OVERVIEW OF THE FEDERAL RESERVE'S PAYMENT SYSTEM RISK POLICY ON DAYLIGHT CREDIT

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This publication is available at www.federalreserve.gov/paymentsystems/psr/overview.pdf.

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PREFACE

The purpose of this document, the Overview, is to help institutions comply with the Federal Reserve Policy on Payment System Risk (PSR policy), issued by the Board of Governors of the Federal Reserve System (the Board). The PSR policy contains two parts. Part I addresses risk management in payment and securities settlement systems. Appendix A contains a brief description of part I of the PSR policy. Part II addresses the risks to the Federal Reserve Banks in extending intraday credit to depository institutions. This Overview primarily addresses compliance with part II of the PSR policy. Appendix B contains a glossary of PSR terminology.

Depository institutions that use minimal amounts of Federal Reserve intraday credit should use the Overview to help determine the requirements for compliance with part II of the PSR policy. Institutions that use Federal Reserve intraday credit more regularly and those that may be considered "special situations" because of their legal structure or payment activity should obtain a copy of the *Guide to the Federal Reserve's Payment System Risk Policy on Daylight Credit* for a more comprehensive description of the PSR policy's requirements.[1]

Users of the Overview should be aware that the information it contains is based on the PSR policy in effect at the time of publication. If the Board finds it necessary to modify the PSR policy, future policy statements will supersede information in the Overview until it can be updated accordingly.[2]

[1] The *Guide to the Federal Reserve's Payment System Risk Policy on Daylight Credit* is available at www federalreserve.gov/paymentsystems/psr/guide.pdf.

[2] The current version of the PSR policy is available at www.federalreserve.gov/paymentsystems/psr/policy.pdf.

1 BACKGROUND

An integral component of the PSR policy is a program to control the use of Federal Reserve intraday credit, commonly referred to as "daylight credit" or "daylight overdrafts." A daylight overdraft occurs at a Reserve Bank when funds in an institution's Federal Reserve account are insufficient to cover outgoing Fedwire funds transfers, incoming book-entry securities transfers, or other payment activity processed by a Reserve Bank, such as check or automated clearinghouse (ACH) transactions.[3]

Brief History of the Federal Reserve's Daylight Credit Policy

In 1985, the Board published a policy on risks in large-dollar wire transfer systems. The policy required institutions incurring daylight overdrafts in their Federal Reserve accounts as a result of Fedwire funds transfers to establish a maximum limit, or net debit cap, on those overdrafts. In subsequent years, the Board expanded the original PSR policy to address the control of risks in activities such as ACH transactions, book-entry securities transfers, offshore dollar clearing and netting, and certain private-sector securities clearing and settlement systems. In addition, the Board has made a number of modifications to the original policy, such as reductions in net debit cap levels, the creation of an exempt status for institutions that incur only minimal daylight overdrafts, and the implementation of daylight overdraft fees.

In 1992, the Board modified the policy to charge institutions fees for their use of Federal Reserve daylight credit, beginning in April 1994. The Board also modified how it measures daylight overdrafts in institutions' Federal Reserve accounts. This measurement method incorporates specific account posting times that more closely match the processing times of banks' transactions.

In 2001, the Board revised the PSR policy to permit certain institutions to obtain collateralized daylight overdraft capacity above their net debit caps and to modify the net debit cap calculation for U.S. branches and agencies of foreign banks. In addition, the Board rescinded its interaffiliate transfer and Fedwire third-party access policies because the risks presented by these arrangements are adequately addressed through the supervisory process.

In September 2004, the Board announced two policy revisions pertaining to government-sponsored enterprises (GSEs) and certain international organizations. These revisions, affecting the interest and redemption payments and the general corporate payment activity of these entities, became effective in July 2006.

In November 2004, the Board approved changes to the PSR policy addressing risk management in payment and securities settlement systems. The action also modified the introduction to the policy, reordered the first two sections of the policy, and deleted the third section of the policy containing guidance on rollovers and continuing contracts. The Board

[3] Fedwire is a registered service mark of the Federal Reserve Banks.

determined that institutions have the appropriate incentives to incorporate the guidance into their daylight credit procedures and that specific guidance was no longer necessary.

In December 2008, the Board adopted major revisions to the PSR policy that are designed to improve intraday liquidity management and payment flows for the banking system, while also helping to mitigate the credit exposures to the Federal Reserve Banks from daylight overdrafts. The changes include a new approach that explicitly recognizes the role of the central bank in providing intraday balances and credit to healthy depository institutions, a zero fee for collateralized daylight overdrafts, a 50 basis point (annual rate) charge for uncollateralized daylight overdrafts, and a biweekly daylight overdraft fee waiver of $150. The changes will be implemented between the fourth quarter of 2010 and first-quarter 2011. A specific date will be announced by the Board at least 90 days in advance.

The Board also approved for certain U.S. branches and agencies of foreign banks an interim policy change related to the calculation of the deductible amount from daylight overdraft fees and early implementation of the streamlined procedure for maximum daylight overdraft capacity. The interim policy changes and the early implementation of the streamlined maximum daylight overdraft capacity take effect on March 26, 2009.

Primary Risk Controls Included in the Daylight Credit Policy

Like depository institutions that offer payment services to customers, Federal Reserve Banks may be exposed to risk of loss when they process payments for institutions that hold accounts with them. Depository institutions use daylight credit primarily to cover outgoing Fedwire transfers, incoming book-entry securities transfers, checks, and ACH transactions. Reserve Banks provide settlement finality for transactions over the Fedwire Funds Service, Fedwire Securities Service, National Settlement Service, and on ACH credit originations. Once the Reserve Banks provide final settlement for these transactions, they face direct risk of loss should depository institutions be unable to settle their daylight overdrafts before the end of the day. The Federal Reserve's exposure in such instances can be significant. Aggregate daylight overdraft data are available at http://www.federalreserve.gov/paymentsystems/fedwire/default.htm.

To control daylight overdrafts, the Federal Reserve's PSR policy establishes limits on the amount of Federal Reserve daylight credit that an institution may use during a single day and on average over a two-week reserve maintenance period. These limits are flexible and reflect the overall financial condition and operational capacity of each institution using Federal Reserve payment services. The policy also permits Reserve Banks to protect themselves from the risk of loss by unilaterally reducing net debit caps, imposing collateralization or clearing-balance requirements, rejecting or delaying certain transactions that would cause or increase an institution's daylight overdraft, or, in extreme cases, prohibiting an institution from using Fedwire.

