

**Supporting Statement for the  
Report of Net Debit Cap  
(FR 2226; OMB No. 7100-0217)**

**Summary**

The Board of Governors of the Federal Reserve System, under delegated authority from the Office of Management and Budget (OMB), proposes to extend for three years, with revision, the required Report of Net Debit Cap (FR 2226; OMB No. 7100-0217). Federal Reserve Banks collect these data annually to provide information that is essential for their administration of the Federal Reserve's Payments System Risk (PSR) policy. The reporting panel includes all financially healthy depository institutions with access to the discount window. The Report of Net Debit Cap comprises three resolutions, which are filed by a depository institution's board of directors depending on its needs. The first resolution is used to establish a de minimis net debit cap and the second resolution is used to establish a self-assessed net debit cap.<sup>1</sup> The third resolution is used to establish simultaneously a self-assessed net debit cap and maximum daylight overdraft capacity.

This proposal would formally incorporate the revisions to the FR 2226 that were adopted in 2005 and that are currently used by reporting institutions. In an effort to streamline the resolutions filed by institutions eligible for maximum daylight overdraft capacity, two former resolutions were combined into one: resolution 3a, collateralized capacity, and resolution 3b, in-transit securities. These resolutions were replaced by the maximum daylight overdraft capacity resolution that combines the board of directors' approval of the institution's self-assessment as well as its maximum daylight overdraft capacity level.

The annual total burden for the FR 2226 is estimated to be 1,623 hours. The PSR policy requires depository institutions to submit their resolutions annually, as of the date of the board of directors approved the resolution(s). Copies of the model resolutions are located in Appendix B that can be found at <http://www.federalreserve.gov/paymentsystems/psr/relpol.htm>.

**Background and Justification**

The model resolutions associated with the Report of Net Debit Cap address the use of daylight credit pursuant to the Federal Reserve's PSR policy. Under the policy, institutions that maintain a Federal Reserve account are assigned or may establish a net debit cap that represents a maximum limit on uncollateralized daylight overdrafts incurred in that account on a single day or on average during a two-week maintenance period. A daylight overdraft occurs when the intraday balance in a depository institution's Reserve Bank account is negative. The net debit cap is calculated by applying a net debit cap multiple to a capital measure (risk-based capital for a U.S. chartered institution and a U.S. capital equivalency measure for a U.S. branch or agency of a foreign bank).<sup>2</sup> An institution's cap category and its reported capital determine the size of

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1 Institutions use these two resolutions to establish a capacity for daylight overdrafts above the lesser of \$10 million or 20 percent of the institution's capital measure. Financially healthy U.S. chartered institutions that rarely incur daylight overdrafts in excess of the lesser of \$10 million or 20 percent of the institution's capital measure do not need to file board of directors resolutions or self-assessments with their Reserve Bank.

2 See 55 Fed. Reg. 22095 (May 31, 1990).

the net debit cap. The six cap categories are zero, exempt-from-filing, de minimis, and the self-assessed categories, which include average, above average, and high. All cap categories are granted at the discretion of the Reserve Banks.

Financially healthy institutions that incur daily peak and two-week average overdrafts up to \$10 million or 20 percent of their risk-based capital or U.S. capital equivalency measure may be assigned a cap, called an "exempt-from-filing cap," by the Reserve Bank. However, if an institution wishes to increase its daylight overdraft capacity beyond the limits afforded by an exempt-from-filing cap, it must file a board of directors resolution with its Administrative Reserve Bank authorizing a higher capacity.<sup>3</sup>

The de minimis cap category allows institutions to incur daily peak and two-week average daylight overdrafts up to a cap of 40 percent of their risk-based capital or U.S. capital equivalency measure. Financially healthy institutions that expect to incur daylight overdrafts in excess of the exempt-from-filing limitations, but less than 40 percent of their capital measure, should file a board of directors resolution with their Administrative Reserve Bank. This category was designed to reduce the burden of performing a self-assessment for those institutions incurring relatively small levels of daylight overdrafts.

