

**MEMO# 24620**

October 15, 2010

# **ICI Letter On FDIC Proposal To Provide Unlimited Insurance For Noninterest-Bearing Transaction Accounts**

[24620]

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TO: FEDERAL LEGISLATION MEMBERS No. 9-10  
MONEY MARKET FUNDS ADVISORY COMMITTEE No. 51-10  
SEC RULES MEMBERS No. 102-10 RE: ICI LETTER ON FDIC PROPOSAL TO PROVIDE  
UNLIMITED INSURANCE FOR NONINTEREST-BEARING TRANSACTION ACCOUNTS

The FDIC recently proposed amendments to its regulations to implement Section 343 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank Act”). [\[1\]](#) Section 343 requires the FDIC to fully insure the net amount that any depositor maintains in a “noninterest-bearing transaction account” (as defined in Section 343) at an insured depository institution. The provision takes effect on December 31, 2010, and is prospectively repealed on January 1, 2013. ICI has filed a comment letter on the FDIC’s rule proposal. The letter is attached and briefly summarized below.

ICI’s comments focus on the potential implications of unlimited deposit insurance and the FDIC’s rule proposal for the broader financial system. The letter discusses the benefits deposit insurance can provide in promoting financial stability, as well as the moral hazard and systemic risks it can create for the financial system generally. The letter notes that historically, these risks have been mitigated by capping the amount of a depositor’s account that is insured. It states that in the case of the Section 343 insurance coverage, the statutory limits on the types of accounts covered and the December 31, 2012 termination date seek to reduce the possible negative effects of the program.

Under the FDIC’s rule proposal, depository institutions would not be assessed a separate premium for the unlimited insurance. Rather, the FDIC indicates that it will take the cost of this insurance into account in determining the amount of the general assessment it charges insured depository institutions under its risk-based assessment system. The letter

expresses concerns with this approach and recommends that the FDIC assess a separate, transparent, and economically meaningful premium in order to reduce moral hazard and provide greater assurance that the costs of the insurance will be paid by the depository institutions and account holders who benefit directly from it.

The letter opposes the FDIC's proposal to extend Section 343 unlimited insurance coverage to noninterest-bearing savings accounts into which funds from noninterest-bearing transaction accounts are swept (so-called "reserve sweeps") because doing so would greatly expand the pool of assets covered, thereby increasing moral hazard and systemic risks. The letter also points out that such extension exceeds the authority granted by Congress, as reserve sweeps do not meet the statutory definition of "noninterest-bearing transaction account."

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[Attachment](#)

#### **endnotes**

[\[1\]](#) Deposit Insurance Regulations; Unlimited Coverage for Noninterest-bearing Transaction Accounts, 75 Fed. Reg. 60341 (Sept. 30, 2010) ("FDIC Notice").

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