The Board implemented daylight overdraft fees to provide a financial incentive for institutions to control their use of Federal Reserve intraday credit and to recognize explicitly the risks inherent in the provision of intraday credit. Daylight overdraft fees induce institutions to make business decisions concerning the amount of Federal Reserve intraday credit they are willing to use based, in part, on the cost of using that credit. The daylight overdraft measurement procedures, which incorporate a set of nearly real-time transaction posting rules, are intended to help institutions control their use of Federal Reserve intraday credit because they provide a degree of certainty about how an institution’s payment activity affects its Federal Reserve account balance during the day.

2 DAYLIGHT OVERDRAFT CAPACITY

Under the Federal Reserve's PSR policy, each institution that maintains a Federal Reserve account is assigned or may establish a net debit cap. A net debit cap is the maximum dollar amount of uncollateralized daylight overdrafts that an institution may incur in its Federal Reserve account. An institution must be financially healthy and have regular access to the discount window to adopt a positive net debit cap. This section discusses the types of cap categories and the methods for establishing a cap category.

Net Debit Caps

An institution's cap category and its capital measure determine the dollar amount of its net debit cap.[4] An institution's net debit cap is calculated as its cap multiple times its capital measure:

Net debit cap =
cap multiple x capital measure.

Because an institution's net debit cap is a function of its capital measure, the dollar amount of the cap will vary over time as the institution's capital measure changes. An institution's cap category, however, is normally fixed for one year. The policy defines six cap categories, described in more detail below: high, above average, average, de minimis, exempt-from-filing, and zero. The high, above average, and average cap categories are referred to as "self-assessed" caps. Cap categories and their associated cap levels, set as multiples of capital, are listed in the following table.

Net Debit Cap Multiples

Cap category	*Single day*	*Two-week average*
High	2.25	1.50
Above average	1.875	1.125
Average	1.125	0.75
De minimis	0.40	0.40
Exempt-from-filing*	$10 million or 0.20	$10 million or 0.20
Zero	0.0	0.0

*The net debit cap for the exempt-from-filing category is equal to the lesser of $10 million or 0.20 multiplied by a capital measure.

[4] The capital measure for domestically chartered institutions is equivalent to supervisory capital, as described in the capital adequacy guidelines of the federal financial regulatory agencies. See section 5 of this document for a discussion of the capital measure used for U.S. branches and agencies of foreign banks.

An institution with a self-assessed cap has two cap multiples, one for its maximum allowable overdraft on any day (single-day cap) and one for the maximum allowable average of its peak daily overdrafts for a two-week period (two-week-average cap). The purpose of the single-day cap is to limit excessive daylight overdrafts on any day and to ensure that institutions develop internal controls that focus on their exposures each day. The two-week-average cap provides flexibility by recognizing that fluctuations in the level of payments can occur from day to day. Institutions in the zero, exempt-from-filing, and de minimis cap categories have a single cap multiple that applies to both the single-day peak overdraft and the average peak overdraft for a two-week period.

Self-Assessed

Financially healthy institutions that regularly incur daylight overdrafts in excess of 40 percent of their capital must assess their creditworthiness, intraday funds management and control, customer credit policies and controls, and operating controls and contingency procedures to obtain cap levels that accommodate their normal use of intraday credit. An institution's board of directors must review and approve the results of the self-assessment, and the institution must communicate its directors' approval to the Reserve Bank by submitting a board of directors resolution. This process should occur at least once in each twelve-month period. The Reserve Bank, in conjunction with the institution's primary regulator, will review the cap resolution for appropriateness. Should the Reserve Bank determine that the cap resolution is not appropriate, the institution will be informed that it should reevaluate its self-assessment and submit another resolution for review. Additional information on the self-assessment process is provided in the *Guide to the Federal Reserve's Payment System Risk Policy on Daylight Credit.*

De Minimis

Institutions that incur daylight overdrafts up to 40 percent of their capital may qualify for a de minimis net debit cap. To ease the burden of performing a self-assessment for these institutions, the PSR policy allows a financially healthy institution to incur daylight overdrafts up to 40 percent of its capital if the institution submits a board of directors resolution. An institution with a de minimis cap must submit to its Reserve Bank at least once in each twelve-month period a copy of its board of directors resolution (or a resolution by its holding company's board) approving the institution's use of daylight credit up to the de minimis level. If an institution with a de minimis cap exceeds its cap during a two-week reserve maintenance period, the Reserve Bank will counsel the institution and decide whether the de minimis cap should be maintained or whether the institution will be required to perform a self-assessment for a higher cap.

Exempt-from-Filing

The majority of institutions that maintain Federal Reserve accounts have an exempt-from-filing net debit cap. The exempt-from-filing cap permits institutions to incur daylight overdrafts in amounts up to the lesser of $10 million or 20 percent of their capital. If a Reserve Bank determines that an institution is eligible for the exempt-from-filing status, it will assign this cap category without requiring any additional documentation. The Reserve Bank will review the status of an exempt institution that incurs overdrafts in its Federal Reserve account in excess of its limit on more than two days in any two consecutive two-week reserve maintenance periods.

The Reserve Bank will decide if the exemption should be maintained or if the institution will be required to file for a higher cap.

Zero

The Federal Reserve assigns zero caps if requested by the institution or if an institution poses a special risk to the Reserve Bank. Some financially healthy institutions that could obtain positive net debit caps choose to have zero caps. In other situations, institutions that may pose special risks to the Reserve Banks, such as those without regular access to the discount window, those incurring daylight overdrafts in violation of the PSR policy, or those in weak financial condition, are generally assigned a zero cap. The Reserve Banks may also assign a zero cap to recently chartered institutions.

An institution with a zero net debit cap should not incur daylight overdrafts in its Federal Reserve account. If an institution with a zero cap incurs a daylight overdraft, the Reserve Bank will counsel the institution and may monitor the institution's activity in real time and reject or delay certain transactions that would cause an overdraft. If the institution qualifies for a positive cap, the Reserve Bank may suggest that the institution adopt an exempt-from-filing cap or file for a higher cap if the institution believes that it will continue to incur daylight overdrafts.

Collateralized Daylight Overdraft Capacity

Although net debit caps provide sufficient liquidity to most institutions, some institutions may still experience intraday liquidity pressures. Consequently, certain institutions with self-assessed net debit caps may pledge collateral to their Reserve Banks to secure daylight overdraft capacity in excess of their net debit caps, subject to Reserve Bank approval. An institution with a self-assessed net debit cap that wishes to expand its daylight overdraft capacity by pledging collateral should consult its Reserve Bank. Institutions requesting collateralized daylight overdraft capacity above their net debit caps must have already explored other alternatives to address their increased liquidity needs. The Reserve Bank will work with an institution that requests additional daylight overdraft capacity to determine the appropriate maximum daylight overdraft capacity level. The institution must submit its associated board of directors resolution at least once in each twelve-month period.

