



FEDERAL RESERVE BANK  
OF DALLAS

June 22, 2001

DALLAS, TEXAS  
75265-5906

**Notice 01-49**

**TO:** The Chief Executive Officer of each  
financial institution and others concerned  
in the Eleventh Federal Reserve District

**SUBJECT**

**Study of Banking Regulations Regarding  
Online Delivery of Financial Services**

**DETAILS**

The Board of Governors of the Federal Reserve System is conducting a study and preparing a report about its banking regulations regarding the online delivery of financial services. To assist in this review, the Board has requested public comment on whether any of its regulations should be amended or removed to facilitate online banking.

The Board must receive comments by August 20, 2001. Please address comments to Jennifer J. Johnson, Secretary, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue, N.W., Washington, DC 20551. Also, you may mail comments electronically to [regs.comments@federalreserve.gov](mailto:regs.comments@federalreserve.gov). All comments should refer to Docket No. R-1105.

**ATTACHMENT**

A copy of the Board's notice as it appears on pages 27912–14, Vol. 66, No. 98 of the *Federal Register* dated May 21, 2001, is attached.

**MORE INFORMATION**

For more information, please contact Jane Anne Schmoker, Legal Department, (214) 922-5101. For additional copies of this Bank's notice, contact the Public Affairs Department at (214) 922-5254 or access District Notices on our web site at <http://www.dallasfed.org/banking/notices/index.html>.

# Proposed Rules

Federal Register

Vol. 66, No. 98

Monday, May 21, 2001

This section of the FEDERAL REGISTER contains notices to the public of the proposed issuance of rules and regulations. The purpose of these notices is to give interested persons an opportunity to participate in the rule making prior to the adoption of the final rules.

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## DEPARTMENT OF AGRICULTURE

### Rural Utilities Service

#### 7 CFR Parts 1773

RIN 0572-AB66

#### Policy on Audits of RUS Borrowers; Management Letter

AGENCY: Rural Utilities Service, USDA.

ACTION: Proposed rule.

**SUMMARY:** The Rural Utilities Service (RUS) is proposing to amend its regulations by revising certain requirements regarding the management letter to be provided to RUS by certified public accountants (CPAs) as part of audits of RUS borrowers.

In the final rule section of this **Federal Register**, RUS is publishing this action as a direct final rule without prior proposal because RUS views this as a non-controversial action and anticipates no adverse comments. If no adverse comments are received in response to the direct final rule, no further action will be taken on this proposed rule and the action will become effective at the time specified in the direct final rule. If RUS receives adverse comments, a timely document will be published withdrawing the direct final rule and all public comments received will be addressed in a subsequent final rule based on this action. Any parties interested in commenting on this proposed action should do so at this time.

**DATES:** Comments on this proposed action must be received on or before June 20, 2001.

**ADDRESSES:** Submit adverse comments or notice of intent to submit adverse comments to F. Lamont Heppe, Jr., Director, Program Development and Regulatory Analysis, Staff, Rural Utilities Service, U.S. Department of Agriculture, 1400 Independence Ave., SW., STOP 1522, Washington, DC 20250-1522. RUS requests a signed original and three copies of all comments (7 CFR 1700.4). All

comments received will be made available for public inspection at room 4030, South Building, Washington, DC, between the 8 a.m. and 4 p.m. (7 CFR part 1.27(b)).

**FOR FURTHER INFORMATION CONTACT:**

Richard Annan, Chief, Technical Accounting and Auditing Staff, Program Accounting Services Division, Rural Utilities Service, U.S. Department of Agriculture, 1400 Independence Ave., SW., STOP 1523, Washington, DC 20250-1523. Telephone: 202-720-5227.

**SUPPLEMENTARY INFORMATION:** See the Supplementary Information provided in the direct final rule located in the final rule section of this **Federal Register** for the applicable supplementary information on this action.

Dated: May 8, 2001.

Blaine D. Stockton,

*Acting Administrator, Rural Utilities Service.*

[FR Doc. 01-12130 Filed 5-18-01; 8:45 am]

BILLING CODE 3410-15-P

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## DEPARTMENT OF AGRICULTURE

### Rural Utilities Service

#### 7 CFR Parts 1773

RIN 0572-AB62

#### Policy on Audits of RUS Borrowers; Generally Accepted Government Auditing Standards (GAGAS)

AGENCY: Rural Utilities Service, USDA.

ACTION: Proposed rule.

**SUMMARY:** The Rural Utilities Service (RUS) is proposing to amend its regulations to include in its audit requirements for electric and telecommunications borrowers recent amendments to the Generally Accepted Government Auditing Standards (GAGAS) issued by the Government Accounting Office (GAO) and to make other minor changes and corrections.

