or by posting interest to the account would have to post interest at least as often as they pay out interest by check. That is, for accountholders leaving the interest in the account, interest would compound on at least as frequent a basis as the interest payments made to others. For example, if an institution offers a two-year CD, permits consumers to receive accrued interest in monthly interest checks, and also permits interest to remain in the account, the institution would have to credit and compound interest at least monthly. If an institution sends consumers the interest payments (and does not permit consumers to leave interest in the account), the institution would treat the interest payment frequency as compounding in the APY calculation. For example, for a two-year CD that requires consumers to receive an annual interest payment, the APY would reflect annual compounding.

In July, the Board extended the time to provide comments on the proposed amendments. At the same time, the Board reopened comment on a limited alternative that had been published in December 1993 and withdrawn in May 1994; that alternative equates the APY and the contract interest rate for noncompounding multi-year CDs that pay interest at least annually. (59 FR 35271, July 11, 1994)

The Board received about 550 comments on the proposal (including comments on the alternative approach involving noncompounding multi-year CDs). About 95% of the comments were from financial institutions. The remaining 5% were from trade associations, data processors and others. Approximately 450 comments addressed the proposed amendments affecting the APY formula; about 2% were in favor of the proposal, 98% were opposed, most of them because of the proposed matching of compounding and crediting frequencies. About 100 commenters addressed the alternative that would equate the APY to the interest rate; nearly 60% supported this approach.

On January 4, 1995, the Board adopted one part of the May 1994 proposal. The Board voted to amend the definition of the APY to reflect the frequency of interest payments; it

declined to adopt another portion of the May proposal that would have affected institutions' crediting and compounding policies. The Board also declined to adopt the alternative proposal published in July 1994 that equated the APY and the interest rate for multi-year, noncompounding certificates of deposit that make interest payments at least annually. Subsequently, the Board received petitions for reconsideration from both the major banking industry trade associations and consumer advocates.

On January 17, the Board granted the petitions and decided to publish for public comment a modified version of the May 1994 proposal, which would factor the time value of interest payments into the APY calculation using the current formula, but would not require institutions to match crediting and compounding policies for accounts where consumers may receive interest payments or leave interest in the account. The Board is also soliciting comment on a second approach that would factor the time value of interest payments into the APY calculation using an additional internal rate of return formula. (See Docket R-0869 elsewhere in today's **Federal Register**.)

In order to address immediately one anomaly created by the current rule, the Board is adopting as an interim rule an APY disclosure for noncompounding multi-year CDs.

III. Equating the APY and Interest Rate for Multi-Year Noncompounding CDs

The interim rule represents a modified version of the July proposal: Institutions may disclose an APY equal to the contract interest rate for noncompounding multi-year CDs that require interest distributions at least annually. Institutions that prohibit withdrawal of interest or that permit (but do not require) interest distributions are not affected. The Board believes that this narrow rule provides a targeted response to questions about the APY disclosure for the class of accounts that currently must disclose an APY that is lower than the stated interest rate. The Board believes adopting the interim rule is necessary to limit any consumer confusion and to allow more effective comparison shopping by consumers.

The interim rule is based on concerns expressed by commenters in the earlier rulemakings and upon further analysis by the Board. For example, commenters voiced concern that under the July 1994 proposal, which covered noncompounding multi-year CDs that paid—or offered to pay—interest at least annually, the same APY could be

disclosed for compounding and noncompounding CDs (such as a noncompounding two-year CD with annual interest checks and a two-year CD that also offers annual interest checks or annual compounding) and this might discourage compounding. The Board believes the interim rule responds to these concerns. The interim rule does not apply to a multi-year CD that provides optional periodic withdrawals of interest. That account must compound at least annually to quote an APY equal to the contract interest rate. Under the existing rules, for example, if a consumer invests \$1,000 in a two-year CD and Institution A offers a noncompounding two-year CD at a 6% interest rate and *permits* interest withdrawals or requires interest payouts only at maturity, the APY is 5.83%. Under the interim rule, if Institution B offers a noncompounding two-year CD at the same interest rate and requires annual interest checks, the APY is 6.00%.

In addition to narrowing the scope of the amendment, the Board is requiring a brief narrative for account disclosures and advertisements if institutions choose to comply with the interim rule and state an APY equal to the contract interest rate. The Board believes this narrative will further minimize possible consumer confusion about the effect of interest payments on the APY and earnings from the account.

The Interim rule being adopted by the Board will permit new APY disclosures to be made in certain circumstances pending final resolution of this matter. As the Board moves toward a permanent resolution of this issue, it will consider commenters' views on retaining the interim rule.

IV. Regulatory Revisions: Section-by-Section Analysis

Section 230.4—Account Disclosures 4(b) Content of account disclosures 4(b)(6) Features of time accounts 4(b)(6)(iii) Withdrawal of interest prior to maturity

The regulation requires a disclosure for institutions offering time accounts that compound interest and permit a consumer to withdraw accrued interest during the account term. The disclosure states that the APY assumes interest remains on deposit until maturity and that a withdrawal of interest will reduce earnings. Under the interim rule, the Board is adding a brief narrative for institutions that state an APY equal to the contract interest rate for noncompounding multi-year CDs that require interest payouts at least annually. The Board believes a