would be received based on the interest rate and the frequency of compounding for a 365-day year. The proposed amendment would broaden the definition to treat the distribution of interest from the account (through interest checks or transfer) as the equivalent of compounding. For instance, if an institution pays a 6.00% interest rate on an account, the same APY of 6.17% would result whether an institution compounds monthly or sends out monthly interest payments. The Board is concerned that the current formula misranks certain alternatives, and is seeking comment about whether the proposed changes would better accomplish the Congressional purpose.

The Board solicits comment on whether an exception should be made to the definition of APY to factor in the timing of interest distributions, and whether the purpose of the regulation enabling consumers to make informed decisions about deposit accounts—is better met if the APY captures the time value of interest received as an interest payment during the term of the account, as well as by compounding.

#### Section 230.3—General Disclosure Requirements

#### *3(e) Oral Response to Inquiries*

The regulation requires institutions to state the annual percentage yield in an oral response to a consumer's inquiry about interest rates payable on its accounts. The proposal would add a brief disclosure about the APY, to assist consumers in understanding the earnings and APY for the account. When responding orally to a consumer's inquiry about interest rates, institutions would be required to state the APY and the corresponding frequency of compounding or interest distribution. For example, if an institution offers a two-year CD with a 6.00% interest rate and compounds interest semi-annually but permits monthly interest checks, the oral response to a consumer who inquires about interest rates for a twoyear CD could be "6.17%, based on monthly checks" (or "6.09%, based on semi-annual compounding," or both).

#### Section 230.4—Account Disclosures

#### *4(b) Content of Account Disclosures*

#### 4(b)(1) Rate Information

## 4(b)(1)(iii) Effect of Interest Payments

The act and regulation require institutions to disclose the APY and interest rate before an account is opened or upon request. A brief disclosure for APYs is proposed, to assist consumer understanding of an APY based on the frequency of interest payments in

addition to compounding. The disclosure requirement would apply to all account types (money market deposit accounts as well as CDs, for example). If the annual percentage yield is based (in whole or in part) on interest distributions, institutions would be required to disclose the interest distribution frequency and include a statement that the annual percentage yield assumes interest payments are immediately reinvested at the account's interest rate. If an institution offers a two-year CD with a 6.00% interest rate and compounds interest semi-annually but permits monthly interest checks, for example, consumers choosing to receive interest by check each month would receive a disclosure such as "You will earn a 6.17% APY. based on monthly checks. The annual percentage yield assumes you immediately reinvest your interest payment at the account interest rate." (Consumers choosing semi-annual compounding would receive disclosures about the compounding frequency under §230.4(b)(2).) The new disclosure would also apply to accounts where interest compounds prior to the distribution of interest. For example, if an institution offers an account with a 6.00% interest rate, monthly compounding, and quarterly interest checks, the APY would be 6.17%, based on the assumption that the quarterly checks (which reflect monthly compounding) are reinvested at the account interest rate and compounding frequency. Consumers would receive a disclosure such as "You will earn a 6.17% APY, based on monthly compounding. The annual percentage yield assumes you immediately reinvest your interest payment at the account interest rate.'

#### 4(b)(6) Features of Time Accounts

# 4(b)(6)(iii) Withdrawal of Interest Prior to Maturity

The regulation currently 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 will reduce earnings. The proposal would eliminate the disclosure, since the APY would no longer reflect the assumption that interest remains on deposit until maturity. Further, under the proposal, consumers would receive transactionspecific disclosures reflecting their interest payment choice.

Section 230.5—Subsequent Disclosures 5(a) Change in Terms

### 5(a)(2) No Notice Required

5(a)(2)(iv) Changes to the Frequency of Interest Payments Initiated by the Consumer

The act and regulation require institutions to give 30-days' advance notice of any change in the account disclosures if the change might reduce the APY or adversely affect the consumer. The proposal would create an exception for changes to the interestpayment intervals that are initiated by the consumer. For example, if a consumer receives monthly interest payments on an account and prior to maturity requests the institution to start making payments semi-annually, no advance notice would be required. However, if an institution that permits interest payments monthly eliminates that payment option during the term of an account, advance notice of the change would be required for consumers who are receiving monthly payments.

Section 269 of the act authorizes the Board to make adjustments and exceptions that are necessary or proper to carry out the purposes of the act. The Board solicits comment on whether the proposed exception to the change-interms notice requirements should be made.

#### Section 230.8—Advertising

# 8(c) When Additional Disclosures Are Required

### 8(c)(7) Effect of Compounding or Interest Distributions

The act and regulation provide that when an APY is stated in an advertisement, additional disclosures are required. For the same reasons as discussed for account disclosures requirements, institutions that advertise an APY would be required to indicate whether the APY is based on the frequency of interest checks or compounding. The Board believes it is important that consumers who use advertisements to comparison-shop are alerted to this assumption, to avoid potential confusion or misunderstanding. Similarly, if an APY is based in whole or in part on interest distributions, the advertisement would have to alert consumers that the APY assumes that interest received is reinvested at the account interest rate. For example, if an institution advertises a two-year CD with a 6.00% interest rate, monthly compounding, and quarterly interest checks, the institution must include in the advertisement a