In the final rule section of this **Federal Register**, RUS is publishing this action as a direct final rule without prior proposal because RUS views this as a non-controversial action and anticipates no adverse comments. If no adverse comments are received in response to the direct final rule, no further action will be taken on this proposed rule and the action will become effective at the time specified in the direct final rule. If RUS receives

adverse comments, a timely document will be published withdrawing the direct final rule and all public comments received will be addressed in a subsequent final rule based on this action. Any parties interested in commenting on this proposed action should do so at this time.

**DATES:** Comments on this proposed action must be received on or before June 20, 2001.

**ADDRESSES:** Submit adverse comments or notice of intent to submit adverse comments to F. Lamont Heppe, Jr., Director, Program Development and Regulatory Analysis, Staff, Rural Utilities Service, U.S. Department of Agriculture, 1400 Independence Ave., SW., STOP 1522, Washington, DC 20250-1522. RUS requests a signed original and three copies of all comments (7 CFR 1700.4). All comments received will be made available for public inspection at room 4030, South Building, Washington, DC, between the 8 a.m. and 4 p.m. (7 CFR part 1.27(b)).

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**SUPPLEMENTARY INFORMATION:** See the Supplementary Information provided in the direct final rule located in the final rule section of this **Federal Register** for the applicable supplementary information on this action.

Dated: May 8, 2001.

Blaine D. Stockton,

*Acting Administrator, Rural Utilities Service.*

[FR Doc. 01-12128 Filed 5-18-01; 8:45 am]

BILLING CODE 3410-15-P

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## FEDERAL RESERVE SYSTEM

### 12 CFR Chapter II

[Docket No. R-1105]

#### Study of Banking Regulations Regarding the Online Delivery of Financial Services

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Study of regulations; request for comment.

**SUMMARY:** Pursuant to section 729 of the Gramm-Leach-Bliley Act (the GLB Act or Act), the Board is conducting a study and preparing a report about its banking regulations with respect to the online delivery of financial services. To assist this review of its regulations, the Board requests comment on whether any of its regulations should be amended or removed in order to facilitate online banking.

**DATES:** Comments must be received by August 20, 2001.

**ADDRESSES:** Comments should refer to Docket No. R-1105 and may be mailed to Ms. Jennifer J. Johnson, Secretary, Board of Governors of the Federal Reserve System, 20th and C Streets, NW., Washington, DC 20551, or mailed electronically to [regs.comments@federalreserve.gov](mailto:regs.comments@federalreserve.gov). Comments addressed to Ms. Johnson also may be delivered to the Board's mail room between 8:45 a.m. and 5:15 p.m. and to the security control room accessible from the courtyard entrance on 20th Street between Constitution Avenue and C Street, NW. Comments may be inspected in Room MP-500 between 9 a.m. and 5 p.m., pursuant to § 261.12, except as provided in § 216.14, of the Board's Rules Regarding the Availability of Information, 12 CFR 261.12 and 261.14.

**FOR FURTHER INFORMATION CONTACT:** Stephanie Martin, Assistant General Counsel, Legal Division, (202) 452-3198; Thomas E. Scanlon, Senior Attorney, Legal Division, (202) 452-3594; Heidi Richards, Assistant Director, Division of Banking Supervision and Regulation, (202) 452-3598; Jane Ahrens, Senior Counsel, Division of Consumer and Community Affairs, (202) 452-2412; Minh-Duc Le, Attorney, Division of Consumer and Community Affairs, (202) 452-3667; Jeff Stehm, Assistant Director, Division of Reserve Bank Operations and Payment Systems, (202) 452-2217.

**SUPPLEMENTARY INFORMATION:**

**Background**

Section 729 of the GLB Act requires the Board, the Federal Deposit Insurance Corporation, Office of the Comptroller of the Currency (OCC), and Office of Thrift Supervision (the Agencies), to conduct a study of banking regulations regarding the online delivery of financial services.<sup>1</sup> Section 729 further requires the Agencies to report their recommendations on adapting existing legislative or

regulatory requirements to online banking and lending.

In accordance with section 729, the Board is reviewing its regulations that relate to the delivery of financial services to assess their suitability for transactions that are conducted through the Internet. The Board plans to consult with the other Federal banking agencies about the appropriate aims and scope of its review and will coordinate its report with those that will be produced by the other Federal banking agencies.<sup>2</sup> The purpose of this document is to invite public comment on a wide range of issues that bear on delivering financial products and services over the Internet to assess whether any Board regulations should be amended in order to facilitate online banking. In addition, the Board requests comment on how particular statutory provisions affect the online delivery of financial products or services.