Financially healthy institutions that use Federal Reserve intraday credit in amounts that exceed 40 percent of their capital measure on a single day or on average over a two-week reserve maintenance period must establish a cap through the self-assessment process, which determines whether the risk profile of the institution allows it to obtain a higher cap and whether it should be an average, above average, or high cap.

In 2001, the Federal Reserve Board approved a policy change that allows depository institutions with self-assessed net debit caps to pledge collateral for the purpose of expanding their daylight overdraft capacity beyond their net debit caps. Depository institutions that wish to pledge collateral to expand their daylight overdraft capacity must provide justification for this additional capacity and a board of directors resolution approving it. The institution will then be monitored at its net debit cap plus the value of the collateral supporting the expanded capacity up to its Reserve Bank-approved maximum capacity.

The Federal Reserve monitors the compliance of depository institutions with their net debit caps by using an ex post monitoring system. An institution that exceeds its net debit cap may be counseled by its Reserve Bank. If an institution continues to exceed its net debit cap or if it poses an excessive credit risk, the institution's payment activity may be monitored in real time using the Reserve Banks' Account Balance Monitoring System, where Fedwire funds transfers, net settlement transactions, and ACH credit originations that would cause the institution's account balance to exceed its net debit cap would be rejected or delayed.

## **Description of Information Collection**

The reporting panel includes all financially healthy depository institutions with access to the discount window that incur daylight overdrafts in their Federal Reserve accounts and wish to

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<sup>3</sup> The Administrative Reserve Bank is responsible for managing an institution's account relationship with the Federal Reserve.

establish capacity for daylight overdrafts greater than that afforded by an exempt cap. Depository institutions that are assigned zero net debit caps or exempt net debit caps do not have to file board of directors resolutions with their Administrative Reserve Banks. Institutions that apply for and are allowed a de minimis net debit cap or a self-assessed net debit cap must file a board of directors resolution. Institutions are required to submit the resolutions at least annually.

A de minimis cap can be adopted by an institution if it limits its daylight overdrafts to 40 percent of its capital measure. In this case, the institution files a de minimis cap resolution, the first model resolution.

Depository institutions seeking capacity for daylight overdrafts greater than that afforded by the exempt or de minimis caps must complete a self-assessment. The self-assessment takes into consideration a depository institution's creditworthiness, intraday funds management and controls, consumer credit policies, operating controls, and contingency procedures. (A self-assessment is required for average, above average, or high cap categories.) The results of the self-assessment must be reviewed and approved by the institution's board of directors. The directors' approval must be communicated to the Reserve Bank by submission of a board of directors' resolution, the second model resolution. The Reserve Bank will ensure that the cap resolution is complete and the cap requested is appropriate. The work papers supporting the self-assessment and resolution should be retained by the institution for review by its primary supervisor.

Depository institutions with self-assessed net debit caps that seek additional daylight overdraft capacity must submit to their Administrative Reserve Banks a written business justification to support the request for the additional capacity. In evaluating a depository institution's request, the Administrative Reserve Bank will review the institution's daylight overdraft levels, financial condition, and written business justification. In addition to ensuring that the institution has explored other alternatives for addressing intraday liquidity problems, the Administrative Reserve Bank will consult the institution's primary regulator as well as Reserve Bank staff from the discount window and legal areas. If the Administrative Reserve Bank approves the request, the depository institution will need to file the maximum daylight overdraft capacity resolution, which is resolution three. This resolution combines the board of directors' approval of the self-assessment and the maximum daylight overdraft capacity amount in order to ease the reporting burden of these institutions.

### **Minor Revisions Implemented**

In 2005, the Federal Reserve implemented minor revisions to the way in which the PSR policy is implemented. In order to facilitate greater consistency with Reserve Bank operating circulars, RBOPS simultaneously incorporated these revisions into the Report of Net Debit Cap (FR 2226) without going through the reports clearance process.<sup>4</sup> This proposal would formally incorporate the revisions to the FR 2226 that were adopted in 2005 and that are currently used by reporting institutions. In an effort to streamline the resolutions filed by institutions eligible for maximum daylight overdraft capacity, two former resolutions were combined into one: resolution 3a, collateralized capacity, and resolution 3b, in-transit securities. These resolutions

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<sup>4</sup> Operating circulars are issued by the Reserve Banks in accordance with Regulation J and detail each Reserve Bank's handling of items. See 12 C.F.R. § 210.3.

were replaced by the maximum daylight overdraft capacity resolution that combines the board of directors' approval of the institution's self-assessment as well as its maximum daylight overdraft capacity level.