U.S. branches and agencies of foreign banks with a self-assessed net debit cap and either a financial holding company designation or a SOSA 1 rating may pursue a streamlined procedure for obtaining maximum daylight overdraft capacity (max cap).[5] The streamlined max cap provides overdraft capacity of up to 100 percent of worldwide capital times the self-assessed cap multiple. The streamlined procedure enables an eligible institution to request from its administrative Reserve Bank a max cap without documenting a specific business need for additional capacity or providing a board of directors resolution authorizing the request for a max cap. A max cap larger than the amount eligible for the streamlined procedure will continue to require the general max cap procedure applicable to all institutions. The Reserve Bank, in consultation with the home country supervisor, will review the institution's liquidity plans as part of its review of relevant financial and supervisory information.

[5] The streamlined procedure for obtaining a max cap goes into effect on March 26, 2009.

An institution's maximum daylight overdraft capacity is defined as follows:

Maximum daylight overdraft capacity =
single-day net debit cap +
collateralized capacity.

Institutions with exempt-from-filing and de minimis net debit caps may not obtain additional daylight overdraft capacity by pledging collateral. These institutions must first file for a self-assessed cap to obtain additional daylight overdraft capacity. Institutions with zero net debit caps also may not obtain additional daylight overdraft capacity by pledging collateral. If an institution has adopted a zero cap voluntarily but qualifies for a positive cap, it must file for a higher cap to obtain additional daylight overdraft capacity. Institutions that otherwise have been assigned a zero net debit cap by a Reserve Bank are not eligible to apply for additional daylight overdraft capacity.

Confidentiality of Net Debit Caps

The Federal Reserve considers cap categories and amounts to be confidential and will share this information only with an institution's primary supervisor. Institutions are also expected to treat their cap information as confidential. Cap information should not be shared with outside parties or mentioned in any public documents.[6]

[6] See SR Letter 85-35 *Confidentiality of Sender Net Debit Caps and Self-Assessment Ratings*.

3 DAYLIGHT OVERDRAFT MONITORING

The information in this section is intended to assist institutions in monitoring their Federal Reserve account balances for daylight overdraft purposes. The Federal Reserve expects institutions that maintain Federal Reserve accounts to monitor their account balances on an intraday basis in order to comply with the PSR policy. Institutions should be aware of the payments made from their accounts each day and know how those payments are funded. Institutions are expected to use their own systems and procedures, as well as the Federal Reserve's systems, to monitor their Federal Reserve account balance and payment activity.

Daylight Overdraft Measurement

The Federal Reserve uses a schedule of rules (referred to as "daylight overdraft posting rules") to determine whether a daylight overdraft has occurred in an institution's account. The daylight overdraft posting rules define the time of day that debits and credits for transactions processed by the Federal Reserve will post to an institution's account.[7] For example, Fedwire funds and book-entry securities transfers and NSS transactions are posted to accounts as they occur throughout the day, while all other transactions have fixed posting times. Although the posting rules affect the calculation of an institution's account balance for daylight overdraft monitoring and pricing purposes, the posting rules do not affect the finality or revocability of the entry to the account.

The Federal Reserve uses the Daylight Overdraft Reporting and Pricing System (DORPS) to measure on an ex post basis an institution's overdraft activity, monitor its compliance with the PSR policy, and calculate daylight overdraft charges. DORPS captures all debits and credits resulting from an institution's payment activity and calculates end-of-minute account balances using the daylight overdraft posting rules.[8] The daylight overdraft measurement period begins with the standard opening time of the Fedwire Funds Service at 9:00 p.m. eastern time (ET) the preceding calendar day and continues until the standard closing at 6:30 p.m. ET.[9] Although DORPS records positive and negative account balances, a net positive balance from one minute does not offset a net negative balance from another minute for purposes of determining compliance with net debit caps or for calculating daylight overdraft fees. In addition, DORPS calculates daylight overdrafts on a consolidated basis for U.S. branches and agencies of the same foreign bank family and for accounts involved in a charter-level merger. In

[7] The daylight overdraft posting rules are available in the PSR policy at http://www federalreserve.gov/paymentsystems/psr/policy.pdf.
[8] Examples of daylight overdraft monitoring summary reports can be viewed in the *Account Management Guide* at http://www frbservices.org/Accounting/pdf/amg.pdf.
[9] Fedwire transfers occurring after the standard close are recorded as if they were made at the standard closing time. In cases of unscheduled extensions of Fedwire hours, the final closing account balance at the time the Fedwire Funds Service actually closes is recorded as if it were the balance at the standard closing time.

these instances, DORPS derives a single account balance by adding together the end-of-minute balances of each account.[10]

Policy Compliance

Reserve Banks generally monitor institutions' compliance with the PSR policy over each two-week reserve maintenance period. At the end of each two-week reserve maintenance period, DORPS generates several reports that provide both Reserve Banks and institutions with information for monitoring daylight overdrafts, including the largest (or peak) daylight overdraft for each day during the period and daylight overdrafts in excess of an institution's approved daylight overdraft capacity. An institution incurs a cap breach when its account balance for a particular day shows one or more negative end-of-minute balances in excess of its single-day cap or when its average peak daylight overdraft over a reserve maintenance period exceeds its two-week-average cap.[11]

The Federal Reserve considers all cap breaches to be violations of the PSR policy except in the following limited circumstances. First, the policy allows institutions in the exempt-from-filing cap category to incur up to two cap breaches in two consecutive two-week reserve maintenance periods without violating the PSR policy. Second, certain cap breaches incurred by institutions in the administrative counseling flexibility program are not considered policy violations.[12] In addition, a Reserve Bank has discretion to waive a violation if it determines that a cap breach resulted from circumstances beyond the institution's control, such as an operational failure at a Reserve Bank.

Consequences of Policy Violations

A policy violation may initiate a series of Reserve Bank actions aimed at deterring an institution's excessive use of Federal Reserve intraday credit. These actions depend on the institution's history of daylight overdrafts and its financial condition. Initial actions taken by the Reserve Bank may include assessing the causes of the overdrafts, sending a counseling letter to the institution, and reviewing the institution's account-management practices. In addition, the Reserve Bank may require an institution to submit documentation specifying actions it will take to address the overdraft problems. If policy violations continue to occur, the Reserve Bank may

[10] For institutions with accounts in more than one Federal Reserve District, an administrative Reserve Bank (ARB) is designated. The ARB coordinates the Federal Reserve's daylight overdraft monitoring activities for the consolidated accounts.

