

Supporting Statement for the Recordkeeping Requirements Associated with Limitations on Interbank Liabilities (Regulation F; OMB No. 7100-0331)

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, without revision, the Recordkeeping Requirements Associated with Limitations on Interbank Liabilities (Regulation F; OMB No. 7100-0331). The Paperwork Reduction Act (PRA) classifies reporting, recordkeeping, or disclosure requirements of a regulation as an “information collection.”¹ Section 206.3 of Regulation F requires insured depository institutions to establish and maintain policies and procedures designed to prevent excessive exposure to correspondents in order to limit the risks that the failure of a depository institution would pose to insured depository institutions. The Federal Reserve accounts for the paperwork burden on state member banks for Regulation F compliance. The Federal Reserve’s total annual paperwork burden for this information collection is estimated to be 6,672 hours. There are no required reporting forms associated with Regulation F.

Background and Justification

Regulation F implements section 308 of the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA). Pursuant to FDICIA, the Federal Reserve is required to prescribe standards to limit the risks posed by exposure of insured depository institutions to the depository institutions with which they do business (correspondents).² Regulation F generally requires banks to develop and implement internal prudential policies and procedures to evaluate and control exposure to correspondents. Exposure includes both credit and liquidity risks, including operational risks, related to intraday and interday transactions.

Credit risk is the potential that an obligation will not be paid in a timely manner or in full. Credit risk arises whenever an institution advances or commits funds to another financial institution, as the advancing institution’s assets are at risk of loss if the recipient institution fails. Some institutions conceivably could have a credit concentration arising from the need to maintain large “due from” balances with the correspondent to facilitate account clearing activities.

Funding risk arises when an institution depends heavily on the liquidity provided by a limited number of institutions to meet its funding needs. Funding risk can create an immediate threat to an institution’s viability if the advancing entity suddenly reduces the institution’s access to liquid funds. Institutions might abruptly limit the availability of liquid funding sources as part of a prudent program for limiting credit exposure or as required by regulation when the financial condition of either counterparty declines rapidly.

Regulation F also establishes benchmark guidelines on the overnight credit exposure to individual correspondents that ordinarily should not be exceeded. The benchmark guidelines are stated as percentages of the exposed bank’s capital. The levels of overnight credit exposure

¹ 44 U.S.C. § 3501 *et seq.*

² The Board published a notice of proposed rulemaking in the *Federal Register* on July 20, 1992 (57 FR 31974) and a final rule in the *Federal Register* on December 18, 1992 (57 FR 60086).

considered to be permissible under the benchmarks are tiered based on the capital of the correspondent with which the bank is dealing, so that higher levels of a bank's capital may be exposed to better capitalized correspondents. The benchmark guidelines under Regulation F are intended to establish the maximum credit exposure that ordinarily would be considered prudent with respect to a correspondent with a particular level of capital.

Description of Information Collection

Section 206.3 of Regulation F stipulates that a bank shall establish and maintain written policies and procedures to prevent excessive exposure to any individual correspondent in relation to the condition of the correspondent. In these policies and procedures, a bank should take into account credit and liquidity risks, including operational risks, in selecting correspondents and terminating those relationships. Where exposure to a correspondent is significant, the policies and procedures shall require periodic reviews of the financial condition of the correspondent and shall take into account any deterioration in the correspondent's financial condition. Where the financial condition of the correspondent and the form or maturity of the exposure create a significant risk that payments will not be made in full or in a timely manner, the policies and procedures should limit the bank's exposure to the correspondent, either by the establishment of internal limits or by other means. The policies and procedures should be reviewed and approved by the bank's board of directors at least annually.

Time Schedule for Information Collection

This information collection contains a recordkeeping requirement, as mentioned above. The creation of a compliance program is a mandatory one-time requirement. Subsequent changes to the program would be on-occasion.

Sensitive Questions

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

Consultation Outside the Agency

On April 18, 2014, the Federal Reserve published a notice in the *Federal Register* (79 FR 21926) requesting public comment for 60 days on the extension for three years, without revision, of the Recordkeeping Requirements Associated with Limitations on Interbank Liabilities (Regulation F). The comment period for this notice expired on June 17, 2014. The Federal Reserve did not receive any comments. A final notice was published in the *Federal Register* on July 18, 2014 (79 FR 42010).

Legal Status

The Board's Legal Division has determined that the recordkeeping requirements of Regulation F are mandatory and authorized by section 23 of the Federal Reserve Act, as added by section 308 of the Federal Deposit Insurance Corporation Improvement Act of 1991 (12 U.S.C. § 371b-2). The Board's Legal Division has determined that because the Federal Reserve

does not collect any information, no issue of confidentiality normally arises. However, if a compliance program becomes a Board record during an examination, the information may be protected from disclosure under exemptions (b)(4) and (b)(8) of the Freedom of Information Act (5 U.S.C. § 552(b)(4) and (b)(8)).

Estimate of Respondent Burden

As shown in the table below, the total annual paperwork burden is estimated to be 6,672 hours. The burden represents the amount of time required to establish and maintain procedures to ensure and monitor compliance with Regulation F. This recordkeeping requirement represents less than 1 percent of total Federal Reserve System paperwork burden.

	<i>Number of respondents³</i>	<i>Estimated annual frequency</i>	<i>Estimated hours per response</i>	<i>Estimated annual burden hours</i>
Recordkeeping	834	1	8	6,672

The total cost to the public is estimated to be \$339,605.⁴

Estimate of Cost to the Federal Reserve System

The cost to the Federal Reserve System is negligible because the Federal Reserve does not collect any information.

³ As of December 31, 2013, there were 834 state member banks. Of these respondents, 369 are small entities as defined by the Small Business Administration (i.e., entities with less than \$500 million in total assets) www.sba.gov/contractingopportunities/officials/size/table/index.html.

⁴ Total cost to the public was estimated using the following formula: percent of staff time, multiplied by annual burden hours, multiplied by hourly rates (30% Office & Administrative Support at \$18, 45% Financial Managers at \$61, 15% Lawyers at \$63, and 10% Chief Executives at \$86). Hourly rate for each occupational group are the (rounded) mean hourly wages from the Bureau of Labor and Statistics (BLS), Occupational Employment and Wages 2013, www.bls.gov/news.release/ocwage.nr0.htm. Occupations are defined using the BLS Occupational Classification System, www.bls.gov/soc/