

**Supporting Statement for the
Annual Daylight Overdraft Capital Report for U.S. Branches
and Agencies of Foreign Banks
(FR 2225; OMB No. 7100-0216)**

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 required Annual Daylight Overdraft Capital Report for U.S. Branches and Agencies of Foreign Banks (FR 2225; OMB No. 7100-0216). This report was implemented in March 1986 as part of the procedures used to administer the Federal Reserve's Payment System Risk (PSR) policy. A key component of the PSR policy is a limit, or a net debit cap, on an institution's negative intraday balance in its Reserve Bank account. The Federal Reserve calculates an institution's net debit cap by applying the multiple associated with the net debit cap category to the institution's capital. For foreign banking organizations (FBOs), a percentage of the FBO's capital measure, known as the U.S. capital equivalency, is used to calculate the FBO's net debit cap.

FBOs that wish to establish a positive net debit cap and have a strength of support assessment (SOSA) 1 or SOSA 2 ranking or hold a financial holding company (FHC) designation are required to submit the FR 2225 to their Administrative Reserve Bank (ARB).^{1, 2} The current annual burden is estimated to be 50 hours.

Background and Justification

In April 1985, the Board adopted a policy to reduce risk on large-dollar payment systems.³ Under the policy, all 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.⁴ A daylight overdraft occurs when the intraday balance in a depository institution's Federal Reserve account becomes negative. An institution's net debit cap category and its reported capital determine the size of the net debit cap.

Net debit caps for U.S. branches and agencies of foreign banks are calculated in the same manner as for domestic banks; by applying cap multiples to a capital measure.⁵ A depository institution's cap class and associated cap multiple are determined through a self-assessment and a board of directors resolution for self-assessed institutions, through a board of directors resolution for

¹ 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.

² Most FBOs that are ranked SOSA 3 do not qualify for a positive net debit cap. In the event a Reserve Bank grants a net debit cap or extends intraday credit to a financially healthy SOSA 3-ranked FBO, the financially healthy SOSA 3-ranked FBOs will have their U.S. capital equivalency based on their "Net due to related depository institutions" as reported on the Report of Assets and Liabilities of U.S. Branches and Agencies of Foreign Banks (FFIEC 002), Schedule RAL, Item 5.a, Column A, for the most recent quarter.

³ See 50 Fed. Reg. 21120 (May 22, 1985).

⁴ In December 2008, the Board published its revised Federal Reserve Policy on Payment System Risk. See 73 Fed. Reg. 79109 (December 24, 2008).

⁵ U.S. branches and agencies of foreign banks are entities contained within and controlled by a foreign banking organization. For the definition of "branch" and "agency", refer to 12 U.S.C. 3101 and 12 C.F.R. Part 211.21

de minimis institutions, or by assignment by the ARB. The PSR policy incorporates SOSA rankings and FHC status in determining U.S. capital equivalency for an FBO. The SOSA ranking is composed of four factors, including the FBO's financial condition and prospects, the system of supervision in the FBO's home country, the record of the home country's government in support of the banking system or other sources of support for the FBO, and transfer risk concerns.⁶ A combination of an FBO's SOSA ranking and its FHC status determines the fraction of the institution's capital measure used in calculating the institution's cap.⁷

Description of Information Collection

The FR 2225 reporting form collects information needed to identify the respondent and its fiscal year-end and to determine its capital and assets for purposes of daylight overdraft monitoring. Four items, converted into U.S. dollars, are collected for the capital and assets determination: capital for the FBO (item 1), an adjustment to avoid double counting of capital used by any direct or indirect subsidiary of the FBO that also has access to Fedwire and has its own net debit cap (item 2), the FBO's total capital base (item 3) used to calculate the net debit cap, and the FBO's assets (item 4).

Respondents are not asked to submit any data that are not ordinarily disclosed to the public; however, if they do, the data must be identified and documented as such. The Reserve Banks use items 1 and 2 as supplemental information to clarify the data reported in item 3. Federal Reserve staff use the assets data reported in item 4 for analytic purposes.