[11] An institution's two-week-average peak daylight overdraft is calculated by adding the largest overdraft incurred for each day during a reserve maintenance period and dividing that sum by the number of business days in the period. For an institution with a maximum daylight overdraft capacity limit, the single-day limit is equal to an institution's single-day net debit cap plus its collateralized capacity. The two-week-average limit is equal to an institution's two-week-average net debit cap plus its collateralized capacity, averaged over a two-week reserve maintenance period.

[12] The Federal Reserve's administrative counseling flexibility program is designed to assist relatively small institutions that frequently exceed their net debit caps as a result of transactions other than Fedwire funds transfers, NSS transactions, and ACH credit originations. Under administrative counseling flexibility, the Reserve Banks work with affected institutions to identify alternatives that would avoid or reduce daylight overdrafts caused by such transactions, but the Banks generally do not subject these institutions to escalated levels of counseling, require collateral, or assign a zero cap.

take additional actions. For example, if a financially healthy institution in the zero, exempt-from-filing, or de minimis cap category continues to breach its cap, the Reserve Bank may strongly recommend that the institution file a cap resolution or perform a self-assessment to obtain a higher net debit cap.

In situations in which an institution continues to violate the PSR policy and counseling and other Reserve Bank actions have been ineffective, the Reserve Bank may assign the institution a zero cap. In addition, the Reserve Bank may impose other account controls that it deems prudent, such as requiring the institution to pledge collateral; imposing clearing-balance requirements; rejecting Fedwire funds transfers, ACH credit originations, or NSS transactions that would cause or increase an institution's daylight overdraft; or requiring the institution to prefund certain transactions. Reserve Banks also keep institutions' primary regulators apprised of any recurring overdraft problems.

Real-Time Monitoring

The Reserve Banks use the Account Balance Monitoring System (ABMS) to monitor in real time the payment activity of institutions that may expose the Federal Reserve and other payment system participants to risk of loss. ABMS serves as both an information source and an account monitoring and control tool. It allows institutions to obtain intraday balance information for purposes of managing their use of daylight credit and avoiding overnight overdrafts. All institutions that have an electronic connection to the Federal Reserve's Fedwire Funds Service are able to access their intraday Federal Reserve account position in ABMS and in the Account Management Information (AMI) system.[13] While ABMS is not a substitute for institutions' own internal tracking and monitoring systems, it does provide real-time account information based on Fedwire funds and securities transfers and NSS transactions. Additionally, ABMS captures debits and credits resulting from other payment activity as those transactions are processed in the Reserve Bank's accounting system.[14]

ABMS also provides authorized Reserve Bank personnel with a mechanism to monitor and control account activity for selected institutions. The Reserve Banks may use ABMS to intercept or reject certain transactions from posting to an institution's account, a capability known as "real-time monitoring." Real-time monitoring allows the Reserve Banks to prevent an institution from transferring funds from an account that lacks sufficient funds to cover the payment(s). If an institution's account is monitored in "reject" mode in ABMS, any outgoing Fedwire funds transfer, NSS transaction, or ACH credit origination that exceeds its available funds will be rejected. The Reserve Banks generally notify institutions before monitoring their accounts in real time.

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[13] AMI is a web-based application that provides institutions with real-time access to their intraday account balances, detailed transaction information, a variety of reports, and inquiry capabilities. Institutions can obtain information on ABMS and AMI in the *Account Management Guide* and under the Account Services topic on the Federal Reserve Financial Services website at www frbservices.org.

[14] ABMS receives information on transactions from the Fedwire Funds Service, Fedwire Securities Service, and the National Settlement Service in real time; information on cash, check, and the Treasury Investment Program transactions at five-minute intervals; and information on prefunded ACH credit originations every fifteen minutes.

4 DAYLIGHT OVERDRAFT FEES

Regardless of the net debit cap level of the institution, it incurs daylight overdraft fees for any daylight overdrafts incurred subject to the deductible and waiver provisions discussed below. This section describes how daylight overdraft fees are calculated and assessed.

Calculation of Charges

For each two-week reserve maintenance period, the Reserve Banks calculate and assess daylight overdraft fees, which are equal to the sum of any daily daylight overdraft charges incurred during the period. For each day, an institution's daylight overdraft charge is equal to the effective daily rate charged for daylight overdrafts multiplied by the average daylight overdraft for the day minus a deductible valued at the deductible's effective daily rate.

Key Components of Daylight Overdraft Pricing

Annual rate charged on daylight overdrafts equals 36 basis points.

Effective annual rate charged on daylight overdrafts is based on standard Fedwire Funds Service operating hours and equals 32.25 basis points (36 x 21.5/24).

Effective daily rate charged on daylight overdrafts is the effective annual rate divided by 360.[15]

Average daylight overdraft is calculated by adding together any negative end-of-minute balances incurred during the standard operating day of the Fedwire Funds Service and dividing this amount by the number of minutes in the standard Fedwire Funds Service operating day.[16]

Deductible equals 10 percent of an institution's capital measure and represents a threshold average level of overdrafts that an institution may incur without being charged a fee.[17]

Gross overdraft charge equals the effective daily rate charged on daylight overdrafts multiplied by the average daylight overdraft for the day.

[15] Under the current 21.5-hour Fedwire Funds Service operating day, the effective daily daylight-overdraft rate is truncated to 0.0000089.

[16] All end-of-minute overdrafts incurred during the Fedwire day, including those not exceeding an institution's net debit cap, are included in this calculation. Positive account balances on a given day are effectively set to zero and do not offset any overdrafts incurred that day in computing the average daylight overdraft amount. The occasional extensions of Fedwire beyond the standard 21.5-hour day do not affect the number of minutes used in computing the average overdraft.

[17] Under the current 21.5-hour Fedwire operating day, the effective daily deductible rate is rounded to 0.0000042. Because the effective daily rate applicable to the deductible is kept constant at the 10-hour-operating-day rate, any changes to the scheduled Fedwire Funds Service operating day should not significantly affect the value of the deductible.

Daily overdraft charge equals the gross overdraft charge minus a deductible valued at an effective daily rate.

The following equations are the basis for the charge calculation below:

Gross overdraft charge **=**
effective daily rate x average daylight overdraft.

Daily charge **=**
gross overdraft charge – value of the deductible.

Example of Daylight Overdraft Charge Calculation

***Policy parameters*:**

Scheduled Fedwire Funds Service day = 21.5 hours

Deductible percentage of capital = 10%

Rate charged for overdrafts = 36 basis points (annual rate).

Institution's parameters:

Capital measure = $50 million

Sum of end-of-minute overdrafts for one day = $4 billion.

