



Regulation Q Update 3/2003

Since the posting of Treasury Strategies' December, 2002 Update, there has been new legislation introduced in both the House and the Senate calling for the repeal of Regulation Q and the relaxation of the six withdrawal limitation on interest bearing business accounts under Regulation D. The "Business Checking Freedom Act of 2003" was introduced to the House in February as HR 859. This bill was sponsored by Representative Toomey (PA) and repeals the prohibition on the payment of interest on demand deposits. A second House bill of the same name was submitted by Representative Sue Kelly (NY) in early March as HR 758. This bill allows businesses to make up to 24 transfers each month from interest-bearing transaction accounts to other transaction accounts. The Senate version of HR 758 was introduced by Senator Charles Schumer (NY) under the bill number S 553. Congressman Toomey's staff has told Treasury Strategies that the two House bills – HR 859 and HR 758 – will soon be merged and retain the designation HR 758.

In each of the last two legislative sessions, a bill calling for the relaxation of Regulation D and Regulation Q has passed the House (HR 974 and HR1009), only to be stalled in the Senate Banking Committee. In the 2002 legislative session, three separate bills calling for the relaxation of Regulations D and Q were introduced to the Senate. None of these bills made it out of committee or to the Senate floor.

In early March, representatives from the Treasury Department testified before the House Subcommittee on Financial Institutions and Consumer Credit. They reported that the Treasury Department "supports permitting banks and thrifts to pay interest on business checking accounts." However, they would not endorse the House and Senate bills repealing Regulations D and Q because they also allow the Federal Reserve Banks to pay interest on reserve balances. Although the Treasury is "sympathetic" to the arguments in favor of paying interest on reserves, they would not support such legislation "inasmuch as the potential budget impact of the provision is not included in the President's Budget."

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