The Board recently requested comment on five interim final rules to establish uniform standards for the electronic delivery of notices to consumers, namely: Regulations B (Equal Credit Opportunity), E (Electronic Fund Transfers), M (Consumer Leasing), Z (Truth in Lending), and DD (Truth in Savings).<sup>3</sup> In connection with comments sought on those interim final rules, the Board also requested comment on whether other legislative or regulatory changes are needed to adapt current requirements to online banking and lending. In particular, the Board has requested comment on revising its regulations to facilitate electronic delivery of financial products and services to individual consumers, such as the provisions regarding periodic statements under Regulations E, Z, and DD. (Comments on those interim final rules must be received by June 1, 2001.) Any comments submitted in connection with the review of those regulations to facilitate electronic delivery of financial products and services for individual consumers shall also be considered for the study and report under section 729 of the GLB Act.

<sup>2</sup> The OCC issued an advance notice of proposed rulemaking and requested comment on a wide range of electronic banking issues to determine whether the OCC's regulations should be changed to facilitate national banks' use of new technologies. 65 FR 4895 (February 2, 2000). The Board notes that the OCC specifically requested comment in connection with its study of its regulations under section 729, and the Board will review those comments in connection with the Board's own study.

<sup>3</sup> 66 FR 17779 (April 4, 2001); 66 FR 17786 (April 4, 2001); 66 FR 17322 (March 30, 2001); 66 FR 17329 (March 30, 2001); 66 FR 17795 (April 4, 2001).

**Issues for Comment**

The Board recognizes that using electronic technology to deliver financial products and services poses distinct challenges to financial institutions and their customers. Much of the legislative and regulatory framework that governs banking was developed based on social, cultural, and technological practices that existed before the advent of widespread computer-based communications. The prospect of conducting banking transactions over the Internet has forced reconsideration of the existing legislative and regulatory framework that governs banking businesses.

The Board invites comment on how particular statutes, regulations, or supervisory policies specifically affect financial institutions and their customers' uses of new technologies. The following discussion identifies topics that the Board believes are appropriate for the design of the study and report required under section 729. Commenters are invited to respond to the questions presented and to offer comments or suggestions on any other issues related to financial products or services delivered online that are not described herein.

*Laws and Regulations That Affect Transactions*

Do any of the Board's regulations, such as those governing payment transactions, negatively affect the ability of financial institutions to offer certain online financial services? Which regulations, if any, negatively affect the likelihood that an individual or business customer would choose to obtain financial products or services through the Internet?

The ways in which financial institutions themselves obtain services from other financial institutions, including Federal Reserve Banks, significantly affects the products and services that financial institutions may, in turn, provide to their non-bank customers. The Board also requests comment on the specific ways in which laws, regulations, and other supervisory policies affect the online delivery of financial products and services between financial institutions.

*Geography and Time Considerations*

Some aspects of the Board's banking regulations, as well as other banking laws, are predicated on conceptions of geography. For example, bank mergers and acquisitions are regulated, in part, by legal standards that have been developed to determine whether a transaction poses anti-competitive

<sup>1</sup> Pub. L. 106-102, 113 Stat. 1476 (1999).

consequences in the relevant geographic market for the cluster of banking products.<sup>4</sup> Similarly, the legal standards that apply to the location of bank branches depend on certain conceptions of geography.<sup>5</sup> How should these kinds of regulatory provisions be revised (if at all) to more appropriately govern the location of online banking and lending activities?

Other laws or regulations contain concepts of time that may not be relevant in an online environment. For example, the term "banking day" in Regulation CC is defined as that part of any business day on which an office of a bank is open to the public for carrying on substantially all of its banking functions.<sup>6</sup> Regulation CC requires funds that must be available for withdrawal on a business day to be available at the start of business, which may be as late as 9 a.m. local time of the depository bank.<sup>7</sup> Are these provisions appropriate in the context of a customer that opened an account and performs all banking functions online?

The Board recognizes that these traditional boundaries of geography and time may need to be reexamined in light of online banking practices that enable customers to obtain financial products and services relatively free from customary time or place constraints. Comments are invited on how particular laws and regulations may be modified to accommodate the online delivery of financial products and services under these varying conditions.

#### *Banking and Supervisory Regulations and Policies*

The Board invites comment on how particular regulations or supervisory policies specifically affect financial institutions and their customers' uses of new technologies. For example, are there any specific Board regulations that unreasonably interfere with the use of online technologies? Are there any supervisory policies that impose unreasonable burdens on a financial institution's design or adaptation of online technologies? Are there any regulations or other supervisory policies regarding risk management that should be clarified or amended to adequately

address any particular risks associated with methods of online banking?