Daily charge calculation:

Effective daily rate = .0036 x (21.5/24) x (1/360) = .0000089

Average overdraft = $4,000,000,000 / 1,291 minutes = $3,098,373

Gross overdraft charge = $3,098,373 x .0000089 = $27.58

Value of the deductible = .10 x $50,000,000 x .0000042* = $21.00

Overdraft charge = $27.58 – $21.00 = $6.58.

Similar daylight overdraft activity for each day of the reserve maintenance period (generally ten business days) would result in a two-week overdraft charge of $65.80.

* Deductible daily effective rate = .0036 x (10/24) x (1/360) = .0000042

Institutions that lack regular access to the discount window are not eligible for daylight overdrafts and are charged a penalty fee for any daylight overdrafts they incur. The daylight overdraft penalty rate adopted by the Board is equal to the regular Federal Reserve daylight overdraft fee plus 100 basis points. The annual penalty rate is currently equal to 136 basis points.

Billing and Adjustments

At the end of each reserve maintenance period, a statement of preliminary daylight overdraft charges is sent to each institution that incurred charges in that period. At the end of the following reserve maintenance period, DORPS calculates final charges, which include any adjustments, and an assessment to the institution's Federal Reserve account is made. All two-week charges of $25 or less are generally waived.[18] In addition, institutions should be aware that earnings credits from the holding of clearing balances cannot be used to offset daylight overdraft charges.

Adjustments to daylight overdraft charges may be appropriate in limited circumstances, such as to recognize Reserve Bank errors or incorrect accounting entries. The Reserve Banks will consider adjustments, if requested by an institution, when the adjustment would reduce the fee charged to the institution.

[18] Daylight overdraft fees of $25 or less are not waived for Edge and agreement corporations, bankers' banks that have not waived their exemption from reserve requirements, limited-purpose trust companies, and GSEs and international organizations. These types of institutions do not have regular access to the discount window and, therefore, should not incur daylight overdrafts in their Federal Reserve accounts. The Federal Reserve charges a daylight-overdraft penalty fee against the average daily daylight overdraft incurred by such institutions.

5 SPECIAL SITUATIONS

Certain institutions may be considered “special situations” because of their legal structure or payment activity. These institutions are subject to special rules and procedures, which are not detailed in this document. Institutions that fall into any of the categories discussed below should obtain a copy of the *Guide to the Federal Reserve’s Payment System Risk Policy on Daylight Credit* for more information on compliance with the PSR policy.

U.S. Branches and Agencies of Foreign Banks

For U.S. branches and agencies of foreign banks, the PSR policy includes separate procedures for determining the U.S. capital equivalency measure used in calculating net debit caps and deductibles.[19] The U.S. capital equivalency measure for these institutions is generally based on the foreign banking organization’s capital and its strength of support assessment ranking or financial holding company status.

Each foreign bank “family”—consisting of all the U.S. branches and agencies of a particular foreign bank—has a single daylight overdraft cap that may be allocated among its U.S. offices. For purposes of measuring daylight overdrafts, the intraday account balances of all the branches and agencies in the family are consolidated, as described in section 3 of the *Guide to the Federal Reserve’s Payment System Risk Policy on Daylight Credit*. In addition, an Administrative Reserve Bank is designated to coordinate the Federal Reserve’s daylight overdraft monitoring activities for the foreign family.

Nonbank Banks and Industrial Banks

Nonbank banks grandfathered under the Competitive Equality Banking Act of 1987 (CEBA), industrial banks, or industrial loan companies may not incur daylight overdrafts on behalf of affiliates.[20] A nonbank bank, industrial bank, or industrial loan company loses its exemption from the definition of bank under the Bank Holding Company Act if it incurs prohibited overdrafts. In enforcing these restrictions, the Federal Reserve uses a separate formula for calculating intraday Federal Reserve account positions for these institutions.

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[19] For information on the interim deductible, including eligibility and collateral requirements, please refer to the *Guide to the Federal Reserve’s Payment System Risk Policy on Daylight Credit.*

[20] Daylight overdrafts for transactions made on behalf of affiliates are permitted in certain limited circumstances. See Federal Reserve Regulation Y § 225.52 and 225.86.

Other Special Situations

Special rules and procedures also apply to certain bankers' banks, limited-purpose trust companies, Edge and agreement corporations, and GSEs and international organizations.[21] These institutions do not have regular access to the discount window and therefore should not incur daylight overdrafts in their Federal Reserve accounts.[22] Bankers' banks, limited-purpose trust companies, Edge and agreement corporations, and GSEs and international organizations are assigned a zero net debit cap for daylight overdraft purposes and must post collateral to cover any daylight overdrafts they do incur.

[21] For PSR policy purposes, a bankers' bank is a depository institution that is not required to maintain reserves under the Board's Regulation D (12 CFR 204) because it is organized solely to do business with other financial institutions, is owned primarily by the financial institutions with which it does business, and does not do business with the general public.

[22] A bankers' bank that waives its exemption from reserve requirements may be eligible for a positive net debit cap.

6 CONTROLLING RISKS IN THE PROVISION OF PAYMENT SERVICES

This section presents an overview of risks in providing payment services and methods for controlling those risks. Institutions, including those with negligible daylight overdrafts, should be familiar with the risks associated with the various payment types and ways to mitigate those risks to better control their exposures. Any time an institution extends credit to a customer or permits a customer to use provisional funds to make a payment, the institution is exposed to credit risk. If the customer is unable or unwilling to repay the credit extension, or the institution does not receive final payment for a provisional transfer, the institution could incur a financial loss. Institutions should establish internal risk controls that reflect the creditworthiness of their customers and payment system counterparties.

Assessing Risks in Major Payment Systems

For an institution to control its risk from processing payments for its own account or for its customers' accounts, the institution must understand the types of risks that arise in using different payment systems. The following discussion identifies risks associated with some of the Federal Reserve's payment services and suggests some controls that might be used to protect an institution. Institutions should also identify the risks they face from participating in private-sector payment and securities settlement systems and establish appropriate internal controls.[23] Institutions should understand the rules and procedures of these systems and be prepared to comply with any credit or liquidity requirements associated with settlement disruptions.

Funds Transfers

Funds transfers made over the Federal Reserve's Fedwire Funds Service are immediate and final transactions. The party sending the funds over Fedwire originates the transfer, and the funds are debited from the sender's account and credited to the receiver's account at the same time. Because an institution sending Fedwire funds transfers is obligated to settle those payments, the institution should ensure that a customer has funds in its account before originating a funds transfer on its behalf. Otherwise, the institution must be willing to extend credit to the customer for the value of funds transferred in excess of the available funds in the customer's account. Institutions should perform real-time verification of customers' account balances, including credit limits that have been established, before initiating a payment on behalf of a customer. Such account-balance verifications may be performed manually by an institution that processes a

[23] Examples include systems such as Clearing House Interbank Payment System (CHIPS), Depository Trust Company (DTC), Continuous Linked Settlement (CLS), Electronic Payments Network (EPN), check clearinghouses, and debit and credit card networks.

very low volume of large-dollar payments or automatically through systems that incorporate intraday customer balances.