### **Time Schedule for Information Collection**

The PSR policy requires depository institutions to submit their resolutions annually, as of the date on which the board of directors approved the resolution(s). Institutions file the resolutions directly with their Administrative Reserve Banks and keep current copies of the resolutions on file for examiner review. The Reserve Banks enter the net debit cap information into an ex post monitoring system and forward the information to the institutions' primary supervisors for examination purposes.

### **Legal Status**

The Federal Reserve Board's Legal Division has determined that sections 11, 16, and 19 of the Federal Reserve Act (12 U.S.C. §248(i), §248-1 and §464) authorize the Federal Reserve Board to require the FR 2226 resolutions. The information submitted by respondents for the payments system risk reduction program may be accorded confidential treatment under the Freedom of Information Act (FOIA) (5 U.S.C. §552 (b)(4)). In addition, information reported in connection with the second and third resolutions may be protected under Section (b)(8) of FOIA, to the extent that such information is based on the institution's CAMELS rating, and thus is related to examination reports prepared by, on behalf of, or for the use of an agency responsible for the regulation or supervision of financial institutions (5 U.S.C. §552(b)(8)).

### **Consultation Outside the Agency**

On December 21, 2007, the Federal Reserve published a notice in the *Federal Register* (72 FR 72725) requesting public comment for sixty days on the extension, with revision, of the Report of Net Debit Cap with the Board of Governors of the Federal Reserve System. The comment period for this notice expired on February 19, 2008. The Federal Reserve received no comments. On February 29, 2008, the Federal Reserve published a final notice in the *Federal Register* (73 FR 11116).

### **Sensitive Questions**

This collection of information contains no questions of a sensitive nature, as defined by OMB guidelines.

### **Estimate of Respondent Burden**

In 2006, 1,399 institutions filed the de minimis cap resolution, 217 institutions filed the self-assessed cap resolution, and seven institutions filed the resolution for the new maximum daylight overdraft capacity. The Federal Reserve does not anticipate a significant change in the number of institutions filing resolutions. The previously implemented revisions to the resolutions will have no effect on the burden. Assuming a response time of one hour for the de minimis and self-assessed cap resolutions and a response time of one hour for the new maximum

daylight overdraft capacity resolution, the annual reporting burden for the FR 2226 is estimated to be 1,623 hours. This burden represents less than 1 percent of total Federal Reserve reporting burden.

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	<i>Number of respondents</i>	<i>Annual frequency</i>	<i>Estimated average hours per response</i>	<i>Estimated total annual burden hours</i>
De Minimis Cap	1,399	1	1	1,399
Self-Assessment Cap	217	1	1	217
Maximum Daylight Overdraft Capacity	7	1	1	7
	<i>Total</i>			1,623

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The total cost to Federal Reserve respondents is estimated to be \$100,305.<sup>5</sup>

### **Estimate of Cost to the Federal Reserve System**

The annual cost to Federal Reserve System for collecting and processing these data is approximately \$74,356. Responses are not automated nor are they transmitted to the Federal Reserve Board. There is a minimal amount of time involved in forwarding information to the institutions' primary supervisors.

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<sup>5</sup>Total cost to Federal Reserve respondents was estimated using the following formula. Percent of staff time, multiplied by annual burden hours, multiplied by hourly rate: 30 percent Clerical @ \$25, 45 percent Managerial or Technical @ \$55, 15 percent Senior Management @ \$100, and 10 percent Legal Counsel @ \$144. Hourly rate estimates for each occupational group are averages using data from the Bureau of Labor and Statistics, *Occupational Employment and Wages*, news release.