

**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 (Board), under delegated authority from the Office of Management and Budget (OMB), proposes to extend for three years, without revision, the 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 Board's Payment 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. The annual total burden for the FR 2226 is estimated to be 1,069 hours.

## **Background and Justification**

The model resolutions associated with the Report of Net Debit Cap address the use of daylight credit pursuant to the Board'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.<sup>2</sup> A daylight overdraft occurs when the intraday balance in a depository institution's Reserve Bank account becomes 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>3</sup> An institution's cap category and its reported capital determine the size of the net debit cap. The six cap categories are (1) zero, (2) exempt-from-filing, (3) de minimis, and the self-assessed categories, which include (4) average, (5) above average, and (6) high. All cap categories are granted at the discretion of the Reserve Banks.

Financially healthy institutions that incur peak daylight 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,

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<sup>1</sup> 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.

<sup>2</sup> In December 2008, the Board published its revised Federal Reserve Policy on Payment System Risk. See 73 FR 79109 (December 24, 2008), [www.gpo.gov/fdsys/pkg/FR-2008-12-24/pdf/E8-30627.pdf](http://www.gpo.gov/fdsys/pkg/FR-2008-12-24/pdf/E8-30627.pdf).

<sup>3</sup> See 55 FR 22095 (May 31, 1990).

it must file a board of directors' resolution with its Administrative Reserve Bank authorizing a higher capacity.<sup>4</sup>

The de minimis cap category allows institutions to incur peak 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 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 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 the Federal Reserve Bank's Account Balances Service 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 Services/Settlement Services application, 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.

In 2007, the Board implemented minor revisions to the way in which the PSR policy is implemented. 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.

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<sup>4</sup> The Administrative Reserve Bank is responsible for the administration of Federal Reserve credit, reserves, and risk-management policies for a given institution or other legal entity.

## **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 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, customer 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.

## **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 Board's Legal Division has determined that the FR 2226 is authorized pursuant to sections 11, 16, and 19 of the Federal Reserve Act (12 U.S.C. 248(i), 248-1, 464). The obligation to respond is required for the institution to obtain the benefit of an increase in daylight overdraft capacity beyond the limit afforded by the exempt-from-filing cap. The Board has confirmed that the disclosure of information collected on the FR 2226 would likely cause substantial harm to the competitive position of the respondent institution. Therefore, the FR 2226 is exempt from disclosure under exemption (b)(4) of the Freedom of Information Act (FOIA), which exempts from disclosure "trade secrets and commercial or financial information obtained from a person and privileged or confidential" (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 Capital, Assets, Management, Earnings, Liquidity, and Sensitivity (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 February 13, 2017, the Board published a notice in the *Federal Register* (82 FR 10480) requesting public comment for 60 days on the extension, without revision, of the FR 2226. The comment period for this notice expired on April 14, 2017. The Board did not receive any comments. On May 15, 2017, the Board published a final notice in the *Federal Register* (82 FR 22332) and the information collection will be extended as proposed.

## **Estimate of Respondent Burden**

As shown in the following table, the current annual burden for the FR 2226 is estimated to be 1,069 hours. In 2016, 941 institutions filed the de minimis cap resolution, 125 institutions filed the self-assessed cap resolution, and three institutions filed the resolution for maximum daylight overdraft capacity. These reporting requirements represent less than 1 percent of the total Federal Reserve System paperwork burden.

<b>FR 2226</b>	<i>Number of respondents<sup>5</sup></i>	<i>Annual frequency</i>	<i>Estimated average hours per response</i>	<i>Estimated annual burden hours</i>
De minimis cap	941	1	1	941
Self-assessed cap <sup>6</sup>	125	1	1	125
Maximum daylight overdraft capacity	3	1	1	<u>3</u>
<i>Total</i>				1,069

The total annual cost to the public for this information collection is estimated to be \$58,688.<sup>7</sup>

### **Sensitive Questions**

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

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

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

<sup>5</sup> Of these respondents, 460 are estimated to be small entities as defined by the Small Business Administration (i.e., entities with less than \$550 million in total assets). [www.sba.gov/content/table-small-business-size-standards](http://www.sba.gov/content/table-small-business-size-standards).

<sup>6</sup> Self-assessed cap figures do not include those self-assessed cap respondents with maximum daylight overdraft capacity.

<sup>7</sup> 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 \$67, 15% Lawyers at \$67, and 10% Chief Executives at \$93). Hourly rates for each occupational group are the (rounded) mean hourly wages from the Bureau of Labor and Statistics (BLS), *Occupational Employment and Wages May 2016*, published March 31, 2017, [www.bls.gov/news.release/ocwage.t01.htm](http://www.bls.gov/news.release/ocwage.t01.htm). Occupations are defined using the BLS Occupational Classification System, [www.bls.gov/soc/](http://www.bls.gov/soc/).