Book-Entry Securities Transfers

Securities transfers made over the Federal Reserve's Fedwire Securities Service are also immediate and final transactions. The party sending book-entry securities over Fedwire originates the transfer, and the securities and funds payments are exchanged simultaneously. Thus, the sender's funds account is credited with the payment, and its securities account is debited for the securities; at the same time, the receiving institution's funds account is debited for the payment, and its securities account is credited for the securities.

Institutions that settle Fedwire book-entry securities for customers could be exposed to the risk of loss if a customer were to fail before settling a securities transaction. To mitigate the risk associated with settling book-entry securities transfers, an institution should assess its customer's creditworthiness to ensure that the customer can consistently fund its daily securities activity. Depending upon the customer's creditworthiness and the nature of its activity, an institution might require the customer either (1) to advise it of anticipated incoming transfers, prefund all such anticipated transfers, and return any securities not prefunded or (2) to collateralize all intraday overdrafts.

Liquidity risk is also a concern for institutions that participate in Fedwire book-entry securities transactions. Because the institution sending securities controls the timing of the transfer, it may be difficult for institutions receiving such securities transfers to anticipate their funding needs and, thus, to control daylight overdrafts. Therefore, institutions must understand the intraday flows of their customers' book-entry activity to have a good understanding of their peak intraday funding needs.

ACH Originations

Risks in processing ACH transactions arise for both credit and debit originations.[24] Institutions originating credit transactions on behalf of customers have a commitment to make the payments when they deposit the file with an ACH processor. Because the ACH is a value-dated mechanism and transactions may be originated one or two days before settlement day, the originating institution is exposed to credit risk that can extend from one to three business days, depending upon when a customer funds the payments it originates. If the customer fails to fund the payments, the originating institution could suffer a loss.

The major risk in originating ACH debit transactions for customers is return-item risk. Return-item risk extends from the day funds are made available to customers until the individual items can no longer legally be returned. The receiving institution has the right to return transactions for various reasons, including insufficient funds in its customer's account. In general, returns are due back to the originating institution by opening of business on the day following original settlement date. Unauthorized consumer ACH debit transactions must be returned within sixty days. When an ACH debit is returned to the originating institution, it will

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[24] Additional information about risk-management controls for the ACH payment mechanism may be obtained from NACHA—The Electronic Payments Association at http://pubs nacha.org/risk.html.

charge the transaction back to the originating customer's account. There must be sufficient funds in the customer's account; otherwise, the originating institution incurs credit risk and may be exposed to loss.

To address these risks, institutions should perform credit assessments of their customers. In addition, institutions should establish intraday credit or exposure limits on customers originating large dollar volumes of ACH transactions. Institutions should monitor compliance with these limits across all processing cycles for a given settlement date. If a customer's financial condition deteriorates, the originating institution should require the customer to prefund its account, provide collateral, or deposit the ACH file on the night preceding the settlement day.

Check Collection

Depositary banks face risks within the check-collection process from the return of checks on which they have already provided funds to the depositing customer. Paying banks face risks associated with unauthorized check payments or payment of a check written on an account with insufficient funds. Further, there is always a risk of double debiting a customer's account if the check and/or an electronic funds transfer created from the information on the check (check conversion) is presented more than once. Certain specific types of checks may pose additional risks. In the case of remotely created checks, for example, the depositary bank warrants to all subsequent banks that the customer has authorized payment, and the depositary bank is liable under Regulation CC for unauthorized checks. To manage these risks, banks should include a review of check customers that pose higher-than-normal risk to the institution when performing customer credit assessments.

Operational Risk and Contingency Procedures

An institution providing electronic payment services should employ a comprehensive set of controls to ensure the integrity of the processing system, to limit access to devices and systems to authorized personnel, and to ensure that fraudulent or erroneous messages or payments are not entered into the system. Institutions should strictly limit the ability to initiate transactions to authorized bank employees and customers. Most attempts at electronic payment fraud result from poor controls over payment instructions made via telephone, letter, or facsimile. An institution must ensure that payment messages come from authorized parties and are delivered to authorized parties. Additionally, the accuracy and validity of payments created by authorized staff should be monitored regularly.

Operational disruptions resulting from temporary loss of telecommunications or computer-processing ability or outages of longer duration, such as those caused by fire, flood, or earthquakes, create significant risk for an institution and its customers. In these situations, customer account balances may be frozen or unavailable, and the ability to complete transactions and make payments may be seriously impaired. For an institution processing low volumes of electronic payments, it may be practical to develop manual backup procedures or arrange for alternative electronic backup. An institution processing higher volumes of payments should develop contingency plans that include the availability of equipment such as terminals, personal computers, and data communications equipment, including encryption devices and telephones. An institution also should consider installing backup telecommunications lines to the Federal

Reserve and to its major customers. Finally, consideration should be given to establishing a complete or partial disaster-recovery site that is capable of accommodating relocated operations staff. Appropriate supervisory guidelines and requirements dealing with operational risk and contingency procedures should be consulted.

A Risk Management in Payment and Settlement Systems

In addition to governing the Federal Reserve Banks' provision of daylight credit, the PSR policy also sets out the Board's expectations for risk management in payment and settlement systems. These expectations, discussed in part I of the policy, apply to systems' governance, management, legal, and operational arrangements used to clear and settle payments and other financial transactions multilaterally among financial institutions. Specifically, the policy applies to public- and private-sector payment and settlement systems that expect to settle a daily aggregate gross value of U.S. dollar-denominated transactions exceeding $5 billion on any day during the next 12 months.[25] The policy lays out a set of general expectations applicable to all systems over the $5 billion threshold and a set of more specific expectations for systemically important systems.

The Board expects all systems subject to the policy to establish a risk management framework that is appropriate for the risks the system poses to the system operator, system participants, and other relevant parties, as well as the financial system more broadly. A risk management framework is the set of objectives, policies, arrangements, procedures, and resources that a system employs to limit and manage risk. Sound risk management frameworks should 1) clearly identify risks and set sound risk management objectives, 2) establish sound governance arrangements, 3) establish clear and appropriate rules and procedures, and 4) employ the resources necessary to achieve the system's risk management objectives and implement effectively its rules and procedures.

