

## **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 authority delegated by 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). The Board's Regulation F - Limitations on Interbank Liabilities - 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.<sup>1</sup> Section 206.3 of Regulation F (12 CFR 206.3) 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 5,108 hours. There is no formal reporting form for this collection of information (the FR F designation is for internal purposes only).

### **Background and Justification**

Regulation F implements section 308 of the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA).<sup>2</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 depository institutions to develop and implement internal prudential policies and procedures to evaluate and control exposure to correspondents.<sup>3</sup> Regulation F requires these policies and procedures to establish limits on overnight credit exposure to individual correspondents that ordinarily should not be exceeded.

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<sup>1</sup> 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).

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

<sup>3</sup> 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

As noted, the policies and procedures on exposure established by a depository institution under Regulation F also must include 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, unless the bank can demonstrate that its correspondent is at least adequately capitalized.

## **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.

### **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).

## **Time Schedule for Information Collection**

This information collection contains a recordkeeping requirement. 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.

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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).

## **Public Availability of Data**

No data collected by the Board pursuant to this information collection is released to the public.

## **Legal Status**

The Regulation F recordkeeping requirements are authorized by section 23 of the Federal Reserve Act, as added by section 308 of the Federal Deposit Insurance Corporation Improvement Act of 1991,<sup>4</sup> 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 may 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.<sup>5</sup> 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.<sup>6</sup>

## **Consultation Outside the Agency**

There has been no consultation outside the Federal Reserve System with regard to this proposal.

## **Public Comments**

On February 2, 2021, the Board published an initial notice in the *Federal Register* (86 FR 8010) requesting public comment for 60 days on the extension, without revision, of the FR 2070. The comment period for this notice expires on April 5, 2021.

## **Estimate of Respondent Burden**

As shown in the table below, the estimated total annual for the FR F burden is 5,108 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. This recordkeeping requirement represents less than 1

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<sup>4</sup> 12 U.S.C. § 371b-2.

<sup>5</sup> 5 U.S.C. § 552(b)(8).

<sup>6</sup> 5 U.S.C. § 552(b)(4).

percent of the Board’s total paperwork burden.

	<i>Number of respondents<sup>7</sup></i>	<i>Annual frequency</i>	<i>Estimated average hours per response</i>	<i>Estimated annual burden hours</i>
Creation	7	1	7	49
Maintenance	5,059	1	1	<u>5,059</u>
<i>Total</i>				5,108

The estimated total annual cost to the public for this recordkeeping requirement is \$294,987.<sup>8</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 cost to the Federal Reserve System is negligible because the Federal Reserve does not collect any information.

<sup>7</sup> Of these respondents, 502 state member banks, 2,427 non-member banks, 535 national banks, 152 state savings banks, 115 federal savings banks, 140 savings and loan associations, 1 foreign banking organization, 1 non-depository trust company members, and 12 Cooperative banks, are small entities as defined by the Small Business Administration (i.e., entities with less than \$600 million in total assets), [www.sba.gov/document/support--table-size-standards](http://www.sba.gov/document/support--table-size-standards). There are no special accommodations given to mitigate the burden on small institutions.

<sup>8</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 \$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, [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/)