

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

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, without revision, the Recordkeeping Requirements Associated with Regulation F (FR F; OMB No. 7100-0331). The Board's Regulation F - Limitations on Interbank Liabilities (12 CFR Part 206) establishes limits on depository institutions' credit exposure to individual correspondents in order to mitigate the risk that the failure of a correspondent would pose to an insured depository institution.¹ Section 206.3 of Regulation F requires insured depository institutions to establish and maintain policies and procedures designed to prevent excessive exposure to correspondents. This regulation applies to all depository institutions insured by the Federal Deposit Insurance Corporation (FDIC), and the Board takes burden under the Paperwork Reduction Act with respect to all such entities.

The estimated total annual burden for the FR F is 4,753 hours.

Background and Justification

Regulation F implements section 308 of the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA).² Pursuant to FDICIA, the Board is required to prescribe standards to limit the risks posed by exposure of insured depository institutions to any other depository institution. Regulation F generally requires depository institutions to develop and implement internal prudential policies and procedures to evaluate and control exposure to correspondents.³ Regulation F requires these policies and procedures to establish limits on overnight credit exposure to individual correspondents that ordinarily should not be exceeded.

Pursuant to Regulation F, a depository institution's interday credit exposure to an individual correspondent is limited to not more than 25 percent of the institution's total capital,

¹ Correspondent means a U.S. depository institution or a foreign bank to which a bank has exposure but does not include a commonly controlled correspondent. 12 CFR 206.2(c).

² See 12 U.S.C. § 371b-2.

³ As defined in Regulation F, exposure "means the potential that an obligation will not be paid in a timely manner or in full. 'Exposure' includes credit and liquidity risks, including operational risks, related to intraday and interday transactions." 12 CFR 206.2(d). **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 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. **Operational risk** means the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events (including legal risk but excluding strategic and reputational risk).

unless the bank can demonstrate that its correspondent is at least adequately capitalized. This information is not available from other sources.

Description of Information Collection

Section 206.3 of Regulation F provides that a depository institution 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 depository institution must take into account the risks in selecting correspondents and terminating those relationships. Where exposure to a correspondent is significant, the policies and procedures must 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 must limit the depository institution's exposure to the correspondent, either by the establishment of internal limits or by other means. The policies and procedures must be reviewed and approved by the depository institution's board of directors at least annually.

The Board understands that respondents likely use information technology to comply with these provisions, including maintaining policies and procedures in a digital format and using modern software and technology to share and store the necessary information.

Respondent Panel

The FR F panel comprises 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).

Frequency and Time Schedule

This information collection contains recordkeeping requirements. The creation of written policies and procedures concerning interbank liabilities is a mandatory one-time requirement. Subsequent changes to these policies and procedures would be on occasion, and they must be reviewed and approved by the depository institution's board of directors at least annually. The policies and procedures must be maintained, as amended.

Public Availability of Data

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

Legal Status

The Regulation F recordkeeping requirements are authorized by section 23 of the Federal Reserve Act (12 U.S.C. § 371b-2), as added by section 308 of the Federal Deposit Insurance Corporation Improvement Act of 1991, which requires the Board to prescribe standards to limit

risks posed by exposure of insured depository institutions to other depository institutions. The Regulation F recordkeeping requirements are mandatory.

The Board does not collect any information under Regulation F, so no issue of confidentiality normally arises. However, in the event the records are obtained by the Board as part of an examination or supervision of a financial institution, this information would be considered confidential pursuant to exemption 8 of the Freedom of Information Act (FOIA), which protects information contained in “examination, operating, or condition reports” obtained in the bank supervisory process (5 U.S.C. § 552(b)(8)). Additionally, to the extent that such information obtained by the Board constitutes nonpublic commercial or financial information, which is both customarily and actually treated as private by the financial institution, the financial institution may request confidential treatment pursuant to exemption 4 of FOIA (5 U.S.C. § 552(b)(4)).

Consultation Outside the Agency

There has been no consultation outside the Federal Reserve System.

Public Comments

On February 16, 2024, the Board published an initial notice in the *Federal Register* (89 FR 12344) requesting public comment for 60 days on the extension, without revision, of the FR F. The comment period for this notice expired on April 16, 2024. The Board did not receive any comments. The Board adopted the extension, without revision, of the FR F as originally proposed. On July 1, 2024, the Board published a final notice in the *Federal Register* (89 FR 54464).

Estimate of Respondent Burden

As shown in the table below, the estimated total annual for the FR F burden is 4,753 hours. The Board estimates it will take seven hours for new institutions to establish a compliance program and one hour for all institutions to maintain procedures to ensure and monitor compliance with Regulation F. Because established institutions have already created and implemented their policies and procedures, the burden on those institutions has been reduced to account for only program maintenance. The burden estimate was produced using the standard Board burden calculation methodology. These recordkeeping requirements represent less than 1 percent of the Board’s total paperwork burden.

FR F	<i>Estimated number of respondents⁴</i>	<i>Estimated annual frequency</i>	<i>Estimated average hours per response</i>	<i>Estimated annual burden hours</i>
Creation	14	1	7	98
Maintenance	4,655	1	1	<u>4,655</u>
<i>Total</i>				4,753

The estimated total annual cost to the public for the FR F is \$331,997.⁵

Sensitive Questions

This information collection contains 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 is negligible because the Federal Reserve does not collect any information.

⁴ Of these respondents, 14 for Creation and 3,549 for Maintenance (469 state member banks, 2,215 non-member banks, 485 national banks, 142 state savings banks, 95 federal savings banks, 130 savings and loan associations, and 13 cooperative banks) are considered small entities as defined by the Small Business Administration (i.e., entities with less than \$850 million in total assets). Size standards effective March 17, 2023, <https://www.sba.gov/document/support-table-size-standards>. There are no special accommodations given to mitigate the burden on small institutions.

⁵ Total cost to the responding public is estimated using the following formula: total burden hours, multiplied by the cost of staffing, where the cost of staffing is calculated as a percent of time for each occupational group multiplied by the group's hourly rate and then summed (30% Office & Administrative Support at \$23, 45% Financial Managers at \$84, 15% Lawyers at \$85, and 10% Chief Executives at \$124). Hourly rates for each occupational group are the (rounded) mean hourly wages from the Bureau of Labor Statistics (BLS), *Occupational Employment and Wages, May 2023*, published April 3, 2024, <https://www.bls.gov/news.release/ocwage.t01.htm>. Occupations are defined using the BLS Standard Occupational Classification System, <https://www.bls.gov/soc/>.