

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

**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 mandatory Recordkeeping Requirements Associated with Limitations on Interbank Liabilities (FR F; OMB No. 7100-0331). Section 206.3 of the Board's Regulation F - Limitations on Interbank Liabilities (12 CFR 206.3) requires insured depository institutions to establish and maintain policies and procedures designed to prevent excessive exposure to "correspondents," which include non-affiliated U.S. insured depository institutions and non-affiliated foreign banks. Regulation F limits the risks that the failure of a correspondent would pose to insured depository institutions.

The Board has updated its burden estimate for this information collection to account for all depository institutions insured by the Federal Deposit Insurance Corporation (FDIC), all of which are potential respondents. The Board's previous burden estimate accounted only for state member banks. The Board's total annual paperwork burden for this information collection is estimated to be 6,632 hours and would increase to 47,384 hours. The increase in burden reflects the update to correct the number of potential respondents and is not due to a change in burden for individual institutions.

**Background and Justification**

Regulation F implements section 308 of the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA).<sup>1</sup> Pursuant to FDICIA, the Board is required to prescribe standards to limit the risks posed by exposure of insured depository institutions to correspondents. Regulation F generally requires banks to develop and implement internal prudential policies and procedures to evaluate and control exposure to correspondents.<sup>2</sup> 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 a correspondent to facilitate account clearing activities.

Liquidity risk arises when an institution depends heavily on the liquidity provided by a limited number of institutions to meet its funding needs. Liquidity risk can create an immediate threat to an institution's viability if the advancing entity suddenly reduces the institution's access

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<sup>1</sup> See 12 U.S.C. 371b-2.

<sup>2</sup> 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).

to liquid funds. Institutions might abruptly limit the availability of liquid funding sources as part of a prudential 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 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 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 provides 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.

### **Updated Burden Estimate**

The Board currently accounts for the recordkeeping burden Regulation F imposes on state member banks, but Regulation F applies to all insured depository institutions as defined in section 3 of the Federal Deposit Insurance Act (*i.e.*, all institutions the deposits of which are insured by the FDIC). Accordingly, the Board has updated the number of respondents in its burden estimate to account for the recordkeeping burden Regulation F imposes on all insured depository institutions.

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

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

### **Legal Status**

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). 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)).

### Consultation Outside the Agency

On January 23, 2018, the Board published an initial notice in the *Federal Register* (83 FR 3148) requesting public comment for 60 days on the extension, without revision, of the FR F. The comment period for this notice expired on March 26, 2018. The Board did not receive any comments. The Board published a final notice in the *Federal Register* on April 30, 2018 (83 FR 18842).

### Estimate of Respondent Burden

As shown in the table below, the total annual paperwork burden is estimated to be 6,632 hours and would increase to 47,384 hours. The increase in burden reflects the update to correct the number of potential respondents, and is not due to a change in burden for individual institutions. 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.

<b>FR F</b>	<i>Number of respondents<sup>3</sup></i>	<i>Annual frequency</i>	<i>Estimated average hours per response</i>	<i>Estimated annual burden hours</i>
Current	829 <sup>4</sup>	1	8	6,632
Proposed	5,923 <sup>5</sup>	1	8	47,384
	<i>Change</i>			40,752

The total cost to the public is estimated to be \$371,724 and would increase to \$2,655,873.<sup>6</sup>

<sup>3</sup> Of these respondents, 580 state member banks, 2,815 non-member banks, and 673 national banks are small entities as defined by the Small Business Administration (i.e., entities with less than \$550 million in total assets) [www.sba.gov/document/support--table-size-standards](http://www.sba.gov/document/support--table-size-standards).

<sup>4</sup> These respondents include 829 state member banks.

<sup>5</sup> These respondents include 829 state member banks, 3,396 non-member banks, 921 national banks, 309 state savings banks, 228 federal savings banks, 195 savings and loan associations, 4 insured federal branch of foreign banking organizations, 6 insured state branch of foreign banking organizations, 2 non-depository trust company members, and 33 Cooperative banks.

<sup>6</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 \$69, 15% Lawyers at \$68, and 10% Chief Executives at \$94). 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 2017*, published March 30, 2018, [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/).

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