

**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, 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 Payments 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. Currently, an FBO with U.S. branches or agencies may voluntarily file the FR 2225 to provide the Federal Reserve with its capital measure. Because an FBO that files the FR 2225 may be able to use its total capital in determining its U.S. capital equivalency measure, which is then used to calculate its net debit cap, an FBO seeking to maximize its daylight overdraft capacity may find it advantageous to file the FR 2225. An FBO that does not file FR 2225 may use an alternative capital measure based on its nonrelated liabilities. The annual total burden for the FR 2225 is estimated to be fifty-four hours.

Background and Justification

In April 1985, the Federal Reserve Board adopted a policy to reduce risk on large-dollar payments systems.¹ 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 on a single day or on average during a two-week reserve-maintenance period. A daylight overdraft occurs when the intraday balance in a depository institution's Federal Reserve account is 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.² 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 de minimis institutions, or by assignment by the Administrative Reserve Bank.³ The PSR policy incorporates the strength of support assessment (SOSA) rankings and financial holding company (FHC) status in determining U.S. capital equivalency for an FBO. The SOSA

¹ See 50 Fed. Reg. 21120 (May 22, 1985).

² 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

³ The Administrative Reserve Bank is responsible for managing an institution's account relationship with the Federal Reserve.

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.⁴ 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.⁵

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. Five items, converted into U.S. dollars, are collected for the capital and assets determination: capital for the FBO (item 1) adjusted 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, the FBO's assets (item 4), and the exchange rate used to convert the home country currency into U.S. dollars (item 5).

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. The Reserve Banks use items 1, 2, and 5 as supplemental information to clarify the data reported in item 3. Federal Reserve staff use the assets data reported in item 4 for analysis purposes.

The current reporting panel comprises fifty-four FBOs with U.S. branches or agencies that incur daylight overdrafts in their Federal Reserve accounts. An FBO choosing to file the FR 2225 must submit 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 three months 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.

⁴ 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.

⁵ The U.S. capital equivalency fractions are detailed in the *Guide to the Federal Reserve's Payments System Risk Policy on Daylight Credit* available at <http://www.federalreserve.gov/paymentsystems/psr/guide.pdf>.

Consultation Outside the Agency

On December 21, 2007, the Federal Reserve published a notice in the *Federal Register* (72 FR 72725) requesting public comment for sixty days on the extension, without revision, of the Annual Daylight Overdraft Capital Report for U.S. Branches and Agencies of Foreign Banks with the Board of Governors of the Federal Reserve System. The comment period for this notice expired on February 19, 2008. The Federal Reserve received no comments. On February 29, 2008, the Federal Reserve published a final notice in the *Federal Register* (73 FR 11116).

Sensitive Questions

This collection of information contains no questions of a sensitive nature, as defined by OMB guidelines.

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 of an FBO to establish and maintain a non-zero net debit cap. The information submitted by respondents is not confidential; however, respondents may request confidential treatment for portions of the report. Data may be considered confidential and exempt from disclosure under section (b)(4) of the Freedom of Information Act if it constitutes commercial or financial information and it would customarily not be released to the public by the person from whom it was obtained (5 U.S.C. §552(b)(4)).

Estimate of Respondent Burden

Assuming a response time of one hour, the annual reporting burden for the FR 2225 is estimated to be fifty-four hours based on the current number of FBOs with U.S. branches or agencies that incur daylight overdrafts in their Federal Reserve accounts. An FBO with multiple offices in the U.S. submits only one form for the U.S. “family” of offices. This represents less than 1 percent of total Federal Reserve System burden.

	<i>Estimated number of respondents</i>	<i>Estimated annual frequency</i>	<i>Estimated average hours per response</i>	<i>Estimated total annual burden hours</i>
FR 2225	54	1	1	54

The total cost to Federal Reserve respondents is estimated to be \$3,329.⁶

⁶ Total cost to Federal Reserve respondents was estimated using the following formula. Percent of staff time, multiplied by annual burden hours, multiplied by hourly rate: 30% Clerical @ \$25, 45% Managerial or Technical @ \$55, 15% Senior Management @ \$100, and 10% Legal Counsel @ \$144. Hourly rate estimates for each occupational group are averages using data from the Bureau of Labor and Statistics, *Occupational Employment and Wages*, news release.

Estimate of Cost to the Federal Reserve System

The estimated annual cost to the Federal Reserve Banks for collecting and processing this report is approximately \$4,520. Responses are not transmitted to the Federal Reserve Board.