

**Supporting Statement for the  
Report of Net Debit Cap  
(FR 2226; OMB No. 7100-0217)**

*Improvements to the Federal Reserve Policy on Payment System Risk  
To Increase Access to Intraday Credit, Support the FedNow Service, and  
Simplify the Federal Reserve Policy on Overnight Overdrafts  
(Docket No. OP-1749)*

## **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 Report of Net Debit Cap comprises three resolutions, which are filed by an institution's board of directors depending on its needs. The reporting panel includes all depository institutions with access to the discount window that are eligible to request intraday credit.

The Board revised the FR 2226 by amending the requirements associated with the third resolution so that an eligible institution can request collateralized capacity regardless of whether the institution has a positive net debit cap. The effective date for the revisions is February 6, 2023.

The current estimated total annual burden for the FR 2226 is 1,042 hours, and would increase to 1,099 hours. The revisions would result in an increase of 57 hours. There is no formal reporting form for this information collection.

## **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>1</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>2</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.

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<sup>1</sup> In December 2008, the Board published its revised Federal Reserve Policy on Payment System Risk. See 73 FR 79109 (December 24, 2008).

<sup>2</sup> 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.<sup>3</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 should file a board of directors’ resolution with their Administrative Reserve Bank and must complete 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. Further, institutions with a self-assessed net debit cap category may pledge collateral to their Reserve Banks under the Maximum Daylight Overdraft program to secure daylight overdraft capacity in excess of a self-assessed net debit caps by filing a board of director’s resolution with their Administrative Reserve Bank. The resulting combination of uncollateralized and collateralized capacity is known as the maximum daylight overdraft capacity, or max cap.

The Federal Reserve monitors the compliance of depository institutions with their net debit caps or max cap by using the Federal Reserve Bank’s Account Balances Service ex post monitoring system. An institution that exceeds its net debit cap or max cap may be counseled by its Reserve Bank. If an institution continues to exceed its net debit cap or max 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.

This information is not available from other sources.

## **Description of Information Collection**

The reporting panel includes all financially healthy depository institutions with access to the discount window and wish to establish capacity for daylight overdrafts in their Federal Reserve accounts. 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, a self-assessed net

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<sup>3</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.

debit cap, or max 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 collateralized capacity in addition to the uncollateralized self-assessed net debit cap. 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 the third resolution. 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 all depository institutions with access to the discount window that are eligible to request intraday credit.

### **Frequency**

The FR 2226 is submitted annually.

### **Revisions to the FR 2226**

The Board adopted changes to the PSR policy that expand access to collateralized capacity under the max cap program to include all domestic institutions with a Prompt Corrective

Action designation of undercapitalized, adequately capitalized, or well capitalized. The changes also expand access to collateralized capacity under the max cap program to include all foreign banking organizations (FBOs) with an FBO PSR category of undercapitalized, sufficiently capitalized, or highly capitalized. As part of the changes, institutions are no longer required to obtain one of the self-assessed net debit caps in order to obtain collateralized capacity through the max cap program.

Finally, the changes eliminate, in most cases, the requirements that an institution provide (1) a business case outlining its need for collateralized capacity<sup>4</sup> and (2) an annual board of directors resolution approving its collateralized capacity<sup>5</sup>.

In order to facilitate these changes to the PSR policy, the Board amended the requirements associated with the third resolution so that an eligible institution can request collateralized capacity regardless of whether the institution has a positive net debit cap. The changes did not increase the estimated average hours per response to the FR 2226, but expanded the estimated number of respondents requesting collateralized capacity under the max cap program. The changes to the PRS policy related to this information collection become effective February 6, 2023, and thus, the revised FR 2226 effective date is February 6, 2023.

### **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 are 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

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<sup>4</sup> An institution must provide a business-case justification if the institution requests a max cap in excess of its capital measure multiplied by 2.25; or the administrative Reserve Bank exercises discretion to require that the institution submit a business-case justification due to recent developments in the institution's condition.

<sup>5</sup> If an institution is requesting collateralized capacity for the first time, it must submit a resolution from its board of directors indicating its board's approval of the requested max cap. Increases to collateralized capacity previously approved by Reserve Banks will also require a board of directors resolution.

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 June 3, 2021, the Board published an initial notice in the *Federal Register* (86 FR 29776) requesting public comment for 60 days on the extension, with revision, of the FR 2226. The comment period for this notice expired on August 2, 2021. The Board did not receive any comments on the Paperwork Reduction Act analysis. The Board adopted the extension, with revision, of the FR 2226 as originally proposed. On December 8, 2022, the Board published a final notice in the *Federal Register* (87 FR 75254).

### **Estimate of Respondent Burden**

As shown in the table below, the estimated total annual burden for the FR 2226 is 1,042 hours, and would increase to 1,099 hours with the revisions. These reporting requirements represent less than 1 percent of the Board’s total paperwork burden.

<b>FR 2226</b>	<i>Estimated number of respondents<sup>6</sup></i>	<i>Estimated annual frequency</i>	<i>Estimated average hours per response</i>	<i>Estimated annual burden hours</i>
<b>Current</b>				
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>Current Total</i>			1,042
<b>Proposed</b>				
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	59	1	1	<u>59</u>
	<i>Proposed Total</i>			1,099
	<i>Change</i>			57

The estimated total annual cost to the public for the FR 2226 is \$62,989, and would increase to \$66,435 with the revisions.<sup>7</sup>

### Sensitive Questions

These collections of information contain no questions of a sensitive nature, as defined by OMB guidelines.

### Estimate of Cost to the Federal Reserve System

The estimated cost to the Federal Reserve System for collecting and processing this information collection is negligible.

<sup>6</sup> Of these respondents, 410 for the De minimis cap Non FBOs row are considered small entities as defined by the Small Business Administration (i.e., entities with less than \$850 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 institutions.

<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 \$21, 45% Financial Managers at \$74, 15% Lawyers at \$71, and 10% Chief Executives at \$102). Hourly rates for each occupational group are the (rounded) mean hourly wages from the Bureau of Labor Statistics (BLS), *Occupational Employment and Wages, May 2021*, published March 31, 2022, <https://www.bls.gov/news.release/ocwage.t01.htm>. Occupations are defined using the BLS Standard Occupational Classification System, <https://www.bls.gov/soc/>.