[25] These systems may be organized, located or operated within the United States, outside the United States, or both, and may involve other currencies in addition to the U.S. dollar. The policy also applies to any system based or operated in the United States that engages in the settlement of non-U.S. dollar transactions if that system would otherwise be subject to the policy (calculating the daily gross settlement threshold on U.S. dollar-equivalent basis). These systems include Federal Reserve payments and securities settlement systems, such as the Fedwire Funds Service, that meet the policy threshold.

Systems deemed by the Board to be systemically important must both establish a sound risk management framework and comply with the *Core Principles for Systemically Important Payment Systems* (Core Principles), *Recommendations for Securities Settlement Systems* (RSSS) or *Recommendations for Central Counterparties* (RCCP), as appropriate.[26,27] Systemically important systems subject to the Board's authority are expected to complete and publicly disclose self-assessments against the Core Principles, RSSS, or RCCP as appropriate. The policy provides a series of criteria that the Board will consider when determining whether a particular system must meet these higher standards. Systemically important systems are expected to complete, update, and publish self-assessments as set forth in Part I of the PSR Policy.

[26] The Core Principles were developed by the Committee on Payment and Settlement Systems (CPSS) of the central banks of the Group of Ten countries. The RSSS and RCCP were developed by the CPSS and the Technical Committee of the International Organization of Securities Commissions. The reports are available at http://www.bis.org.

[27] Beginning in the late 1980s the Federal Reserve worked with other central banks and securities regulators to develop standards to strengthen payment and settlement systems and to promote financial stability. These efforts initially produced the Lamfalussy Minimum Standards in 1990 and the Core Principles and RSSS in 2001. The Core Principles extended and replaced the Lamfalussy Minimum Standards. The Lamfalussy Minimum Standards and the Core Principles were incorporated into the PSR policy in 1994, and 2004, respectively. The RSSS and RCCP provided, for the first time, explicit standards for securities settlement systems and central counterparties, respectively. The Board incorporated into the PSR policy the RSSS in 2004 and the RCCP in 2007.

B GLOSSARY OF TERMS

Above-average cap - The cap category that permits an institution to incur daylight overdrafts on a single day up to 1.875 times its capital measure and an average of its peak daily overdrafts during any two-week reserve maintenance period up to 1.125 times its capital measure.

Account Balance Monitoring System (ABMS) - The Federal Reserve's computer system that provides account information to the Federal Reserve Banks and depository institutions on an intraday basis. ABMS serves as both an informational source and a monitoring tool. This information includes opening balances, funds and security transfers, nonwire accounting activity, and depository institutions' cap and collateral limits.

Account Management Information (AMI) - AMI is an information tool available on FedLine Web for institutions to use to access account management information, including real-time account balances, daylight overdraft balances, statements of account, cash management services, or to make detailed transaction inquiries. Institutions can obtain information on AMI on the Federal Reserve Financial Services website at www.frbservices.org.

ACH - Automated clearinghouse. An electronic batch-processing service used to disburse or collect funds.

Administrative Reserve Bank (ARB) - The administrative Reserve Bank is responsible for the administration of Federal Reserve credit, reserves, and risk-management policies for a given depository institution or other legal entity.

Affiliate **-** Any company that controls, is controlled by, or is under common control with, a bank or nonbank bank (according to Federal Reserve Regulation Y).

Agreement corporation - A corporate subsidiary of a federally chartered or state-chartered bank having an agreement or undertaking with the Board of Governors, under section 25 of the Federal Reserve Act, to engage in international banking and investments.

Average cap - The cap category that permits an institution to incur daylight overdrafts on a single day up to 1.125 times its capital measure and an average of its peak daily overdrafts during any two-week reserve maintenance period up to 0.75 times its capital measure.

Average daily daylight overdraft - An institution's average daily daylight overdraft is calculated by dividing the sum of its negative Federal Reserve account balances at the end of each minute of the scheduled Fedwire Funds Service operating day (with positive balances set to zero) by the total number of minutes in the scheduled Fedwire Funds Service operating day.

Bank holding company (BHC) - Any company (including a bank) that has direct or indirect control of a bank.

Bankers' bank - An institution organized and chartered solely to do business with other banks and primarily owned by the banks that it services. For PSR policy purposes, a bankers' bank is a depository institution that is not required to maintain reserves under the Board's Regulation D (12 CFR 204). Bankers' banks do not take deposits or make loans to the public and are not eligible for discount window access unless they waive their exemption from reserve requirements.

Basel Capital Accord - A 1988 agreement by the Committee on Banking Regulations and Supervisory Practices of the Group of Ten Countries that establishes a framework for bank capital measurement and capital standards.

Board of directors resolution - A statement of intention to follow a course of action that is approved by a majority vote of a quorum of the board of directors of a corporation. In the context of the PSR policy, a board of directors resolution would be adopted to convey approval to a Reserve Bank of a net debit cap category.

Board of Governors (Board) - The Board of Governors of the Federal Reserve System.

Book-entry securities transfer - Generally, an electronic transfer of a U.S. Treasury or government agency security over the Fedwire Securities Service.

Cap - See *Net debit cap.*

Cap breach - A single-day cap breach occurs whenever the peak negative end-of-minute balance in an institution's Federal Reserve account on any day exceeds its single-day net debit cap. A two-week-average cap breach occurs whenever an institution's average peak daily overdraft over a reserve- maintenance period is greater than its two-week-average net debit cap.

Cap category - An institution's category or class for purposes of determining its daylight overdraft net debit cap. There are six cap categories: zero, exempt from filing, de minimis, average, above average, and high.

Cap multiple - The factor associated with each cap category for purposes of calculating the net debit cap.

Capital measure - For institutions chartered in the United States, net debit caps are multiples of "qualifying" or similar capital measures that consist of those capital instruments that can be used to satisfy risk-based capital standards, as set forth in the capital adequacy guidelines of the federal financial regulatory agencies. The U.S. capital equivalency measures for branches and agencies of foreign banks are based on capital, supervisory rating, and financial holding company status.

Collateralized capacity - represents the collateralized component of the maximum daylight overdraft capacity approved by the Reserve Bank. The amount of collateralized capacity cannot exceed the difference between the institution's maximum daylight overdraft capacity level and its single-day net debit cap. For example, if the single-day net debit cap increases as a result of an increase in capital at the institution, its maximum daylight overdraft capacity is unchanged, so its collateralized capacity is reduced.

Competitive Equality Banking Act (CEBA) - A federal law enacted August 10, 1987, that, among other things, prohibits nonbank banks, industrial banks, industrial loan companies, or similar institutions from incurring daylight overdrafts in their Federal Reserve accounts on behalf of affiliates, except in limited circumstances.

Daylight overdraft - A negative balance in an institution's Federal Reserve account at any time during the Fedwire Funds Service operating day.