The current reporting panel comprises 50 FBOs with U.S. branches or agencies that have non-zero net debit caps and are ranked SOSA 1 or SOSA 2 or hold a FHC designation. An FBO choosing to file the FR 2225 must submit it annually, following the end of the FBO's fiscal year. The PSR policy requires an FBO to file the FR 2225 if it requests a non-zero net debit cap. An FBO may voluntarily submit the report more frequently to have its overdraft limit based on current data. The net debit cap for an FBO's U.S. branches and agencies is calculated on a consolidated basis for the FBO as a whole. Therefore, an FBO with multiple offices in the U.S. submits only one form for the U.S. "family" of offices.

Time Schedule for Information Collection

The FR 2225 is due 90 days after the respondent's fiscal year-end. The U.S. office of the reporting FBO submits the data directly to the Federal Reserve Bank stated in the reporting instructions. If the reporting FBO has more than one U.S. office, one office is designated as the reporting office and serves as the FBO's representative on all matters involving compliance with the PSR policy.

Legal Status

The Federal Reserve Board's Legal Division has determined that the FR 2225 is authorized by Sections 11(i), 16, and 19(f) of the Federal Reserve Act, 12 U.S.C. §§ 248(i), 248-1, and 464. An FBO is required to respond in order to obtain or retain a benefit, *i.e.*, in order for the U.S. branch or agency

⁶ Transfer risk relates to the FBO's ability to access and transmit U.S. dollars, which is an essential factor in determining whether an FBO can support its U.S. operations.

⁷ The U.S. capital equivalency fractions are detailed in the *Guide to the Federal Reserve's Payment System Risk Policy on Daylight Credit* available at http://www.federalreserve.gov/paymentsystems/psr_guide.htm.

of an FBO to establish and maintain a non-zero net debit cap. Respondents are not asked to submit any data that are not ordinarily disclosed to the public; accordingly, such items would not routinely be protected from disclosure under the Freedom of Information Act (FOIA). To the extent an institution submits data it believes are confidential and can establish the potential for substantial competitive harm, those responses would be protected from disclosure pursuant to exemption 4 of the FOIA, 5 U.S.C. § 552(b)(4), under the standards set forth in National Parks & Conservation Ass’n v. Morton, 498 F.2d 765 (D.C. Cir. 1974). Such a determination would be made on a case-by-case basis in response to a specific request for disclosure of the information.

Consultation Outside the Agency

On April 7, 2017, the Board published a notice in the *Federal Register* (82 FR 17005) requesting public comment for 60 days on the proposal to extend without revision the FR 2225.

Estimate of Respondent Burden

Assuming a response time of one hour, the annual reporting burden for the FR 2225 is estimated to be 50 hours based on the current number of FBOs with U.S. branches or agencies that have non-zero net debit caps and are ranked SOSA 1 or SOSA 2 or hold a financial holding company designation. An FBO with multiple offices in the U.S. submits only one form for the U.S. “family” of offices. The total burden represents less than 1 percent of the total Federal Reserve System paperwork burden.

	<i>Estimated number of respondents⁸</i>	<i>Estimated annual Frequency</i>	<i>Estimated average hours per response</i>	<i>Estimated total annual burden hours</i>
FR 2225	50	1	1	50

The total cost to Federal Reserve respondents is estimated to be \$2,658.⁹

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 estimated annual cost to the Federal Reserve Banks for collecting and processing this

⁸ Of these respondents, 8 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.

⁹ 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 \$17, 45% Financial Managers at \$65, 15% Lawyers at \$66, and 10% Chief Executives at \$89). 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 2015*, published March 30, 2016, www.bls.gov/news.release/ocwage.t01.htm. Occupations are defined using the BLS Occupational Classification System, www.bls.gov/soc/.

report is \$1500. Responses are not transmitted to the Federal Reserve Board.