#### *Electronic Signatures in Global and National Commerce Act and Other Federal Laws That Affect Online Banking*

The Board recognizes that the enactment of the Electronic Signatures in Global and National Commerce Act (E-Sign Act) has addressed several important legal and regulatory issues regarding the uses of electronic media in commercial transactions.<sup>8</sup> For example, the E-Sign Act permits the retention of certain types of records in electronic form (subject to specified conditions) if such records are required by any other law or regulation.<sup>9</sup> Do any of the Board's regulations or supervisory policies require a banking organization to use or retain written forms, notices, or other records in a manner that hinders its ability to deliver financial products or services over the Internet? The Board requests comment on how particular provisions of the E-Sign Act, or any other law, affect financial institutions and their customers' ability to use (or ease of using) new technologies.

#### *Differing Legal Requirements*

Do certain provisions of Federal law that apply to online banking and lending practices make compliance with other provisions of State law (or laws enforced by foreign states) more costly? Are there particular aspects of conducting online banking and lending activities that could benefit from a single set of legal standards that can be applied uniformly nationwide?

Are there any inconsistencies between Federal and State laws or regulations that impede the electronic provision or use of financial products or services? For example, do State laws or regulations apply differently to state-chartered financial institutions, relative to federally chartered institutions, that conduct online banking and lending? Are there any State laws or regulations, such as licensing provisions for banking and other financial products and services, that affect the nationwide provision of financial products or services over the Internet?

By order of the Board of Governors of the Federal Reserve System, May 16, 2001.

**Jennifer J. Johnson,**

*Secretary of the Board.*

[FR Doc. 01-12689 Filed 5-18-01; 8:45 am]

**BILLING CODE 6210-01-P**

## DEPARTMENT OF TRANSPORTATION

### Federal Aviation Administration

#### 14 CFR Part 39

[Docket No. 97-ANE-59-AD]

#### **Airworthiness Directives; Pratt & Whitney JT8D Series Turbofan Engines**

**AGENCY:** Federal Aviation Administration, DOT.

**ACTION:** Proposed rule; withdrawal.

**SUMMARY:** This action withdraws a notice of proposed rulemaking (NPRM) that proposed a new airworthiness directive (AD), applicable to Pratt & Whitney (PW) JT8D series turbofan engines. That action would have superseded an existing AD to require initial and repetitive borescope inspections for loss of fuel nozzle nut torque and nozzle support wear, and replacement or modification of the fuel nozzles at the next accessibility of the diffuser build group as terminating action to the inspections. That proposal was prompted by reports of loss of fuel nozzle nut torque and nozzle support wear. Since the issuance of that NPRM, the FAA has reevaluated the likelihood that the unsafe condition will exist or develop on other products of the same type design. Accordingly, the proposed rule is withdrawn.

**FOR FURTHER INFORMATION CONTACT:** Tara Goodman, Aerospace Engineer, Engine Certification Office, FAA, Engine and Propeller Directorate, 12 New England Executive Park, Burlington, MA 01803; telephone (781) 238-7130; fax (781) 238-7199.

**SUPPLEMENTARY INFORMATION:** A proposal to amend part 39 of the Federal Aviation Regulations (14 CFR part 39) to add a new airworthiness directive (AD), applicable to PW JT8D series turbofan engines, was published in the **Federal Register** on May 1, 1998 (63 FR 24138). The proposed rule would have required initial and repetitive borescope inspections for loss of fuel nozzle nut torque and nozzle support wear, and replacement or modification of the fuel nozzles at the next accessibility of the diffuser build group as terminating action to the inspections. That action was prompted by reports of loss of fuel nozzle nut torque and nozzle support wear. The proposed actions were intended to prevent loss of fuel nozzle nut torque and nozzle support wear, which could result in a fuel leak and possible engine fire.

Since issuing that NPRM, the FAA has reevaluated the safety concerns that the proposed actions would have

<sup>4</sup> *United States v. Philadelphia Nat'l Bank*, 374 U.S. 321 (1963) (In an action challenging a proposed merger of banks under the antitrust laws, the Court held, in relevant part, that the geographic market for the cluster of banking products and services is local in nature).

<sup>5</sup> 12 U.S.C. 321 (requiring, in relevant part, a state member bank to obtain the Board's approval to establish certain new branches "beyond the limits of the city, town, or village in which the parent bank is located").

<sup>6</sup> 12 CFR 229.2(f).

<sup>7</sup> 12 CFR 229.19(b).

<sup>8</sup> Pub. L. 106-229, 114 Stat. 464 (2000).

<sup>9</sup> Sec. 101(d), 114 Stat. 466-67.