> *Peak daily overdraft* - The maximum end-of-minute negative account balance held by an institution on a particular day.
>
> *Two-week-average overdraft* - The sum of the peak daily overdrafts over a two-week reserve maintenance period divided by the number of business days in the period.

Daylight Overdraft Reporting and Pricing System (DORPS) - The computer system used by the Federal Reserve to measure and assess fees for daylight overdrafts in Federal Reserve accounts.

Deductible - The percentage of an institution's capital that is used to determine the amount deducted from the gross overdraft charge for a day.

De minimis cap - The cap category that permits an institution to incur daylight overdrafts up to 40 percent of its capital measure.

Edge corporation - A corporate subsidiary of a domestic or foreign bank, established under section 25(a) of the Federal Reserve Act to engage in international banking and investments.

Effective daily rate - The annual rate charged for daylight overdrafts divided by 360 days, adjusted for the portion of the day during which the Fedwire Funds Service is officially operating.

End-of-minute balance - The balance in an institution's Federal Reserve account at the end of each minute as measured by DORPS for purposes of daylight overdraft reporting and pricing.

Exempt-from-filing cap - The cap category that permits an institution to incur daylight overdrafts up to the lesser of $10 million or 20 percent of its capital measure.

Fedwire - The Federal Reserve funds and book-entry government securities transfer system.

Financial holding company (FHC) - The Gramm-Leach-Bliley Act (Public Law 106-102, 113 Stat. 1338 (1999)) defines a financial holding company as a bank holding company that meets certain eligibility requirements. In order for a bank holding company to become a financial holding company and be eligible to engage in the new activities authorized under the Gramm-Leach-Bliley Act, the act requires that all depository institutions controlled by the bank holding company be well capitalized and well managed (12 U.S.C. 1841(p)). With regard to a foreign bank that operates a branch or agency or owns or controls a commercial lending company in the United States, the act requires the Board to apply comparable capital and management standards that give due regard to the principle of national treatment and equality of competitive opportunity (12 U.S.C. 1843(l).

Foreign banking organization (FBO) - (1) A foreign bank, as defined in section 1(b)(7) of the International Banking Act of 1978 (12 U.S.C. 3101(7)), that (a) operates a branch, agency, or commercial lending company subsidiary in the United States; (b) controls a bank in the United States; or (c) controls an Edge corporation acquired after March 5, 1987, and (2) any company of which the foreign bank is a subsidiary.

Government-sponsored enterprises (GSEs) - The Federal Reserve acts as fiscal agent for government-sponsored enterprises, the securities of which are Fedwire-eligible but are not obligations of, or fully guaranteed as to principal and interest by, the United States. The GSEs include Fannie Mae, the Federal Home Loan Mortgage Corporation (Freddie Mac), entities of the Federal Home Loan Bank System (FHLBS), the Farm Credit System, the Federal Agricultural Mortgage Corporation (Farmer Mac), the Financing Corporation, and the Resolution Funding Corporation.

Gross overdraft charge **-** The daylight overdraft charge calculated, based on average overdrafts, before being reduced by the deductible valued at the effective daily rate charged for overdrafts.

High cap - The cap category that permits an institution to incur daylight overdrafts on a single day up to 2.25 times its capital measure and an average of its peak daily overdrafts during any two-week reserve maintenance period up to 1.5 times its capital measure.

Industrial bank **-** An institution as defined in section 2(c)(2)(H) of the Bank Holding Company Act. In general, an industrial bank is a state-chartered finance company that makes loans and raises funds by selling investment certificates or investment shares to the public.

International organizations - The Federal Reserve acts as fiscal agent for certain international organizations, the securities of which are Fedwire-eligible but are not obligations of, or fully guaranteed as to principal and interest by, the United States. The international organizations include the World Bank, the Inter-American Development Bank, the Asian Development Bank, and the African Development Bank.

Limited-purpose trust company - For purposes of the PSR policy, a limited-purpose trust company is a trust company that is a member of the Federal Reserve System but that does not meet the definition of "depository institution" in section 19(b)(1)(A) of the Federal Reserve Act (12 U.S.C. 461(b)(1)(A))

Liquidity **-** The ability to make payments as they become due in readily available funds.

Maximum daylight overdraft capacity **-** An institution's single-day net debit cap plus its collateralized capacity. (See *collateralized capacity*.) Only institutions with self-assessed net debit caps are eligible to request maximum daylight overdraft capacity from the Federal Reserve.

Net debit cap **-** The maximum dollar amount of uncollateralized daylight overdrafts an institution is permitted to incur in its Federal Reserve account at any point in the day, or on average over a two-week period. The net debit cap is generally equal to an institution's capital measure times the cap multiple for its cap category.

Nonbank bank **-** In general, an institution that accepts deposits or makes commercial loans but does not engage in both activities. Any institution that became a bank as a result of the enactment of CEBA and was not controlled by a bank holding company on the day before CEBA was enacted.

Overnight overdraft **-** A negative position in a Federal Reserve account at the Reserve Bank's close of business. Overnight overdrafts are subject to a penalty fee.

Posting rules **-** A schedule used for determining the timing of debits and credits to an institution's Federal Reserve account for various transactions processed by the Reserve Banks.

PSR policy **-** The Federal Reserve Policy on Payment System Risk

Real-time monitoring **-** The ABMS function used by Reserve Banks to monitor an institution's Federal Reserve account balance as transactions occur throughout the day and to reject or intercept outgoing funds transfers when they would cause an overdraft in an institution's Federal Reserve account.

Reserve maintenance period **-** A two-week period beginning on a Thursday and ending on a Wednesday over which most depository institutions must maintain required reserves and over which daylight overdrafts are monitored and charges may be assessed.

Risk-based capital - The "qualifying" or similar capital measure used to satisfy risk-based capital standards, as set forth in the capital adequacy guidelines of the federal financial regulatory agencies.

Self-assessment **-** A process by which a depository institution assesses its creditworthiness, intraday funds management, operational controls, contingency procedures, and credit policies to determine its appropriate cap category for daylight overdraft purposes.

Self-assessed cap **-** One of three cap categories for which institutions are required to complete a self-assessment. The self-assessment cap categories are average, above average, or high.

Systemic risk **-** In the context of payment systems, the risk that liquidity or payment problems at one financial institution will be transmitted to other institutions.

U.S. capital equivalency **-** Capital measure applied to U.S. branches and agencies of foreign banks for purposes of calculating net debit caps and the deductible used to calculate daylight overdraft charges.

Zero cap **-** The cap category associated with a cap multiple of zero and resulting in a net debit cap of zero. An institution may voluntarily adopt this cap category, or a Reserve Bank may assign a zero cap to certain institutions.