

**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 authority delegated by the Office of Management and Budget (OMB), has extended for three years, with 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, the second resolution is used to establish a self-assessed net debit cap,¹ and the third resolution is used to establish simultaneously a self-assessed net debit cap and maximum daylight overdraft capacity.

The Board revised the FR 2226 by (1) removing references to the strength of support assessment (SOSA) ranking, (2) removing references to foreign banking organizations' (FBOs) financial holding company (FHC) status, and (3) adopting alternative methods for determining an FBO's eligibility for a positive net debit cap, the size of its net debit cap, and its eligibility to request a streamlined procedure to obtain maximum daylight overdraft capacity.

The current estimated total annual burden for the FR 2226 is 1,028 hours, and would increase to 1,042 hours. The revisions would result in an increase of 14 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.² 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).³ 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.

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

² In December 2008, the Board published its revised Federal Reserve Policy on Payment System Risk. See 73 FR 79109 (December 24, 2008).

³ See 55 FR 22095 (May 31, 1990).

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, it must file a board of directors’ resolution with its Administrative Reserve Bank authorizing a higher capacity.⁴

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’

⁴ 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.

approval of the institution's self-assessment as well as its maximum daylight overdraft capacity level.

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.

Respondent Panel

The FR 2226 panel comprises depository institutions' board of directors.

Revisions to the FR 2226

Under the PSR policy, an FBO's SOSA ranking can affect its eligibility for a positive net debit cap, the size of its net debit cap, and its eligibility to request a streamlined procedure to obtain maximum daylight overdraft capacity. Additionally, an FBO's status as an FHC can affect the size of its net debit cap and its eligibility to request a streamlined procedure to obtain maximum daylight overdraft capacity. The amendments to the PSR policy (1) removed references to the SOSA ranking, (2) removed references to FBOs' FHC status, and (3) adopted alternative methods for determining an FBO's eligibility for a positive net debit cap, the size of its net debit cap, and its eligibility to request a streamlined procedure to obtain maximum daylight overdraft capacity. The implementation date of the amendments to the PSR policy is October 1, 2020.

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.

Public Availability of Data

There is no data related to this information collection available to the public.

Legal Status

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 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

There has been no consultation outside the Federal Reserve System.

Public Comments

On December 14, 2017, the Board published an initial notice in the *Federal Register* (82 FR 58764) requesting public comment for 60 days on the extension, with revision, of the FR 2226. The comment period for this notice expired on February 12, 2018. The Board did not receive any comments. On April 1, 2019, the Board published a final notice in the *Federal Register* (84 FR 12049). On April 6, 2020, the Board published a notice in the *Federal Register* (85 FR 19077) delaying the implementation date of the amendments to the PSR policy from April 1, 2020, to October 1, 2020.

Estimate of Respondent Burden

As shown in the table below, the estimated total annual burden for the FR 2226 is 1,028 hours, and would increase to 1,042 hours with the adopted revisions. The revisions would increase the estimated average hours per response for de minimis and self-assessment respondents that are FBOs by half an hour. These reporting requirements represent less than 1 percent of the Board's total paperwork burden.

FR 2226	<i>Estimated number of respondents⁵</i>	<i>Annual frequency</i>	<i>Estimated average hours per response</i>	<i>Estimated annual burden hours</i>
Current				
De minimis cap	911	1	1	911
Self-assessed cap ⁶	115	1	1	115
Maximum daylight overdraft capacity	2	1	1	<u>2</u>
<i>Current Total</i>				1,028
Proposed				
De minimis cap Non FBOs	893	1	1	893
De minimis cap FBOs	18	1	1.5	27
Self-assessed cap Non FBOs	106	1	1	106
Self-assessed cap FBOs	9	1	1.5	14
Maximum daylight overdraft capacity	2	1	1	<u>2</u>
<i>Proposed Total</i>				1,042
<i>Change</i>				14

The total cost to the public is estimated to increase from the current level of \$59,367 to \$60,176 for the revised FR 2226.⁷

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.

⁵ Of these respondents, 407 are considered small entities as defined by the Small Business Administration (i.e., entities with less than \$600 million in total assets), <https://www.sba.gov/document/support--table-size-standards>. There are no special accommodations given to mitigate the burden on small entities.

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

⁷ 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 \$20, 45% Financial Managers at \$71, 15% Lawyers at \$70, 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 2019*, published March 31, 2020, <https://www.bls.gov/news.release/ocwage.t01.htm>. Occupations are defined using the BLS Standard Occupational Classification System, <https://www.bls.gov/soc/>.